

Hönekopp, Elmar

Article — Digitized Version

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Intereconomics

Suggested Citation: Hönekopp, Elmar (1993) : The effects of Turkish accession to the EC on population and the labour market, Intereconomics, ISSN 0020-5346, Nomos Verlagsgesellschaft, Baden-Baden, Vol. 28, Iss. 2, pp. 69-73,
<https://doi.org/10.1007/BF02928106>

This Version is available at:

<https://hdl.handle.net/10419/140390>

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Elmar Hönekopp*

The Effects of Turkish Accession to the EC on Population and the Labour Market

Demography and the labour market are two important aspects that will have to be discussed in connection with possible Turkish membership of the European Community. The following article discusses these aspects primarily with regard to the situation in the EC and in Germany, which in the past was the main host country for Turkish migrants and will probably continue to be so in the future.

On 14th April 1987 Turkey applied for full membership of the European Community. The EC Commission presented its opinion on Turkish membership¹ on 18th December 1989 and the EC Council of Ministers endorsed this stance on 5th February 1990.

In its position paper, the Commission expressed the view that it was not appropriate to open negotiations with Turkey at that time, given the economic and political situation of the country. In formal terms, this meant that the application would not be processed for the time being, but in practice it meant rejection of Turkey's candidacy. The substantial development differential between Turkey and the EC was given as economic justification for this decision. There was also passing reference to the financial consequences Turkish accession would have for the EC and to fears about the free access of Turkish workers to the Community labour market after a transitional period. Although the latter argument probably played the more prominent role in public discussion of the issue, it was not examined in any great detail, at least not in published studies.

Demography and the labour market are, in fact, two important aspects that will have to be aired in the discussion of possible Turkish membership of the Community. The situation both in Turkey and in the EC must be considered. This article will therefore examine some of the effects of Turkish membership of the EC on population and the labour market, primarily with regard to the situation in the EC and in Germany, which in the past was the main host country for Turkish migrants and will probably continue to be so in the future.

According to the latest official census, the population of Turkey totalled around 56 million in 1990.² This corresponds broadly to the estimates made by the World

Bank³ and the United Nations⁴ on the basis of the 1985 census, whereas Turkish projections had predicted an additional increase of almost 1 million.⁵ Over the last five years the Turkish population therefore increased by an average of about 2.17% a year. In view of the age structure of the population, it can be assumed that the rate of growth will not decline significantly in the next few years (although the Turkish Government's attitude towards population policy is not clear), so that Turkey will have between 67 and 70 million inhabitants by the year 2000. Turkish forecasts⁶ based on the findings of the new population census estimate that the population will be around 70 million in the year 2000, while the United Nations and the World Bank (on the basis of the 1985 census results) put the figure at 67 and 68 million respectively. With growth rates falling, the UN forecast (mean variant) puts the population at around 80 million by 2015.

Precise forecasts of population growth are not crucial for our purposes, however. More important is the actual impact of population growth on the potential labour supply: with the population rising rapidly, an increasing number of persons are entering the Turkish labour market. In other words, ever more people need a job. At the same time, the effect of older workers leaving the labour market is relatively low, as these age groups are small by

¹ Kommission der Europäischen Gemeinschaften: Stellungnahme der Kommission zu dem Antrag der Türkei auf Beitritt zur Gemeinschaft, SEK(89) 2290 endg., Brussels, 18. 12. 1989.

² Devlet İstatistik Enstitüsü: 1990 Census of Population – Administrative Division, Ankara 1991.

³ Rodolfo A. Bulatao et al.: World Population Projections, 1989-90 Edition, Short- and Long-Term Estimates, World Bank, Baltimore and London 1990.

⁴ United Nations: World Population Prospects 1990, New York 1991.

⁵ Devlet İstatistik Enstitüsü: Statistical Yearbook of Turkey 1989, Ankara 1990.

⁶ Cf. Devlet İstatistik Enstitüsü: Statistical Yearbook of Turkey 1990, Ankara 1992.

* Institute for Employment Research, Nuremberg, Germany. The article expresses the author's personal opinion.

comparison with those of the new entrants. In addition, the trend towards a longer working life is being encouraged for political reasons in Turkey as well; the pension age is being raised in stages owing to the financial difficulties facing the pension insurance systems.

By international standards, Turkey's gross domestic product has increased rapidly in the recent past (by an annual average of 6% between 1986 and 1990), but this is not sufficient to generate enough jobs for all the new entrants to the labour market. Studies of the correlation between demographic, economic and labour market growth conclude that Turkey's GDP would have to increase by an average of 8% a year until 2000 for all *additional* job-seekers to find work, in other words to prevent unemployment increasing further.⁷ The 6% average rate recorded in recent years is already substantially below this threshold, and according to OECD estimates the Turkish economy will grow much more slowly in the years to come.⁸

A study by the Institute of the German Employers' Association concludes that, owing to the mismatch between population growth and economic growth, Turkey's job shortage could amount to between 6.7 and 7.7 million in 2000 (depending on the assumptions made) and to between 7.2 and 12.5 million in 2015.⁹ The upper figures of these ranges are probably no longer realistic in the light of the 1990 census results, but it is clear in general terms that the migratory potential, in other words the preparedness in certain circumstances to go abroad to find work, is likely to be strongly influenced by this foreseeable, generally unfavourable labour market situation.

The level of unemployment should not be equated with the scale of the migratory potential, however. On the one hand, a number of factors, both personal and economic, deter the unemployed from emigrating, and on the other, past experience shows that it is not only the unemployed who look for work abroad but often persons with a job. Nor are migratory potential and actual migration identical; it is

often a long step from being prepared to migrate to actually migrating.

The emigration of workers would undoubtedly ease the situation in the Turkish labour market, and it is unlikely that Turkish employment policy would erect any general obstacles to this happening.¹⁰ Another question, however, is whether emigration would not actually lead to shortages in the Turkish labour market, especially if Turkey joined the EC and skilled workers left the country as a result of the free movement of labour. This depends partly on the EC countries' demand for additional labour.

Population Trends in the EC

Population trends in Germany and in the EC as a whole contrast with those in Turkey.¹¹ Whereas in Turkey children under 15 years of age make up about 37% of the population, in Germany the proportion is around 15% and in the EC as a whole about 18%. Conversely, in Turkey only 4% of the population is older than 64 years of age, but in Germany the figure is 15% and in the EC 14%. In Germany and many other EC countries the resident population is stagnating or even declining. Population forecasts for West Germany speak of a fall from 61.3 million today to 60.7 million in the year 2000 and 57.8 million in 2015. The trend for Germany as a whole is likely to be similar, with the population declining from 77.6 million at present to 76.9 million in 2000 and 73.9 million in 2015. These forecasts relate to natural population trends, in other words they disregard potential migration. The population of the EC as a whole is expected to rise from 343 million in 1990 to 346 million in 2000, again excluding migration. With a growth rate of less than 0.1% a year, this in practice means stagnation.

In global terms, a decline in population need not be a misfortune, but for the society involved it has many consequences for the economy, the labour market and social security systems:

- the *economy* gradually loses consumers. This could be partly offset, however, by concentrating more heavily on exports and by a higher ability to consume due to more rapidly increasing incomes;
- the *social expenditure ratio* for the active population steadily increases from the medium term onwards, as a contracting working population must provide for larger population groups in old age;
- and finally the *labour market* has an ever declining pool of active workers. Quantitatively, this could easily be offset by measures affecting aspects such as:¹²
 - productivity development
 - economic growth
 - working hours
 - the pensionable age

⁷ Cf. inter alia M. Bruni and A. di Francia: Développement démographique, développement économique et marché du travail dans les pays du Bassin Méditerranéen, Colloque sur la transition démographique dans les Pays Méditerranéens, Nice 1988.

⁸ OECD: Economic Surveys – Turkey, Paris 1992.

⁹ Bernd Hof: Langfristige Entwicklung der türkischen Wirtschaft unter besonderer Berücksichtigung des Arbeitsmarktes, Cologne 1989, quoted from Stefan A. Musto: Die Türkei und die Europäische Gemeinschaft – Perspektiven, Folgerungen und Probleme eines möglichen Beitritts, DIE, Berlin, December 1989.

¹⁰ Cf. Gülsen Kazgan: Prospects for Turkey's Accession to the Community, study carried out for the Friedrich Ebert Foundation, manuscript, Istanbul, November 1987.

¹¹ These data are drawn from United Nations, op. cit., and Prognos: World Reports, Vol. Industrial Countries 1992, Basle, December 1991.

¹² In this regard see Dieter Mertens: Demographie und Arbeitsmarkt, Vortrag beim Wirtschaftspolitischen Gespräch der Klaus-Dieter-Arndt-Stiftung, manuscript, Bonn, 11. 5. 89.

- duration of military service
- the length of education and training
- the relationship between paid work and family work and finally
- migration policy.

The impact of such measures cannot be discussed in detail here. It should be noted, however, that action has already been taken in many of these respects, although in most cases to achieve the opposite of the effect required here: working hours have been reduced, the pensionable age has been lowered and the length of training has been increased—all measures designed to reduce the volume of labour available and hence increase the number of available jobs. At that time the background against which they were taken was one of an increasing potential labour force, with unemployment rising significantly for demographic reasons.

Increasing the Volume of Labour

It is therefore possible to take compensatory measures, and the instruments do work, as past experience has shown. Lengthening working hours, raising the retirement age, making it easier for women to work and shortening the period of compulsory military service have a significant direct effect by increasing the volume of labour or widening the labour force potential. Some of these measures have already been taken, but action of this kind based on the domestic population or the domestic labour force potential can have only limited results and for only a limited period of time: participation rates cannot be raised above a certain level, training periods cannot be drastically reduced without impairing the competitiveness of the economy, and the retirement age cannot be raised ad infinitum.

It is important to note that the effects of the above measures are primarily quantitative, whereas qualitative aspects are also of great significance in this context. The most important point here is that a decline in new entrants to the labour market also means that the renewal of the knowledge and skills of the available human capital is steadily decreasing. Put another way, it is becoming less and less possible to acquire new knowledge via the normal channel of school and university and increasing reliance must be placed on the retraining of existing workers. This increases the costs for the employers and at the same time again reduces the total number of hours worked.

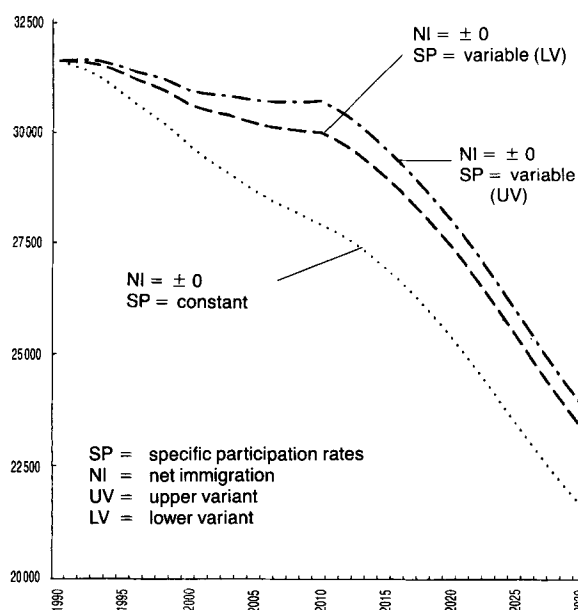
The example of the future trend of the labour force potential in the old Länder of the Federal Republic of

Germany illustrates the point. According to the latest estimates by the Institute for Employment and Occupational Research, the potential labour force would immediately contract substantially if the participation rate remained unchanged and if net immigration were nil. A significant rise in the participation rate would only delay and then attenuate the decline in the potential labour supply (see Figure 1). The picture is different if the rise in the participation rate is combined with the effects of net immigration (see the upper curve in Figure 2); average net immigration of 215,000 persons a year and an above-average rise in the participation rate increase the potential labour force from 31.7 million now to 32.8 million in the year 2000 and 33.4 million in 2010.¹³

The net immigration assumption used for this alternative projection should not be taken as an indication of the scale of immigration required. The example only illustrates the effects of particular assumptions. The necessary volume of immigration can only be deduced by comparing the economy's demand for labour with the available supply and calculating any resulting labour shortage. Economic policy assumptions would also have to be taken into account.

The present or likely level of unemployment must also be considered when discussing the possible future need

Figure 1
Total Potential Labour Force 1990–2030
in Western Germany
excl. Migratory Movements
(million persons)



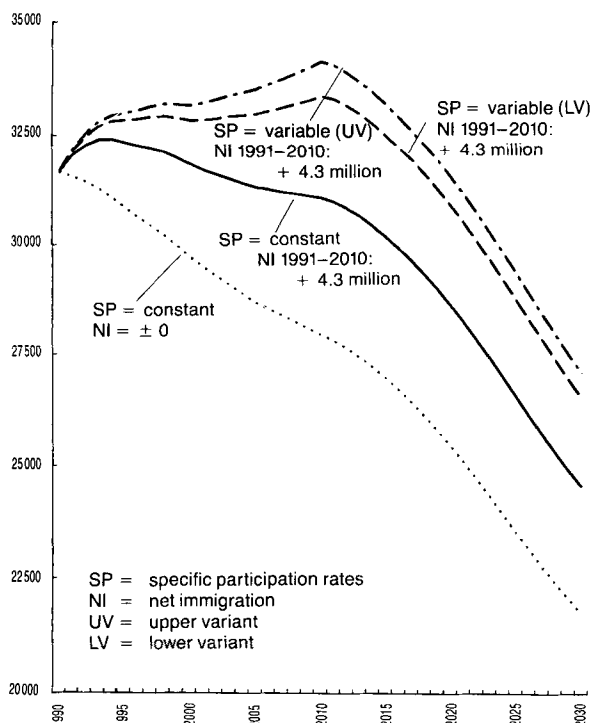
¹³ For more details in this regard, see Manfred Thon: Neue Modellrechnungen zur Entwicklung des Erwerbspersonenpotentials im bisherigen Bundesgebiet bis 2010 mit Ausblick auf 2030, in: Mitteilungen aus der Arbeitsmarkt- und Berufsforschung (MittAB), No. 4/1991.

for labour from outside Germany or outside the Community. At present (January 1993) there are 2.3 million unemployed in Western Germany and 1.2 million in the Eastern Länder. The EC as a whole has around 17 million registered unemployed. In the year 2000 unemployment in Germany is likely to be still above 3 million, primarily owing to the situation in the East of the country, and in the EC it is expected actually to have risen to almost 20 million.

Nevertheless, it can be assumed that there will be some need for additional foreign manpower. Until recently, Western Germany was witnessing a significant increase in employment alongside persistently high unemployment. This indicated structural rigidities among the unemployed that impaired the immediate availability or acceptability of many of their number.¹⁴ Age, state of health and lack of

qualifications prevent jobs being matched to job-seekers. This situation will probably continue to prevail. Indeed, the considerable immigration of recent years may have contributed indirectly to the rigidities, and will continue to do so.

Figure 2
Total Potential Labour Force 1990–2030
in Western Germany
incl. Migratory Movements
(million persons)



Source: Manfred Thon: Neue Modellberechnungen zur Entwicklung des Erwerbspersonenpotentials im bisherigen Bundesgebiet bis 2010 mit Ausblick auf 2030, in: MittAB, No. 4/1991.

Can it be concluded from this description that there will be a need for immigration into Germany in future on economic grounds? We can assume that this is the case. Without immigration considerable strains would soon develop in the labour market and the financial burden on the working population and firms, in the shape of social security contributions and increases in wage and ancillary costs, would rise.

It is not possible to predict precisely the additional volume of labour that may be required; this would depend on the objectives. Aiming to maintain the potential labour force over the long term would appear to be a thoroughly sensible objective. Taking this as a guideline, net annual immigration of between 300,000 and 400,000 persons (not workers) might be quite acceptable, as a study by the Institute of the German Employers' Association has shown.¹⁵

Immigration from Turkey

It has been established here that in a few years' time net immigration to Germany and the EC could make sense, for example in view of long-term trends in the labour market. It is also obvious that there will be rising pressure to emigrate from Turkey in the medium and long term. What does this mean for potential migration between Turkey and Germany or between Turkey and the EC in the context of EC membership or the free movement of labour? First, it must be assumed that if negotiations on Turkish accession are opened the transitional period agreed with regard to the freedom of movement of labour would be longer than for Greece, Spain and Portugal (although in the case of the last two countries it has just been shortened by a year). Taking into account the length of the negotiations and the transitional period, freedom of movement would not apply to Turkish workers until around 2010. To that extent, there would be no need to even talk about additional immigration from Turkey for the next decade.

Let us leave this political aspect aside. How would the situation look if freedom of movement applied now or in the next few years? Or put another way, would increased immigration of Turks or Turkish workers in the next few years be desirable for Germany or the EC? To answer these questions, we need to look at the present level of immigration into Germany. Between 1989 and 1992 the net influx of people into the old Länder (ethnic Germans from Eastern Europe, Germans migrating from Eastern Germany and foreigners, including asylum seekers)

¹⁴ For a detailed analysis of this problem, see F. Buttler and U. Cramer: Entwicklung und Ursachen von mis-match-Arbeitslosigkeit in Westdeutschland, in: MittAB, No. 3/1991.

¹⁵ Bernd Hof: Arbeitskräftebedarf der Wirtschaft, Arbeitsmarktchancen für Zuwanderer, in: Friedrich-Ebert-Stiftung (ed.): Zuwanderungspolitik der Zukunft, Gesprächskreis Arbeit und Soziales No. 3, Bonn, February 1992.

totalled between 900,000 and 1.1 million a year. The level of immigration described above as being required in the coming years is therefore already met by the existing flow of immigrants.

The majority of immigrants now come from Eastern Europe (ethnic Germans and non-German Eastern Europeans); Turks make up only a small part of the present net migratory flow—just under 50,000 a year between 1989 and 1991. In the next few years the press of immigrants from Eastern Europe and the new Länder is expected to be considerable: between 300,000 and 400,000 people a year are expected to move West from the new Länder for the next four or five years, up to 250,000 ethnic Germans will arrive and at least another 150,000 non-Germans from Eastern Europe will come until the year 2000.

To summarise, this means that:

□ in this decade, there is no great scope for additional Turkish immigrants, even in the Community context, as for political reasons alone it would be difficult to turn away immigrants from Eastern Europe, especially ethnic Germans.

□ In the first decade of the next century a controlled immigration of people, including Turks, would be

conceivable in order to offset the decline in the potential labour force in Germany and the EC.

□ In the decade after that it might make sense to grant freedom of movement for Turkish workers, as the negative effects of the population decline would have to be offset throughout the Community. At the same time, the slowdown in population growth in Turkey should begin to affect the potential labour force in that country.

Finally, it should be noted that the employers of the future will be looking increasingly for skilled workers.¹⁶ If Turkey wanted to actively enhance the emigration opportunities of its population, this factor would have to be taken into consideration, by improving the country's occupational training system, in particular, but also by teaching foreign languages. However, it is not likely that Turkey will make expensive investment in the educational system in order to give skilled workers a better chance in labour markets abroad. As mentioned above, there is a danger that the very people who would be interested in emigrating are those who are desperately needed for the economic development of their own country.

¹⁶ Friedemann Stooß and Inge Weidig: Der Wandel der Tätigkeitsfelder und -profile bis zum Jahr 2010, MittAB No. 1/1990.

SYSTEM TRANSFORMATION

Norbert Funke*

Credibility of Government Policy: Lessons for Economies in Transition

Reforms have to be credible in order to fully reveal the intended positive effects. This important lesson for economies in transition is illustrated by recent experiences in developing countries. The following article discusses several possible ways of enhancing credibility.

The ongoing transformation process in Central and Eastern European countries still requires reforms in many areas. Although the challenges facing the post-socialist countries are somewhat unique, most of the individual tasks of socialist economy reform have been tackled before in many developing countries. One lesson

that can be learned from these experiences is that a lack of credibility of government policy may be a serious obstacle to successful reforms.¹ This paper shows that it is not the appropriate policy measure *per se* but only a credible government policy that is the source of efficiency gains.²

The analysis of the credibility of government policy has been a central topic in economic theory since the late 1970s.³ In contrast to its theoretical importance, the credibility of policy measures seems to play only a minor role in everyday policy-making. However, based on theoretical insights, the fear is that the desired positive

* The Kiel Institute of World Economics, Kiel, Germany. This paper reports research undertaken in the project "The Role of Stabilization, Liberalization and Privatization in the Process of Transformation in Central and Eastern Europe". Financial support provided by the Volkswagen Foundation is gratefully acknowledged. I thank Peter Nunnenkamp for helpful comments on an earlier draft.