

Title: The Effect of Structural Adjustment Policies on Labour Demand: The Case of Turkey

Author: Özlem Onaran, Istanbul Technical University*

ABSTRACT

This study analyses the sources of employment growth before and after structural adjustment policies in Turkish manufacturing industry, and in particular tests the impact of trade liberalisation on labour demand. The analysis is made by means of both a growth accounting technique and an econometric model based on the panel data estimation of a labor demand equation for the subsectors of private manufacturing industry, with a specific emphasis on trade orientations. The results show that trade liberalisation, wage suppression and increased labour market flexibility did not bring together a significant increase in the labour demand in Turkish manufacturing industry, contrary to the expectations of orthodox structural adjustment policies. The econometric analysis on the wage and output elasticity of the demand for labour indicate that lower wages do not create sufficient new jobs, if this leads to a deficiency in aggregate demand, and this gap cannot be easily closed by exports. The possibility of substitution of capital with labour is also found to be rather limited. Both the weak response of employment to the initial decline in wages and the decreasing labour intensity of production even in the export-oriented sectors leave the neoclassical expectations about the consequences of structural adjustment policies unfulfilled. These results combined with the flexibility in the institutional structure of the labour market and the wage setting mechanism, show that the source of the problem results from the demand side of the labour market, rather than the supply side. The study presents a counter-example to the orthodox economic policy stance aiming at creating employment through wage suppression, and verifies the Keynesian emphasis on the centrality of demand.

Key words: labor demand, structural adjustment, trade liberalisation

JEL code: J230, E240, F160

*** Ph.D., Istanbul Technical University, Department of Economics**

ITU Isletme Fak. Maçka- 80680, Istanbul, Turkey;

e-mail: oonaran@itu.edu.tr tel: +90-212-293 13 08 / 2790 – 2051; fax: +90-212-240

72 60