

EXPLAINING INFORMALIZATION
VIA
LABOR MARKET SEGMENTATION THEORY:
EVIDENCE FROM TURKEY

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ABSTRACT

EXPLAINING INFORMALIZATION VIA LABOR MARKET SEGMENTATION THEORY: EVIDENCE FROM TURKEY

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The primary aim of the thesis is to explain informality with the help of labor market segmentation theory in the case of Turkey. In so doing, the informalization process in Turkey is discussed with reference to not only the definitional confusions in different conceptualizations of the informal sector in the literature, but also trade liberalization, privatization, subcontracting relationships and the notion of “flexible firm”, as well. In order to find an answer to the question of “how the dimensions of informality fit into the perception about labor market segmentation theory”, the field surveys conducted by different authors are analyzed. The findings of these field surveys confirm a possible explanation of informalization via labor market segmentation theory in Turkey.

Keywords: informal sector; temporary employment; labor market segmentation; subcontracting relations; flexibility.

ÖZ

ENFORMELLEŞMEYİ KATMANLAŞMIŞ İŞGÜCÜ PİYASASI TEORİSİ İLE AÇIKLAMAK: TÜRKİYE ÖRNEĞİ

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Tezin temel amacı Türkiye’deki enformelleşmeyi katmanlaşmış işgücü piyasası teorisi yardımıyla açıklamaktır. Türkiye’deki enformelleşme süreci, enformel sektörün literatürdeki farklı kavramsallaştırılmasından kaynaklanan tanımsal karmaşanın yanı sıra, dış ticarete serbestleşme, özelleştirme, alt-sözleşme ilişkileri ve esnek firma kavramına referansla anlatılmaktadır. Enformelleşme dinamikleri ile katmanlaşmış işgücü piyasası teorisinin nasıl örtüştüğüne cevap bulabilmek için farklı akademisyenlerin gerçekleştirdiği saha çalışmaları analiz edilmektedir. Söz konusu saha çalışmalarının sonuçları, Türkiye örneğinde enformelleşmenin katmanlaşmış işgücü piyasası teorisi ile açıklanabileceğini doğrular niteliktedir.

Anahtar kelimeler: enformel sektör; geçici istihdam; katmanlaşmış işgücü piyasası; alt-sözleşme ilişkileri; esnekleşme.

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CHAPTER 1

INTRODUCTION

History is full of surprises. Whenever a social fact is believed to be a secular trend experience reverses it eventually. The growth of the informal economy in different social and economic contexts over the last decade exemplifies this crucial feature of human society (Castells and Portes, 1989: 11).

The early literature on the informal sector during 1950s and 1960s expects that the informal sector declines in the course of time and at last it will disappear with modernization and industrialization. But, the experiences in many developing as well as developed countries do not confirm this expectation. The informal sector not only continues its existence, but also expands as well. This expanding feature of the informal sector as a percent of both the labor force and GDP captured the attention of many scholars and governments: it has reached a certain size that it is no longer possible to ignore it.¹

Many researchers in Turkey have shed light on various aspects of the informal sector. These previous studies have focused on different facets of the informal sector: the size of the informal sector (Tunalı and Taştı, 2004; Tunalı, 1998); migration, poverty and income potentials (Bulutay and Taştı, 2004; Buğra and Keyder, 2003; Şenses, 2001; Işık and Pınarcıoğlu, 2001; Şenyapılı, 1998; Keleş, 1998; Tansel, 1998a; Peker, 1996), the extent of unionization of informal sector activities (Özdemir and Yücesan-Özdemir, 2004; Özdemir et al. 2004; Selçuk, 2002 and 2004), the

¹ Based on the findings on Scheider and Enste (2000), capturing the figures of 76 countries between 1989 and 1993, and Loayza (1996), capturing the early 1990s, Saracoğlu (2003: 2) states that “in developing countries (Africa, Central and South America, Asia) the size of the informal sector is between 35 percent and 44 percent of official GDP, in transition countries (former Soviet Union and Eastern Europe), between 21 percent and 35 percent”. It is even about 15 percent in OECD countries. In Latin America, the size of the informal sector is 39 percent of official GDP, on average for the early 1990s.

impact of the structural adjustment programme, trade liberalization and privatization on the informal sector (Çam, 2002; Kalaycıoğlu and Rittersberger-Tılıç, 2001 and 2002; Erlat, 2000; Boratav et al. 2000; Onaran 2000 and 2003; Özar and Ercan, 2002; Taymaz, 1998; Köse and Öncü, 1998 and 2000; Tansel, 1998b; Nichols et al, 1998; Şenses 1996 and 2000; Yeldan, 1994; Demir and Suğur, 1999).² However, few studies have been devoted to the linkages between informal and formal sector (Taymaz and Kılıçaslan, 2002; Güler-Müftüoğlu, 2000 and 2004; Peker, 1996; Nichols and Sugur, 1996b; Kaytaz, 1994; Evcimen et al., 1991). Among these studies a small number of them are concerned with the effect of subcontracting relationships on the employees whereas most of which approach the issue from the aspect of enterprises.

The objective of the present paper is twofold: At first, what we try to do is to combine all of these aspects, mentioned above, of informal sector in one study. This attempt constitutes the general purpose of the present study. The main idea behind this attempt is that without any aspect of these, the study will be incomplete. In other words, only such a manner makes us realize the position of informal sector within total structure. From this aspect the present study can be regarded as a literature review about informal sector studies. It resembles to a picture drawn using more colors. The more specific objective is how to approach to informal sector from an alternative way. We suggest explaining informalization via labor market segmentation theory in the case of Turkey. In so doing, we try to find an answer to the question of “how the dimensions of informality fit into the perception about labor market segmentation theory in the case of Turkey”. In order to confirm our suggestion, we are looking for to clues based on the findings of the conducted field surveys by different authors. The segmentation in the labor market is mostly studied under the wage differentials between the sectors in the previous studies. There are not explicit reference to the labor market segmentation theory from the aspect of differences in job ladders and control mechanisms. This is what we try to make it be

² We are aware of the difficulty of dividing the studies into different headings since these aspects are closely related with each other. While studying the concept of poverty, one mentions the impact of structural adjustment programme on the concept as well. However, such a classification reflects an abstraction level, not more than that.

seen clearly. However, as the first step we need to clarify what we mean by the concept of informal sector in the present study.

In the literature, several terms/concepts are being used as synonymous with informal sector although there are certain differences between them. Some of these terms are illegal, unreported, unrecorded, shadow, irregular, criminal, underground, black, hidden economy, among which the most popular ones are the first three: illegal, unreported and unrecorded economy. These four concepts, including the informal sector, can be distinguished according to the particular institutional rules that they violate:³

- The Illegal Economy: It consists of income produced by those economic activities pursued in violation of legal statutes defining the scope of legitimate forms of commerce. Production and distribution of prohibited goods and services are included in the illegal economy.
- The Unreported Economy: It consists of those economic activities that circumvent or evade the institutionally established fiscal rules as codified in the tax code. For the measure of unreported economy, the most common one is “tax gap” (the difference between the amount of tax revenues due to fiscal authority and the amount of tax revenue actually collected).
- The Unrecorded Economy: The unrecorded economic activities circumvent the institutional rules that define the reporting requirements of government statistical agencies. The amount of unrecorded income, which represents a discrepancy between total income or output and the actual amount of income or output captured by the statistical accounting system, is used as the measurement of the unrecorded economy.
- The Informal Economy: It is comprised of those economic activities that circumvent the costs and are excluded from the benefits and rights incorporated in the laws and the administrative rules covering property

³ The explanations of illegal, unreported, unrecorded and informal economy are due to Feige’s (1990: 991-993) article.

relationships, commercial licensing, labor contracts, torts, financial credit and social security systems.

Such a classification of activities into different headings does not even come close to differentiate these activities from each other. It is because of the fact that there could be one activity falling into more than one heading. As a confirming example of this statement Tunali (1998) explains the organization of home and office cleaning services. On the one side there are some cleaning companies that rely on hired labor and fulfill all the legal obligations. These firms are included in the formal side of the economy. On the other side “there are companies which shut down and reopen under a new name every year so that they do not have to make social security or insurance contributions on behalf of their work force. These essentially exploit the legal loopholes and duck the reporting obligations of formality by hiring the same workers under temporary contracts” (ibid: 33). Besides these, there are also domestic workers who are not working within a company engaging in cleaning activities. That’s why it seems to be very difficult to define informal sector on the basis of the goods produced, or the service rendered.

So, the question turns out to be what informality refers to. Does it refer “To the actors in the economic arena (individuals, firms, establishments, institutions), or the relations between them? Or to the mechanisms which regulate the relations among these and between each and the State?” (Tunali, 1998: 33). The answer of this question determines the target group of the studies concerning informal sector. Since different policy orientations attached to different target groups, it is crucial to identify whether it is people or the activities which are being classified under the heading of informal sector (Moser, 1978). Identifying the target group also makes one use one of the modified nouns of the informal economy such as informal employment, informal firms, informal credit and finance, informal building and settlement, informal institution and policy.

Through the present study we will prefer to follow the approach of Castells and Portes (1989) in explaining the informal sector. These authors view informalization

as a process rather than an object, thus, they see the basic distinction between formal and informal activities not on the character of the final output, but on the manner in which it is produced and exchanged. Paralleling to this definition of informal sector, we determine our target group as informal workers, especially informal wage workers. In this sense, we refer to informal labor as a “part of the employed labor force which is not officially registered under any social security coverage and also is not entitled under the ‘self-employed or employer’ status in the labor force statistics” (Boratav et al., 2000: 9). [Such a conceptualization fits well the employment-based definition of the informal sector rather than the entrepreneur-based one.]

In the Second Chapter of the thesis we will try to present a brief history of the concept of the “informal sector”, including the early debates about the concept. In this way, the definitional confusions in different conceptualizations will be identified with reference to dualist, structuralists, and legalists. The country experiences will also be listed to point out the expanding character of the informal sector.

Chapter 3 introduces the new facets of the informal sector indicating the evolving nature of the concept. In this chapter, our main emphasis is the linkages between formal and informal sectors. Since these linkages have been accelerated by the elements of structural adjustment programmes, such as trade liberalization, privatization, etc. implemented in most of the developing countries, a special attention will be given to the impact of these programmes on informal employment. The notion of the “flexible” firm will be discussed within its role on the growth of subcontracting relationship between firms which is also resulted in an expansion of informal sector.

The main hypothesis of labor market segmentation theory will be our main concern in Chapter 4. In addition to a brief discussion about the sources and descriptions of segmentation in labor market, its link with the flexibility discussions will be concerned. As the last step for this chapter, brief information about the main assumptions of statistical and econometric techniques in testing for segmentation will be given.

In Chapter 5, we attempt to find evidences that make us consider explaining informalization via labor market segmentation theory in the case of Turkey. In so doing, firstly, the literature on the informal sector in Turkey will be reviewed. Then, with the help of the findings of the field surveys that have been conducted by different scholars in different industries, we will to find out clues that confirm our alternative way of approaching informal sector.

Concluding remarks will be included in the last chapter.

CHAPTER 2

THE INFORMAL SECTOR

2.1. Origins and Evolution of the Concept of Informality

2.1.1. The Genesis of the Informal Sector Concept

Although the concept of informality has been firstly used by Hart (1973) in his article on “Informal Income Opportunities and Urban Employment in Ghana”, the genesis of the concept dates back long before this time. There are at least some studies that are based on dual market structures using two-sector terminology and mainly concerning the labor absorption capacity of the modern sector. This approach divides economic activities and employment into two categories, such as “traditional” and “modern” sectors. According to this approach, traditional sector consists of the activities which existed before, and continue in the face of, western capitalist penetration since the modern sector activities are the results of the advanced technologies, and the advent of sophisticated professional and governmental activities (Bromley, 1978: 1033). This kind of analysis is special to the ‘modernization school’. Lewis (1954), who is a member of this school of thought, developed his theoretical model of economic development based on the assumption that there exists an unlimited supply of labor in most developing countries. This vast pool of surplus labor would be captured by modern industries in these countries as industrialization proceeds, and then wages move upward, reducing income differentials. The essence of this thinking is the transfer of rural subsistence workers whose marginal productivity is zero to the modern industrial sector. It means that this unlimited surplus of labor, which is now counted in the traditional sector employment, will be the employees of the modern sector industries. In this manner, this period can be regarded as a transition period. As soon as these workers are

absorbed by the modern sector, the problem will disappear. For a long time, dual economy theory is used as the only view on the question of labor absorption in developing countries.

It provides theoretical underpinnings for the neoliberal approach to development with its emphasis on unrestricted access to labor, aggregate economic growth, and an eventual rise in wages coinciding with the exhaustion of the excess labor supply (Portes and Benton, 1984: 590).

The reaction against these positions comes from Marxist theories of development. The main argument of this theory is that “the expanding capitalist mode of production would undermine and then destroy precapitalist modes” (Portes and Sassen-Koob, 1987: 32). The emergence of the dependency theory can also be regarded as an alternative interpretation of development and underdevelopment which belongs to the Marxist way of thinking. This theory is supported via the data that show the sluggish rate of labor absorption of modern industry in Third World countries. (This discussion still continues, but this time with reference to technological dependence. The industrialization process in Third World countries relies on capital-intensive imported technologies.)

Both orthodox and Marxist theories of industrialization expect the decline in the rates of the informal sector (Portes and Benton, 1984; Portes and Sassen-Koob, 1987; Sassen-Koob 1989). But, it does not fit the scenery we are faced with. Table 2.1 shows the increasing trend of the informal sector in the case of Latin America in the years of 1950 and 1980. This increase is explained by the inadequacy of labor absorption rates in the modern urban sector. A large number of workers are forced in marginal employment as a result of this.

Table 2.1: Latin America: Segmentation of the Economically Active Population (EAP)

Country	Year	Percent of the EAP		
		Urban		
		Formal	Informal	Total
Argentina	1950	56.8	15.2	72.0
	1980	65.0	19.4	84.4
Bolivia	1950	9.1	15.0	24.1
	1980	17.9	23.2	41.1
Brazil	1950	28.5	10.7	39.2
	1980	45.2	16.9	62.1
Chile	1950	40.8	22.1	62.9
	1980	54.1	20.1	74.2
Colombia	1950	23.9	15.3	39.2
	1980	42.6	22.3	64.9
Costa Rica	1950	29.7	12.3	42.0
	1980	52.9	12.4	65.3
Ecuador	1950	21.5	11.7	33.2
	1980	22.7	25.4	48.1
El Salvador	1950	18.5	13.7	32.2
	1980	28.6	18.9	47.5
Guatemala	1950	15.2	16.2	31.4
	1980	26.7	17.8	44.5
Mexico	1950	21.6	12.9	34.5
	1980	39.5	22.0	61.5
Panama	1950	34.9	11.8	46.7
	1980	45.3	20.9	66.2
Peru	1950	19.1	16.9	36.0
	1980	35.0	23.8	58.8
Uruguay	1950	63.3	14.5	77.8
	1980	63.3	19.0	82.3
Venezuela	1950	34.7	16.4	51.0
	1980	62.6	16.4	79.0
Latin America ^a	1950	30.5	13.7	44.1
	1980	44.9	19.4	64.3

Source: Portes and Benton, 1984, p. 593. (a: 14 countries).

Up to this point, we base our analysis on the traditional and modern sector segmentation in the labor market with the help of the discussions in the development literature. It is because of the fact that this dualist way of thinking constructs the framework of the “formal” and “informal” sector difference in the way of using “traditional” instead of “informal” and “modern” instead of “formal”.

Dualist thinking received a boost in the early 1970’s with the presentation of Hart’s study on urban Ghana (1971) which then was published in 1973. Hart, who uses the concept of “informal sector” firstly, separates the economy into two sectors as formal and informal, and puts the difference between them via the individuals who are self-employed or are paid by the employer. According to Sethuraman (1976), one significant respect in which this study differs from former studies, which separate the economy in relation to their distinctive organization of production activities, is that it indicates new income-generating activities that are concentrated mainly in the “unorganized sector” of the economy. Hart also uses alternative designations to imply the target group as informal income-generating activities, urban proletariat, unorganized sector, unumareted sector, self-employed individuals, etc., however, these designations are different from each other in practice. In addition to that, his separation/classification is oftenly criticized because of the fact that he doesn’t make a clarifying explanation of the situation where the first ends and the second begins (Losby et al, 2002; Tunali, 1998). The term “informal sector” is then taken up in the report of the International Labor Office (ILO) on employment in Kenya which can be expressed as another example of the dualist way of thinking. The distinctions between the formal and informal sector in this report are declared as follows (ILO, 1972: 6; quoted by Bromley, 1978: 1033):

Informal activities are a way of doing things, characterized by-

- (a) ease of entry;
- (b) reliance on indigenous resources;
- (c) family ownership of enterprises;
- (d) small scale of operation;
- (e) labor-intensive and adapted technology;

- (f) skills acquired outside the formal school system and
- (g) unregulated and competitive markets.

The characteristics of formal sector activities are, namely-

- (a) difficult entry;
- (b) frequent reliance on overseas resources;
- (c) corporate ownership;
- (d) large scale of operation;
- (e) capital-intensive and often imported technology;
- (f) formally acquired skills, often expatriate, and
- (g) Protected markets (through tariffs, quotas and trade licences).

It is clearly seen that the classification of ILO is based on the enterprises, not the individuals in the urban economy. That's why the definition of ILO can be thought of as an enterprise-based definition of informal sector. Sethuraman (1976) interprets this kind of definition as a contribution since the Kenya report reduces the area of uncertainty in the distinction discussed by Hart (1973). The ILO Report solves the definitional problem via focusing on the characteristics of the enterprise for the definition of informal sector. However, as Sethuraman (1976) admits, the characteristics of the enterprises are less relevant to the general case and the practical problems of distinguishing informal sector from formal sector enterprises still remains. Another criticism comes from Tokman (1990: 94) which states the report's lack of conceptual framework to define the sector. According to him, the sector is characterized by a contrast to formal activities and by the lack of access to productive resources and markets in the report. Although Castells and Portes (1989: 12) noted that it is useful to determine what it is not, this way of conceptualization draws a strict line between informal and formal sector. For this way of thinking, the formal and informal sector represents the two poles, implying that there is no relationship between these two parts of the economy. The definition of ILO confirms this type of thinking as it lists exactly opposite characteristics under two different headings. Such a definition is somehow problematic because it ignores the linkages between formal and informal sector. It resembles to the way of using just "white"

and “black” in describing the color of something that is neither white nor black in reality.

For simplicity, we can talk about three main schools of thought, including dualists, structuralists and legalists, which consider the relationship between the formal and informal economies. However, the literature on “linkages” begins to grow especially after 1980’s parallel to globalization, flexibility and international competition discussions.⁴

These three perspectives can be summarized as follows⁵ :

- The Dualists: The informal sector is a separate marginal sector – not directly linked to the formal sector – providing income or a safety net for the poor. They indicate that the informal sector exists or persists because economic growth or industrial development has failed to absorb those who work in the informal sector. This kind of definition resembles the one by ILO in the 1972 Kenya report. The logical result of this idea is that as soon as the modern sector or industry begins to grow, the informal sector simultaneously disappears.
- The Structuralists: The informal economy is subordinated to the formal sector. The popular scholars of this school are Castells and Portes whose ideas are clearly seen in their article in 1989. They argue that, privileged capitalists in the formal sector look forward to erode employment relations and subordinate petty producers and traders because they try to reduce their labor and input costs and, thereby, increase their competitiveness.
- The Legalists: Informal work arrangements are the rational responses by micro-enterprises to over-regulation by government bureaucracies. De Soto (1990) is the most popular author of this view. The legalists

⁴ The literature on the “linkages” will be discussed in the next chapter in details.

⁵ Chen, Jhabvala and Lund (2002: 6); Carr and Chen (2002: 5).

view the reason of the occurrence of the informal sector in the firms' intent to reduce their costs and increase their wealth.

In brief, what distinguishes each of these schools is their focus or target group as well as their underlying model of power or power relationships (Chen et al, 2002:6; Carr and Chen, 2002: 5). The dualists focus on micro-entrepreneurs and the self-employed, rather than informal wage-workers. They also ignore the existence of direct links between the formal and informal activities and, linked to this understanding, advocate the notion that there are few (if any) power relationships between those who work in the informal and formal sectors. The structuralists are aware of the relationships between these two sectors since they admit that the formal economy exerts a dominant power relationship over the informal economy in its own interest. They choose their target group as the informal wage-workers, as well as petty producers and traders. They also observe the role of government in regulating the relationship between the sectors. The legalists view the informal economy as composed of entrepreneurs who engage in these activities voluntarily. They operate informally as a response to unreasonable bureaucratic controls and therefore they exercise their own power. But, they also acknowledge that powerful economic actors (entrepreneurs) may influence bureaucrats and politicians.

Apart from these three main schools of thought, there are other studies concerning the different compositions of the informal sector. These studies can be expressed as attempts to define the informal sector accurately.

2.1.2. Characterizing the Informal Sector

Since it is stated that “the informal economy is a common-sense notion whose moving social boundaries cannot be captured by a strict definition” (Castells and Portes, 1989: 11), it can be helpful to look at the different definitions of the concept in understanding the characteristics of the sector.

The multi-criteria definitions are generally inspired by the classical theory of competition (atomicity and fluidity of the product market and of production

factors), and view the informal sector as an illustration of the market economy, 'pure and perfect', but segmented, i.e. not directly linked to the official, modern market (Charmes, 1990: 13).

The most popular of these definitions is that posed by the ILO report on Kenya which was mentioned above. Apart from this definition of ILO, some authors try to break down these complex characteristics into simpler and more specific criteria because they think that the report causes ambiguity in the determination of the informality.

Sethuraman (1976 and 1997) attempts to do this via listing the conditions for membership of the informal sector as follows: employment of no more than ten persons, non-application of legal and administrative regulations, employment of family members, no fixed working hours or days, no institutional loans, production intended for the final consumer, less than six years of schooling for workers, and, for certain activities, no use of mechanical and electrical energy, and the peripatetic or semi-permanent character of the activity. In short, it can be said that he makes use of an establishment or production unit definition of informality which covers small-scale units engaged in the production and distribution of goods and services.

According to Mazumdar (1976; quoted by Lubell, 1990: 18), the informals are those working in activities "unprotected" by company policy, government regulations, or trade union action. In this sense, he looks at informality as a labor market phenomenon and shares the idea of the ILO, mainly taking the ease of entry or lack as the critical distinguishing feature of the informal sector. In his words,

The basic distinction between the two sectors turns on the idea that employment in the formal sector is in some sense or senses protected so that the wage level and working conditions in the sector are not available, in general, to the job-seekers in the market unless they manage to cross the barrier of entry somehow (Mazumdar, 1976: 656).

He emphasizes the difference in incomes between the persons who work in formal and informal activities with the help of an example. He investigates the wage

differential of casual day laborers and permanent workers in Bombay textile industry and concludes with the less payment of the first group of workers.

Charmes (1990) mentions that the ILO Kenya Mission report's conception of the informal sector contains two elements: marginality and productive activity. However, most of the academic research focuses on just one segment of the sector, and ignoring the others. This is done especially because of the measurement concerns of the authors. Concentrating on a single element will ease the study. The use of a single criterion, which is thought to include all the other characteristics of the informal sector, makes life easy for estimating the size of informal sector production instead of enterprises. One of these single criteria is employment/professional status (self-employed, employer, family worker, apprentice, wage employee). Paraphrasing Charmes (ibid: 14), "Professional status is currently used in analysis of population censuses or employment surveys and allows a distinction to be made between wage employees and non-wage employees".

Another criterion is said to be the size of the enterprise. This criterion is mainly used "in analysis of establishment censuses or enterprise surveys and sometimes allows estimates based on population censuses to be refined where they include such information" (ibid). Defining the informal sector under the criterion of non-registration of the firms is used as another single criterion for the informal sector. However, these three criteria stress the characteristics of the firms; in this sense their target group is enterprises rather than the employees of these enterprises. Even if they point out the informal sector from the aspect of the employees, they should stress the working conditions as well. Paralleling to this statement the criterion of income level could be expressed as an attempt to analyze the sector from the employees' perspective/point of view although it has some misleadings /fallacies which will be discussed in the following sections in details.

Charmes (1990) accepts the importance of defining informal sector based on the criterion of income level since it refers to an individual characteristic, not to a characteristic of the enterprise or the activity. Sethuraman (1981, quoted by

Charmes, 1990) suggests the use of the minimum legal wage as a threshold for determining whether a unit is part of the informal sector, or not. But, it is also evident that even when employees are paid the minimum legal wage, they can not benefit from the social security rights if they are not registered to the system. Hence, although using the income level criterion is an important step in explaining informality, it is not enough because there are various other determinants that should be considered besides the income level, such as working conditions; the place of work, working hours, labor union membership, etc. This point is made clearer by Castells and Portes (1989) as they state that the absence/lack of institutional regulation in the informal economy may affect various elements of the work process.

It may refer, first of all to *the status of labor*; for instance, labor may be undeclared, lacking the social benefits to which it is entitled, paid under minimum wage, or employed under circumstances that society's norms would not otherwise allow. It may refer, second, to *the conditions of work* under which labor is employed. These may involve, for instance, tampering with health conditions, public hygiene, safety hazards, or location of activities, such as ignoring land-use zoning or placing hazardous manufacturing in the midst of densely populated areas. Third, it may refer to the particular *form of management of some firms*. For instance, a company may engage in systematic fiscal fraud or the generalized use of unrecorded cash payments as a means of economic transaction (ibid: 13).

Paralleling this concern, in the 14th International Conference of Labor Statisticians (ICLS), it is mentioned that the informal sector should enclose the employees working not only in unregistered entities, but also in registered entities with similar characteristics and in the same branch of economic activity as those unregistered (ILO, 1987). These similar characteristics concerned in the conference can be listed as follows:⁶

- the level of organization: it is defined with reference to affiliation to a social security or pension scheme;
- the scale of production: it is defined with reference to the numbers of regular wage workers;

⁶ Charmes (1990: 15).

- the level of technology: it is defined on the basis of the level of qualifications required in the case of non-manufacturing enterprise, and the type of energy resource in the case of manufacturing enterprise.

Although it is seen that there is an attempt to include the conditions of workers in both formal and informal sector, it just considers whether they are registered or not. This definition is problematic since like other definitions it ignores the relationship between the formal and informal sectors. Another oversight of this definition is the underlying assumption of the definition. It is assumed that an individual is engaged in one activity either in the informal or the modern sector. Such an approach ignores the possibility of the existence of one working in both informal and formal sector. In other words, there is a possibility that individual workers can switch between the two sectors even during the same day. The example of this kind of behavior is given by Charmes (1990: 16), as the employees of large private or public enterprises frequently engage in own-account activities, and the same applies to wage earners in the informal sector. More specifically, a secretary can do keypunching at home in her off-duty time for sale in the market.

The 15th ICLS Conference (1993) shed more light into the concept of informality. The ICLS of 1993 elaborated a definition based on production units rather than on employment relations.

Units engaged in the production of goods and services with the primary objective of generating employment and incomes to the persons involved. These units typically operate at a low level of organisation, with little or no division between labor and capital as factors of production and on a small scale. Labor relations – where they exist – are based mostly on casual employment, kinship or personal and social relations rather than contractual arrangements with the formal guarantees (Quoted by Becker, 2004: 12).

According to Tokman (1990), one of the most important advances in the definition of informal sector in Latin America has been to look into its forms of production as a unit of analysis. This approach resembles to the one that belongs to Castells and Portes (1989) emphasizing the importance of the manner of production or exchange

as the differentiating point of the informal sector. Tokman (1990) also makes use of the center-periphery system in analyzing the concept of informality. “The relative insufficiency of labor absorption in modern sectors is analyzed in the framework of what Prebish (1981) called the center-periphery system, in which unequal international relations and subordination of technological change are key factors on the demand side” (ibid: 95). In this sense, Tokman (ibid) thinks that besides the organization of production, there is another item that should be kept in mind while describing the informal sector; it is the differences in the structural context between center and periphery.

Additionally, Tokman (1990: 96) not only establishes the distinction between the approaches of Portes and de Soto, but also criticizes their way of analyzing the informal sector concept. They resemble to each other in the way of using the institutional framework as their main point of argument. Their interpretation and policy prescriptions constitute the difference: Portes sees exploitation, and advocates further controls while de Soto assigns responsibility to inadequate intervention. Tokman (ibid.) criticizes their approach in that their focus on institutional or legal factors is misleading which makes the reason of this confusion. They confuse the issues since illegality can be found everywhere in the economy from criminal activities to simple tax evasion by well-established firms. In this sense, Tokman (ibid.) claims that the non-observance of laws is one of the results of operating, but not necessarily its cause. This claim is worth emphasizing because it inverts the causality which is widely accepted in the literature.

The official figures representing the size of the informal sector can also give us a clue about the definition of the sector. The United Nations’ Regional Employment Program for Latin America (PREALC) is one of the international agencies that collects data on the informal sector. PREALC defines the informal sector as the sum of the self-employed – excluding professionals and technicians – and unremunerated family workers and domestic servants. This definition is criticized by some scholars (Portes and Sassen-Koob, 1987; Portes and Benton 1984) in that such a definition make all wage workers be included in the formal sector. However, there are informal

wage workers hired casually and lack of social security protection. This kind of conceptualization concludes with the underestimation of the sector and leads to an overoptimistic assessment of actual trends. Portes and Sassen-Koob (1987) suggest an alternative definition that is based on exclusion of labor from social security coverage, and they are faced with the scenery/picture that by using this definition, the estimates of the informal sector for Latin America considering the years of 1950 and 1980 increases to about two-thirds of the economically active urban population. The exclusion of the informal wage workers as a part of the informal sector is also emphasized by Tokman (1990: 103) as stating that “production analysis is mostly addressed to the questions of access to complementary factors other than labor, mostly capital. However, such an analysis does not take into account the behavior of wage workers in informal activities”.

This exclusion of the informal wage workers from the composition of the informal sector can be explained with the help of the attitude of the authors. Mostly, authors prefer to concentrate on one of these two classifications; the informal economy is classified in either of two ways: by those who work in it (the work force) or by the activities which take place in it (economic units). The second classification does not include the informal wage workers in the informal sector whereas wage workers constitute the main part of the informal sector in the first classification. To overcome this segmentation in the definition, there exists another way defining the sector, via the employment status categories. This classification is as follows (Chen et al., 2002: 5; Carr and Chen, 2002: 4):

I. Non wage-workers:

- Employers, including:
 - Owners of informal enterprises
 - Owner operators of informal enterprises
- Self-employed, including:
 - Heads of family businesses
 - Own-account workers
 - Unpaid family workers

II. Wage-workers:

- Employees of informal enterprises
- Domestic workers
- Casual workers without a fixed employer
- Homeworkers (also called industrial outworkers)
- Temporary and part-time workers
- Unregistered workers

It is worth saying that this classification accepts that some workers belong to more than one of these basic categories. It is the case when persons change jobs or activities across any given unit of time and/or hold more than one job at any given time. In addition, it is also accepted that it is very difficult to determine the persons who hold multiple employment positions at a given time, or across time.

It should be pointed out that as mentioned by Carr and Chen (2002), the 1993 definition of the informal sector adopted by the 15th ICLS only includes one category of informal wage workers: employees of informal enterprises. The 15th ICLS definition is called as an ‘enterprise-based definition’ of the informal sector because it defines the sector as the sum of self-employed, family workers, employers and employees of informal enterprises but, thereby, excludes many wage workers who are hired casually and lack protection (Portes, 1994; quoted by Chen et al, 2002). An alternative of this is an “employment-based definition” which is especially preferred by the international network called “Women in Informal Employment: Globalizing and Organizing (WIEGO)”. This definition comprises the following employment positions⁷ :

- i) all employers of informal enterprises;
- ii) all self-employed persons, except self-employed professionals and technicals;

⁷ Chen et al, 2002: 5, Carr and Chen, 2002: 4.

- iii) all wage workers who work without minimum wage, assured work, or benefits, whether they work for formal or informal firms (including employees of informal firms, domestic workers, casual workers, homeworkers, temporary and part-time workers, and unregistered workers).

Based on this statement, it can be said that the understanding of the informal sector fully determines the components of the sector as well. This understanding also gives clues about the reasons of the occurrence of the informal sector. While investigating the genesis of the informal sector concept, we have been faced with the inadequate labor absorption capacity of the modern sector. Excluding the informal wage workers from the informal sector definition is closely related to the question of how the author approaches the reasons of labor underabsorption. That's why the informal sector has close links with the (un)employment problem.

There exist two interpretations of the current theories of labor under-absorption. One of them is supply-driven, and the other is demand-driven.

The first imputes the growth of labor underutilization not to limited dynamism of modern industry, but to the lack of appropriate skills and work habits in the labor force. This view, identified in Latin America with the theory of 'marginality', suggests that the paradox of rapid industrialization with increasing underemployment is due ultimately to a labor supply problem (Portes and Benton, 1984: 594).

This statement resembles one explaining the secondary position of women in the labor market via their insufficient capabilities, skills, or education levels. This type of reasoning belongs to the human capital theory in which the main idea is that inequality occurs because people abilities are not equal. According to this theory, each person is responsible for his/her position in the market. Keeping this idea in mind, it can be clearly seen that the understanding of the informal sector from the perspective of labor supply not only points out the qualifications of the people as the reason of their position in the labor market, but at the same time ignores the main part of the problem: what makes these different qualifications. In the case of Latin

America, the pro-labor supply scholars (or pro-human capital theorists) recommend a program of occupational training for every new entrant in the labor force (This recommendation has the underlying assumption that the main source of the informal sector is the migration from rural to urban). Portes and Benton (ibid.) claim that “even it were possible to train these vast numbers in Latin America, it is unlikely that industry would be able to absorb all the new mechanics, electricians, and other specialists thus created”.

The economists of the UN Economic Commission for Latin America (ECLA) and PREALC suggest a more plausible interpretation for the underlying reasons of labor underabsorption. As Portes and Benton (ibid.) mention, their argument focuses less on problems of labor supply than on structural constraints to the expansion of labor demand in the modern sector.

Besides all these, the changes in the production organization also cause modifications on the employment choices of the entrepreneurs. Since this concept will be discussed with its linkage with flexible labor markets in the second chapter, we will not give the details. Nevertheless it can be said that the increasing pattern of unemployment is much more related to the demand side, rather than supply side. Because of that, investigating the factors that determine the labor demand will be more useful to understand the characteristics and occurrence of the informal sector.

2.2. Functions of the Informal Sector

The functions of informal activities are explained under three assumptions. These three assumptions have been derived from the theories of industrial development and have exercised a decisive influence on thinking about the evolution of small-scale enterprises and, in particular, those that are termed informal (Portes and Sassen-Koob, 1987). Before going on with these assumptions, it can be helpful to point out the reason behind considering small-scale enterprises as the informal sector.

It is expressed that the census count of very small establishments (VSEs) can be considered as one proxy for the number of firms operating in the informal economy (Portes and Sassen-Koob, 1987; Castells and Portes, 1989). The reasons for this conceptualization are as follows:

- i) Because of their low visibility and ease of displacement, they provide the most appropriate setting for casual hiring, unreporting of income, and informal practices.
- ii) Their size permits them to convert to completely underground enterprises. While it is generally difficult to informalize a plant employing hundreds of workers, this is not the case for one with only a few employees.

This approximation to informality differs from the entrepreneur-based definition of the informal sector via its stress on the usage of it as one proxy, not the main indicator. It would result in underestimation of the sector if VSEs are the only ingredients of the sector. Because it is commonly accepted that even the large firms employ informal workers, such as casual and temporary workers. In addition to this, the large and/or formal firms begin to informalize via subcontracting relations. This trend will be discussed in the third chapter in relation with backward and forward linkages.

Once the link between small-scale enterprises and informality is established, we can move on with our discussion on the assumptions of the functions of informal activities.

The first is that these activities are essentially transitory, being a consequence of the imperfect penetration of modern capitalism into the less developed regions and is thus destined to disappear with the advance of industrialisation and industry-led growth. The second assumption is that the principal reason for the continuing existence of an informal sector is to keep a redundant segment of the labor force alive through jobs invented to fit in the interstices of the modern economy. The third is that the informal sector is primarily a feature of peripheral economies being, in essence, another manifestation of their underdevelopment (Portes and Sassen-Koob, 1987: 32).

Besides these assumptions of the functions of informal activity, there also exists a more accepted view about the informality as it functions as a refuge to poverty. There has been a disagreement on this subject among the scholars. The informal sector is sometimes characterized as a survival strategy of the poor while it is also considered as earning more than the formal wage workers. According to Bromley (1978: 1035), there is a tendency to consider the urban informal sector and the urban poor to be synonymous and states this as a deficiency of the informal/formal classification literature because “not all persons who work in the informal sector are poor, and not all poor people work in the informal sector”. Paralleling to this view, Castells and Portes (1989: 12) do not agree with the usage of urban poverty and urban informal sector interchangeably in that “the informal sector is not euphemism for poverty. It is a specific form of relationships of production, while poverty is an attribute linked to the process of distribution”.

Another author, Fields (1990), approaches the concept from a different point of view. He divides the informal sector in two groups since a “part of it consists of employment which is free-entry, low wage and undesirable relative to formal sector employment. However, another part of it consists of employment which is limited-entry, high wage, and preferred to formal sector employment” (ibid: 50). He criticizes the studies about the informal sector because most of them just concentrate on one of these parts, and generalize the sector by ignoring its different position relative to the formal sector; if the author concentrates on the first part of the informal sector which is characterized as low wage payment and undesirable working conditions, he/she defines the sector and poverty to be synonymous, while if one is focusing on the second part of it (associated with high wage), he/she does not conclude with poverty of the people within the sector. That’s why there is a need for thinking the sector with its different segments. Based upon this idea, Fields (1990) recommends another terminology for the sector that allows differentiating the two parts: the term of “easy-entry informal sector” for the first part and the term of “upper-tier informal sector” for the second.

Portes and Sassen-Koob (1987) begins to discuss the same issue via empirical evidence that contradicts the common belief of describing informal sector as a refuge from poverty. They assert that “if the informal economy were exclusively a refuge from destitution, two facts would logically follow: first, average income levels among the informally employed would be significantly lower than those among workers in the modern sector, and, second those who found employment in formal activities would never leave voluntarily in order to move into the informal economy” (ibid: 36). This belief is not accepted based on the findings of the empirical studies, i.e. surveys of urban labor markets in Colombia, Brazil and Lima, Peru. A survey of urban labor markets in Colombia in 1975 concluded with a significant income disparity between formal and informal workers in favor of the latter, and also in Brazil, self-employed workers earned more than the minimum wage in all metropolitan areas in 1978. An analysis of the entire labor force in Lima, Peru revealed a larger Gini coefficient of inequality for the informal sector (0,51) than for the formal (0,40). These examples can be used as a support for the idea that the informal sector workers have better working conditions than the formal ones. However, this is not the case in reality. We are faced with a better picture for the informal workers because of the method used in the surveys, in other words how one defines the informal sector determines the size and the other conditions.

According to Portes and Sassen-Koob (1987: 40), the paradox that informal earnings are equal to or higher than those in the formal sector could be solved when one realizes that the participants of the informal economy do not occupy a uniform class position. “At least two positions must be distinguished: (i) that of informal workers who labor without contractual arrangements or legal protection; and (ii) that of informal entrepreneurs who organize this labor under contract for the formal sector” (ibid.). Therefore, if the informal sector is taken into account as a whole, namely sum of these two parts, average earnings seem to be close or even higher the ones in the formal sector; but if the sector is studied into two separate parts, the picture changes completely. The following table, taken from the article of Portes and Sassen-Koob (ibid: 41), makes this argument more clear:

Table 2.2: Average Earnings of Formal and Informal Workers and Employers in Montevideo, Uruguay and Lima, Peru, 1983

Category	Montevideo (N= 248,821)		Lima (N= 1,362,758)	
	%	Mean Earnings*	%	Mean Earnings*
Formal sector workers	71.6	172.92	58.6	119.05
Informal sector	28.4	172.88	41.4	108.12
workers	21.9	80.30	37.9	89.59
employers	6.5	346.52	3.5	298.30

* Figures are average monthly earnings in 1983 dollars calculated at the rates of US \$1.00 = 37.6 new Uruguayan pesos = 2,100 Peruvian soles.

Source: Portes and Sassen-Koob, 1987, p. 41.

This table shows that the wage equality between formal and informal sector will disappear as soon as the informal sector wage workers are taken into account alone. This type of classification resembles to the one belongs to Fields (1990). The terminology of Fields reflects the same segmentation in the IS in the study of Portes and Sassen-Koob (1987) as the “easy-entry informal sector” can be expressed as synonymous to informal wage workers and the “upper-tier informal sector” to informal employers, namely, the self-employed.

2.3. The Reasons behind the Popularity of the Informal Sector Studies

As the studies concerning informal sector widen, it becomes clear that the sector is neither a temporary nor a Third World (sometimes called as developing or underdeveloped countries) phenomenon. As a first step it will be helpful to consider the facts about the popularity of the concept. According to Tokman (1990) the informal sector had been largely ignored during the 1970s although Bromley (1978) insists on the fact that the informal/formal debate had been widely discussed in the 1970s. This contradiction can be the case because of the understanding of the concept. In my opinion, Tokman’s idea about the exclusion is related to his understanding of the sector via the employees or wage workers of the sector. During

1970s, most of the studies concentrate on the enterprise side of the sector that is based especially on the ILO definition. Therefore, the employment-based definition is not considered, and “little attention has been paid to the large volume of people that continued to be employed in informal activities despite the very high rates of economic growth” (Tokman, 1990: 105). On the other side, Bromley (1978: 1037) lists the possible explanations for the widely discussed informal sector in the 1970s as follows:

- The informal sector is widely discussed because of the relatively rapid and large-scale publication and distribution of research results and policy recommendations by the ILO.
- The concept of informality is more importantly considered via the interrelations between the policy discussions on the informal sector and the other topical policy discussions of the 1970’s: ‘Redistribution with Growth’, the ‘New International Economic Order’, ‘Basic Needs’, ‘the Urban Crisis’, ‘Reaching the Poorest of the Poor’ and the like. It is obvious that each of these subject areas/labels/slogans points out the conflicting ideologies and also interpretations of the development process.⁸ According to Bromley (ibid.), “the ‘informal/formal dualism’ is simply another stage on which the same debates can be acted out”. These debates are mainly between liberal, neo-classical views and radical, neo-Marxist views about the benefits of the development to the poor. The difference between them mainly refers to the features of the changes (gradually or sharp) in the policy that can possibly favour of the poor.

Although there exist contrasting ideas about the popularity of the concepts in the 1970’s, there is no doubt about its popularity nowadays. One of the possible and plausible explanations of this popularity in the case of Latin America is the change in the concern of public and private officials. Since this explanation designates the economic and political conditions of the Latin American countries, it can be seen that

⁸ For the examples of such debates, see the notes of the Bromley (1978) article.

most of the reasons that the explanation involve can easily be generalized. The explanation belonging to Tokman (1990: 106) can be summarized as follows:

I. The Economic Reasons behind the Popularity of the Informal Sector:

- a. The international recession and the politics of adjustment followed by most Latin American governments have caused an expansion of the informal sector. Therefore, the informal sector becomes more visible because the growth in size, and also poorer because of the reduction of average income.
- b. Although most of the Latin American countries, such as Brazil, Mexico, Panama, Costa Rica, Colombia, Venezuela (all of which has attained just four percentage decrease in the size of informal sector in spite of the GDP growth) have experienced rapid growth rates before the crisis, this trend could not be transferred to the employment market. “This trend is all the more startling because it has not occurred under stagnant conditions, but in the countries experiencing high rates of industrial growth” (Portes and Sassen-Koob, 1987: 33).
- c. Another cause can be linked to the increased concern with poverty conditions in Latin America. Tokman (1990: 106) gives the statistics about the poverty as follows: “by 1980, between 75 and 80 percent of those employed in the informal sector have been receiving an income below recognised national minimum standards”.
- d. The fourth economic argument that could explain the increased popularity of the informal sector is that forecasts for future growth are in general pessimistic. In addition, there is the yet unsolved problem of the foreign debt. Given the rapid growth of the labor force supply, the process of transfer from the informal to the modern sector will be slow.

II. The Political and Ideological Reasons behind the Popularity of the Informal Sector:

- a. The return to the democracy of most Latin American countries has increased the interest of politicians in the potential votes of those working in the informal sector.
- b. The degree of the conflict that is being registered among marginal populations, mostly located in the outskirts of the cities forces the officials to concentrate on the concept of informality. As an evidence to the growing pattern of the cities, Davis (2004: 13) states that “residents of the slums constitute a staggering 78,2 percent of the urban population of the least developed countries and fully a third of the global urban population” and adds that “whereas the classic slum was a decaying inner city, the new slums are more typically located on the edge of urban spatial explosions” (ibid: 14). Also the conclusion of the authors of “*The Challenge of Slums*” (2003: 40) is noteworthy vis-à-vis the process of informalization: “instead of being a focus for growth and prosperity, the cities have become a dumping ground for a surplus population working in unskilled, unprotected and low-wage informal service industries and trade”. Paralleling to this concern, Tokman (1990: 107) emphasizes the growing potential for the occurrence of a conflict or social explosion because of the fact that increased levels of open unemployment and informal employment have resulted in a reduction of income and the need to share precarious housing among those who were previously working in informal activities.

In contrast with the view of Tokman (1990), Öniş (2002) states the importance of the informal sector in that it enables to protect the economy from social protest. This kind of thinking is the understanding of the sector as a “safety net” for the society. Along with this argument, Öniş (ibid: 10) claims that the presence of such a

strong informal economy in the countries like Turkey is a major obstacle against massive and violent waves of social protest of the type which has been experienced in the Argentinean crisis of 2001. But, the fallacy of this approach is its ignorance of the self-reproduction of poverty via informal sector activities.

- c. The third cause is expressed as an ideological one by Tokman (1990). The traditional interpretation of the informal sector in Latin America has been one of marginalization which is exactly the same in Turkey. This interpretation is due to the insufficient capacity of the job creation of the modern sector, and the outsiders to the modern sector are regarded as ‘the marginals’. The expectations about the disappearance of the informal sector do not become real, the result is growing political antagonism and resentment.

2.4. The Reasons behind the Diversification or Expansion of the Informal Sector

The growth or expansion of the informal sector is mostly explained by the economic factors such as lack of sound economic growth, structural adjustment programmes, rapid transition to a market economy, low salaries in the formal economy, and demographic factors i.e., migration. Since each of these has some correct points in it, they are not enough to explain the diversification of the sector even in the developed countries. Therefore, there is a need for a more comprehensive approach which also takes account the world economic conditions in globalization era. Such an attempt comes from Carr and Chen (2002). They insist on the fact that although there is no simple answer to the question of why the informal sector has continued to grow or expand, they agree on some mix of sets of factors that would explain the persistence or expansion of the sector. These sets of factors can be listed as follows (ibid: 2):

- The first set of factors relates to the pattern of economic growth. “Capital-intensive growth” or “jobless growth” and “little or no economic growth” are the two of these patterns of economic growth, both of which can be characterized as the lack of labor absorption. In

this sense, many job seekers involuntarily engage in informal activities. Another pattern of economic growth can be called as “high tech growth” which tends to create high-skill service sector jobs than lower-skill manufacturing jobs. The other scenario which is more optimistic is the “growth from below”. It captures the idea of the dynamic nature of the small business and micro-business sectors in creating more jobs than the formal sector.

Since the pattern of growth is important in analyzing the reasons behind the growth of the informal sector, it is important to keep in the mind that there are also some countries experiencing the expansion of the informal sector despite their high growth performance.

- The second set of factors have to do with economic restructuring and economic crisis. Available evidence shows that during the periods of economic adjustment, informal sector tends to grow. This issue will be discussed in the second chapter of the study under the heading of “new facets of informality” via flexibility and structural adjustment programs (SAPs) discussions mainly concentrating on the effects of privatization, trade liberalization and downsizing the public employment on the informal sector.
- The third set of factors relates to the globalization of the world economy. “Global trade and investment patterns tend to privilege capital, especially companies that can move quickly and easily across borders, and to disadvantage labor, especially lower-skilled workers that cannot migrate easily or at all” (Rodrik, 1997; quoted by Carr and Chen, 2002). More investors or entrepreneurs begin to seek cheap labor to decrease their production costs. The most common way of doing this is the production via subcontracting relations. There has been a radical restructuring of production and distribution in many key industries characterized by outsourcing or subcontracting through

global commodity chains. The effect of this process on (informal) employment will be our main concern in the following chapter.

CHAPTER 3

NEW FACETS OF INFORMALITY

The net result of the empirical and theoretical evidence that are mentioned in the previous chapter is that the informal economy, long considered incompatible with economic growth and industrialization, has been expanding in both developed and developing countries. This trend reveals itself in the sense that self-employment, casual labor markets, and subcontracting rather than union contracts appear to be defining characteristics of recent economic trends (Portes, Castells and Benton, 1989). This process has been called “the casualisation of labor” (Neitzert, 1998) and is described as a movement in the direction of insecure, short-term and irregular work. The evidence also confirms this trend: Bradley et al. (2000: 53) cites the evidence from the UK that is gained from the Dex and McCulloch study (1997) of employers’ labor-use strategies in the 1980s and 1990s as follows: “Part-time working was evident in 85 per cent of UK workplaces. Temporary workers were used in 20 per cent of establishments; subcontractors in three-quarters of establishments; and about 10 per cent of employers had made use of home-workers”. Even the developments on information technology accelerate this process.⁹ This expansion of the informal economy also makes it difficult to define the concept via the early explanations. Therefore, there occurs a need for a new and a more comprehensive definition that represents new views of the informal economy or new facets of informality. A summary of these old and new views of the informal economy can be found in table 3.1. But, the main difference between the old and the new views of informal economy is the recognition of the linkage between informal and formal sectors. The informal sector has both backward and forward linkages with the formal sector. The backward linkages involve the supply of the necessary inputs

⁹ For details of the effects of information technology on the work see Castells (1996) and Webster (2000).

for production from the formal sector. Such inputs can be raw materials, equipment/machinery, finance, consumer goods, information and expertise, and also the training of informal sector workers. On the other side, there exist two kinds of forward linkages. “These are subcontracting agreements with the large domestic companies, government agencies and foreign companies on the one hand, as well as the supply of consumer goods from informal sector enterprises to the formal sector on the other” (Arimah, 2001: 114). Although some of the authors (Bromley, 1978; Tokman, 1978; Portes and Sassen-Koob, 1987; Hemmer and Mannel, 1989) have emphasized the importance of these linkages, most of the scholars prefer not to focus on this subject. Nowadays, it is very difficult to ignore the linkages between informal and formal sectors because of their effect on the economy.

Table 3.1: Old and New Views of the Informal Economy

THE OLD VIEW	THE NEW VIEW
The informal sector is the traditional economy that will wither away and die with modern industrial growth. *	The informal economy is “here to stay” and expanding with modern industrial growth. *
It is only marginally productive. (<i>Low productivity of the sector</i>) *	It is a major provider of employment, goods and services for lower-income groups. It contributes a significant share of GDP. *
The informal sector exists separately from the formal economy * (especially in the modernization school of thought in the 1950s).	It is linked to the formal economy – it produces for, trades with, distributes for, and provides services to the formal economy. (<i>The dualistic way of thinking is abandoned and the focus of most studies is especially on the linkages between formal and informal sector.</i>)*
It represents a reserve pool of surplus labor (<i>especially because of the population increase in rural areas. It means that the main source of the informal sector growth is migration.</i>)*	Much of the recent rise in informality is due to the decline in formal employment or to the informalization of previously formal employment relationships. *
Most of those in the sector are entrepreneurs of illegal and unregistered enterprises seeking to avoid regulation and taxation. (<i>This reflects the legalist approach to the concept of informality and also entrepreneur-based definition of the informal sector.</i>)*	It is made up of non-standard waged workers as well as entrepreneurs and self-employed persons producing legal goods and services, albeit through irregular or unregulated means. Most entrepreneurs and the self-employed are amenable to, and would welcome, efforts to reduce barriers to registration and related transaction costs and to increase benefits from regulation; and most non-standard wage workers would welcome more stable jobs and workers’ rights. *
Work in the informal economy is comprised mostly of survival activities and thus is not a subject for economic policy. *	Informal enterprises include not only survival activities but also stable enterprises and dynamic growing businesses, and informal employment includes not only self-employment but also wage employment. All forms of informal employment are affected by most (if not all) economic policies. *
It is comprised mostly of street traders and very small-scale producers. (<i>These are the ones that come to mind at first</i>)	It is made up of a wide range of informal arrangements – both “resilient old forms” and “emerging new ones (temporary and part-time jobs plus home-based work for high tech industries)”. Its two basic two segments are informal enterprises and informal jobs.
Because of it is unregulated and untaxed, many working in the informal sector are wealthy. (<i>This could be the case if one thinks about the entrepreneur-based definition. Most of the informal firms are wealthier than the registered ones.</i>)	Average incomes are lower in the informal economy than in the formal economy. A higher percentage of people working in the informal economy are micro-entrepreneurs who hire others. The poorest are, typically, informal waged workers, especially industrial outworkers (<i>this reflects the employment-based definition</i>).

Source: * items: Chen, 2004; the others: Becker, 2004; the expressions in italic are the authors’ comments.

Before moving on to the literature on the linkages between the informal and formal sectors, there are some points to be highlighted. The first one is the understanding of the concept of linkage in the early years. Castells and Portes (1989: 12) explain this understanding as follows: “There is a strong evidence of the systematic linkage between formal and informal sectors, following the requirements of profitability. Individual workers may switch between the two sectors even during the same workday.” This reflects the nature of the linkage from the aspect of the possibility of labor mobility. However, this thinking reflects one side of the coin that is not the main focus of our study. By referring to “linkage”, we refer to the production, trade, or service links or relations of the informal sector with the formal sector, i.e., the industrial outworkers who produce under subcontracts for formal firms, or the street vendors who sell on commission for formal firms, or the janitors who clean the offices of formal firms under a subcontract (Chen et al., 2002: 7).

The second point is that the early and current debates on whether and how the informal sector/economy is linked to the formal sector/economy have tended to blur the distinction between the formal economy and the formal regulatory environment and the relationship of the informal economy to each. But, it is important to distinguish between these two (Chen, 2004: 19):

- Formal economy: comprised of regulated economic units and protected workers
- Formal regulatory environment: comprised of government policies, laws, and regulations.”

For the purpose of our study, we will mainly concentrate on the relationship of the informal sector/economy to formal sector/economy being aware of the difficulty of deciding what is driving what: “as large formal registered enterprises are often involved in ‘setting’ formal policies and regulations; and formal policies and regulations are often biased towards formal registered firms to the disadvantage of both informal enterprises and informal wage workers” (ibid.)

3.1. The Linkages Between Informal and Formal Sectors

There are at least four reasons why it is important to analyze the linkages between the informal and formal sectors: First, the informal sector accounts for a sizeable proportion of the urban labor force, even in developed countries. Second, the informal sector plays a key role in the provision of urban-based services and also production, especially in construction and manufacturing. Third, the informal sector contributes significantly to the GDP in developing countries, and, the last but the most important reason is that the development and continuous growth of the informal sector depend on the nature and type of linkages between the two sectors (Arimah, 2001). However, it is important to distinguish the linkages between informal and formal businesses from the one between informal wage workers and formal businesses.¹⁰

Among much of the research on linkages between industrial firms, the most popular theoretical presuppositions belong to the neo-classical economic theory. “In neo-classical economic theory, with its emphasis on the individual firm and household and on the analysis of market exchanges between individual actors, it is assumed that firms engage in cost-rational decision making independent of each other” (Holmes, 1988: 82). According to the theory, there exist two alternative modes for the organization of production: international organization through vertical integration or external organization by arm’s-length transactions between firms regulated by the free market (Friedman, 1977; quoted by Holmes, 1988). This approach has been criticized by Sheard (1983) in the sense that there are some intermediate interfirm arrangements including production through a subsidiary or affiliate, subcontracting, and monopolistic power over suppliers that lie between the two extremes of international organization and free market transactions.

Paralleling to the concern of Sheard, Arimah (2001) introduces the concept of “backward and forward linkages” in his analysis of the informal sector in Nigeria. In

¹⁰ To distinguish these two forms of linkages will make sense in discussion about the nature of the linkages between informal and formal sectors, benign, exploitative, or mutually advantageous.

order to investigate the extent and nature of backward and forward linkages in Nigeria, Arimah (ibid) uses the data gained from the field survey conducted by himself in his econometric modeling. Because of the existence of various types of linkages, Holmes (1988) – following Sayer (1982) - describes the concept of “linkage” as a classical example of “chaotic conception” and adds that this concept can become less chaotic by focusing upon one “species” of interfirm linkages, namely those linkages which result from production subcontracting relationships. Before moving on to the discussion on subcontracting relationships, it is beneficial to look at the circumstances that help create and expand these relationships. In other words, what are the underlying economic and social conditions behind the existence, persistence and even expansion of the linkages?

There is no doubt this “atypical” (irregular/informal) workforce has grown since the 1970s but mainly early 1980s in the entire world and this growth has been the result of the changes in national and international economy. Therefore, it will be meaningful to analyze the economic and social sphere/environment of these years.

There is a widespread agreement that something dramatic has been happening to the international economy over the past two decades: rapid and radical changes in production technology and industrial organization, a major restructuring of world markets, and consequent large-scale changes in the policies of economic management at the international, national and regional levels (Hirst and Zeitlin, 2001: 70).

Although there is an agreement on the occurrence of dramatic changes that are mentioned, there is confusion about characterizing and theorizing these changes. Different authors define the process with the help of different concepts. Some of these expressions used to explain the changes are listed in the work of Webster (2000: 136) as follows: a transfer from an *industrial* to a *post-industrial* society; the transition from a *modern* to a *post-modern* world, a move from *organised* to *disorganised* capitalism, a triumph of the *market economy* over a failed *collectivist experiment*, a shift from a *Fordist* to a *post-Fordist* era, and leaving behind a period of *mass production* and entering one in which *flexible specialization* is predominant.

Among all these expressions, the last two are thought as being better at reflecting the real conditions of the world we live in.

Defining the period up to 1973 by either Fordism or mass production or others does not make much sense in that all of which accept the importance of the year 1973. The world witnessed a sharp recession and the shock of large-scale oil price rises in 1973. This is a signal of the inability of the economy to solve the inherent problems of the system. According to Harvey (1989: 142), “These difficulties could be best captured by one word: rigidity. These were problems with the rigidity of long-term and large-scale fixed capital investments in mass production systems that precluded much flexibility of design and presumed stable growth in invariant consumer markets”. The author also added that the 1970s and 1980s have been a period of economic structuring and social and political readjustment.

3.2. The Impact of the Structural Adjustment Programmes on Informal Sector

This economic re-structuring is synonymous with the adaptation of structural adjustment programmes (SAP) that are IMF-oriented in most developing countries. Although the time of the adaptation may differ from country to country, the elements of the programme are similar. Even though the results of the Arimah’s (2001) study indicate that the SAP does not appear to have enhanced informal-formal linkages, there is no doubt that such programmes have effects on not only the linkages but also informal employment as well. The main components of the programme are the downsizing of the state and the acceleration of privatization. This means the closure of public enterprises and there is not much chance for the retrenched workers other than moving into the informal sector. That’s the reason under the common belief of thinking informal sector as a feature of the countries undergoing economic transition (Chen et al., 2002). The field survey conducted in Elliot Lake (Canada) in 1995 can be expressed as an example for this process. The evidence presented in this study suggests that the labor market adjustment in Elliot Lake has resulted in an increase in the prevalence of precarious employment forms, and a decline in regular, full-time

employment. It is also important to note that in the case of Elliot Lake “labor market adjustment has involved changes in demand (most notably through the closure of the mines) and supply (with the out-migration of some families involved in mining work and in-migration of seniors and others)” (Neitzert, 1998: 36). Another important finding of this study is that it reveals the difficulty of finding another formal job after the dismissal and this difficulty is directly correlated with the years of unemployed. These results are in the same line with another survey conducted by Sàinz (1998) in Nicaragua. He concludes with the exclusionist effect of SAP in that a major group of civil servants is forced into the informal sector because of the applications undertaken for downsizing the state. This statement shows involuntarily mobility of workers. After the implementation of these programmes there can be recovery seen especially in the monetary indicators of the economy, but at the expense of the growth in informal employment, and also unemployment. That’s why such a process is labeled as “jobless growth” (Webster, 2000; Independent Social Scientists Group, 2005; Özar and Ercan, 2002). Besides this, the reduction of expenditure on social welfare, which is encouraged by IMF structural adjustment policies, deepens the vulnerability of the workers (Leonard, 2000: 1075).

The other main component of SAP is the elimination of trade barriers. Most developing countries significantly reduce their import taxes, cut tariffs and non-tariff barriers, thus open their markets to foreign competition. This situation results in reorganizations, often accompanied by mass dismissals or the proliferation of precarious employment relations. The openness to the world economy brings global competition with itself that accelerates the emergence and/or expansion of the informal economy.

The pro-SAP theorists claim that export-oriented growth policies that are linked to the process of trade liberalization will automatically create a potential for employment. This assertion is supported through the Heckscher-Ohlin theory that assumes the labor-intensive sectors as reflecting the comparative advantage of developing countries. It is expected that the increase in the exports will cause an

increase in labor demand as well as in the labor insensitivity in production (Krueger, 1983).

Since it is known that the factors that determine the demand in labor market are the quantity of production and labor costs (especially real wages), this idea continues as such: there are limits to the labor demand (or labor demand is low) because of the inadequate rise in production, or high wages. Therefore, the solution is obvious: decrease the wages. That is the mechanism about labor demand offered by neo-classical economy (Onaran, 2003). If this mechanism has reflected the reality in any case, it would have been an increase in employment via the wage reduction in 1980s in Turkey (Ansal et al., 2003).

The recent discussions accept that the reduction in tariffs may cause a decrease in labor demand since it is added that it is the case only in the short-run and this will be offset in the long-run (Edwards, 1988). The underlying mechanism does not change so much: as the labor market becomes less rigid, employment rises in the long-run, poverty declines and real wages increase. According to this approach, the minimum wages and unions are responsible for the undesirable results. However, the experiences of the most developing countries (capturing approximately 20 years) do not confirm these claims (Amsden and Hoeven, 1996; Boratav et al., 1996). It is evident/documentated that the increases in exports and labor market flexibility do not necessarily lead to an increase in employment in most developing countries (see Onaran, 2003; Ansal et al. 2003; Boratav et al., 1996 for the case of Turkey).

The other oversight of this neo-classical approach is that these studies only take formal sector employment into consideration. To focus only on formal sector employment statistics as measures of the employed population of any society points out the ignorance of various forms of work outside formal employment. These excluded people are the “working poor” mainly work in informal activities and “characterized by insecurity, hard work, long and unsociable hours, exploitative wage rates and sometimes, dangerous conditions” (Leonard, 2000: 1081).

Taking informal employment into consideration changes the sign/direction of the effect of on employment. According to Goldberg and Pavcnik (2003) based on a study on Brazil and Colombia there occurs a positive relationship between trade liberalization and informal employment. The more economy opens up to the foreign trade, the more people engage in or are forced into informal sector. The usual argument that trade liberalization leads a rise in informality goes something as follows: Formal establishments face foreign competition after trade reforms which forces them to reduce labor costs in order to gain an advantage. Such establishments try to reduce labor costs by applying one or more of these strategies: cutting worker benefits, replacing permanent workers with part-time labor, or subcontracting with establishments in the informal sector, including home-based and self-employed micro entrepreneurs. Laying-off workers is another alternative to combat the intensified competition from abroad. After dismissals, these workers are generally employed in the informal sector (Goldberg and Pavcnik, 2003).

As soon as we have seen that the direction of the causality is not the same as the one expected by the neoclassical theorists, it is now time to consider one of the most common channels through which trade liberalization giving rise to informal sector or employment: Outsourcing or subcontracting via global commodity chains.

Gereffi (2000: 11-12) defines a global commodity chain to include a whole range of related activities involved in the design, production and marketing of a product. Gereffi (1998: 40) refers to them as rooted in transnational production systems that link economic activities of the firms to technological, organizational and institutional networks utilized to develop, manufacture and market specific commodities (Khan and Kazmi, 2004:4).

Under these chains, large companies subcontract production to suppliers in other countries who contract small (often informal) production units, which, in turn, often contract out some of their work orders to isolated (often informal) workers. The openness to trade, which is maintained by especially SAP, is the sufficient condition for the existence of these chains. The persistence of these chains is especially guaranteed by the “flexible” firm.

3.3. The “Flexible” Firm

The “flexibility” is related to the conceptualization of the transition from both Fordism to post-Fordism and mass production to flexible specialization. The most useful place to start to a discussion about its effect on the informal employment is with the notion of flexibility itself. In so doing, firstly, the commonly considered aspects of flexibility will be reviewed.

Flexibility of employees points out the existence of the flexible job descriptions. This aspect points out three other forms of flexibility: wage flexibility which is a trend towards paying individuals for what they do rather than at an agreed union or national rate; labor flexibility that is prepared to change jobs every few years, to which end it is increasingly common to be employed on fixed-term contracts; and time flexibility which refers to part-time employment and pressures to work shifts). *Flexibility of production* means that a firm can appropriate rapidly its own unsold products and the conditions of markets in a short time. The most common forms of flexible production are vertical disintegration, subcontracting and “Just-in-Time” systems. The suggestion behind *flexibility of consumption* is that a factory is programmed to meet the individual specifications and multi-skilled workforce sets to be adapted easily whenever it is required.¹¹

Another classification is made through “*functional (internal) flexibility*” and “*numerical (external) flexibility*”.

Functional or internal flexibility refers to the ability of employers to redeploy workers from one task to another. This is often accomplished by the use of ‘high performance work organizations’ that empower workers to participate in decision making, enable them to work in teams, and enhance their commitment to the organization by, among other things, linking their compensation to organizational performance. *Numerical or external flexibility* refers to the organization’s ability to adjust the size of its workforce to fluctuations in demand by using workers who are not their regular, full-time employees (Kalleberg, 2003: 154-155).

¹¹ These aspects are summarized from the Webster (2000: 150) study.

After this definition, it is easily seen that informal workers are employed in order to gain the advantage of *numerical or external flexibility*.

Besides these classifications, it is worthwhile stating the two basic dimensions of flexibility that are pointed out by Pollert (1988) as *flexibility in employment* and *flexibility in work*. These dimensions are summarized by Curry (1993: 100): *Flexibility in work* refers essentially to flexibility within the firm or within the production process. Coupled with more flexible forms of work organization, such as flextime, group and team approaches, or more general job definitions, the new technologies enable a firm to produce variations of products, even completely different products, cheaply in smaller batches. [This small-batch production and also subcontracting are used for bypassing the rigidities of the Fordist system production and satisfying the variant needs of the market (Harvey, 1989).] *Flexibility in employment* is a labor market concept and reflects the choice of the managers of firms as reducing the costs and maximizing the profits. Since the easiest way of reducing costs is laying off formal workers and/or employing (more) informal workers. As Curry (1993) asserts, in the last two decades there occurs a number of “innovations” that have increased flexibility in employment that have helped the investors or managers to decrease labor costs. Some of the forms of these new employments are homework, part-time and temporary work, and also subcontracting. These new forms are also considered to be a part of the movement towards “deregulation” – “another of the political buzz-words of the era of flexible accumulation) has often meant increased monopolization (after a phase of intensified competition) in sectors such as airlines, energy, and financial services” (Harvey, 1989: 158) - and “decentralization of production” - refers to “the formation of smaller, more flexible, and specialized production units as well as subcontracting of production to smaller production units, some of which remain unregistered or informal” (Chen et al., 2002: 2). Therefore, it is obvious that informality is part of capital’s search for flexibility in the use of labor. In order to illustrate the effects of global restructuring on (especially informal) employment, it is a good way to start from the investigation of relationship between small and large companies in detail in the wake of the trend towards subcontracting.

3.4. Subcontracting Relationships

The term ‘subcontracting’ refers to a situation where the firm offering the subcontract requests another independent enterprise to undertake the production or carry out the processing of a material, component, part or subassembly for it according to specifications or plans provided by the firm offering the subcontract (Holmes, 1988: 84).

However, Friedman (1977:119; quoted by Holmes, 1988: 84) defines “subcontracting” in a more clear way: “the term subcontracting loosely is referred to situations when suppliers produce parts and components to specifications set out in advance by the large manufacturers, whether materials are issued or not and whether the contract is directly with the large manufacturer or through some intermediary contract with another supplier”.

Watanabe (1971) makes a distinction between different types of subcontracting on the basis of whether the firm issuing the subcontracted work, “the parent firm, is either a wholesaler or the retailer on the one hand, or a manufacturer on the other” (ibid: 54). He defines the first case as *commercial subcontracting* and the second as *industrial subcontracting*. For the main purpose of this study, the focus will be on industrial subcontracting.

It is widely accepted that this production subcontracting relations provide benefits for both of the participants. Main employers gain considerable benefits from employing subcontractors.

Firstly, subcontracting offers the main employer a relatively inexpensive means of determining the price for a definable area of work. Secondly, subcontracting enhances employers’ flexibility in dealing with fluctuating product markets or in the case of construction work, fluctuating weather conditions. The main employer can call on or lay off labor and this reduces fixed costs. Thirdly, by employing subcontractors on short-term contracts, much labor legislation is avoided. Finally, the low level of trade unionisation among subcontract workers enhances employer control over the labor process (Leonard, 2000: 1079-1080).

On the other hand, the benefits to the subcontractor can be listed as follows: the subcontractor not only comes across a guaranteed market for its product, assistance and economies in securing raw materials for the subcontracted work, but also the provision of technical and managerial assistance to the subcontractor by the parent firm (Holmes, 1988; Watanabe, 1971). However, these benefits depend on the characteristic of the subcontracting. In other words, the purpose of the parent firm for the entrance of such a relationship will determine the gain or the loss of the subcontractor. Parent firms seek to subcontract part of their work for the following purposes:

- (a) To economise capital and labor.
- (b) To take the advantage of lower wages in smaller units.
- (c) To take advantage of the subcontractor's specialized technology (e.g. patents).
- (d) To serve as a buffer against business fluctuations, or to be in a position to meet peak demands without keeping on redundant capacity during off-peak periods (Watanabe, 1971: 56-57).

These purposes motivate the type (form) of the subcontracting which determines the characteristics of the relationship. Holmes (1988: 86) identifies three types or categories of subcontracting:

- (a) *Capacity subcontracting*: In this case only the fabrication of the subcontracted part is carried out by the subcontractor according to a detailed set of plans and specifications set down by the parent firm, and usually the parent firm will also be manufacturing a proportion of its total requirement for the part within one of its own plants. The parent firm and the subcontractor thus engage in similar work and are mutually competitive by nature. Concurrent subcontracting, cyclical subcontracting, and horizontal subcontracting are used as synonymous with *capacity subcontracting*.
- (b) *Specialization subcontracting*: In this case the decisions about both the method of fabrication and fabrication itself are usually taken by the

subcontractor and the part is not produced in house by the parent firm. Therefore, the parent firm and the subcontractor are engaged in different but complementary production, and whereas *capacity subcontracting* represents a horizontal disintegration of production, *specialization subcontracting* represents a vertical disintegration of production. Complementary subcontracting and vertical quasi integration are used as synonymous with *specialization subcontracting*.

- (c) *Supplier subcontracting*: It refers to a situation where the subcontractor is in many respects an independent supplier with full control over the development, design and fabrication of its product, but is willing to enter into a subcontracting arrangement to supply a dedicated or proprietary part to the parent firm.

However, it is argued that even this classification has some problems since the theory does not always fit the reality. Harrison and Kelly (1990; quoted by Rainnie, 1993) assert that capacity and specialization subcontracting relationships are empirically indistinguishable. Watanabe (1971) distinguishes “specialization oriented” subcontracting from “capacity oriented” subcontracting according to the purpose of the parent firm. If the parent firm is motivated by the subcontractor’s specialized technology, the third purpose, “specialization oriented” subcontracting is the case; whereas if it motivated by the excess demand of commodities, the fourth purpose, “capacity oriented” subcontracting is the case. This classification also ignores the existence of the different types of subcontracting relations between the same parent firm and different subcontractors. In that sense, it will be difficult to define the parent firm applying one of these types of subcontracting; these three types can be the case at the same time. A close look at the underlying mechanisms and processes that produce subcontracting relations will help one in deciding the nature of the relationship between the parent firm and the subcontractor. Despite the diversity of the explanations of the phenomenon, Holmes (1988: 87-95) lists three broad sets of explanatory hypothesis, those based on:

- (a) *The structure and temporal stability of product markets*: These include the situation where the parent firm is engaged in manufacturing a product for which demand is uncertain or irregular because of cyclical or seasonal variations in demand; secondly, the case where sufficient demand to permit the continuous mass production of a particular product line simply never exists; and thirdly, the market conditions that exist at the beginning and end of a particular product cycle.
- (b) *The fixed capital requirements of the production process and the nature of the production technology used in the labor process*: It is related to the technical characteristics and fixed capital costs of the production technology used in the production process. Here one of the prime reasons for the development of subcontracting is that different stages of the production process may have different levels of minimum efficient scale.
- (c) *The structure and nature of the labor supply conditions*: There are four interrelated but distinct aspects of the structure and nature of labor supply that influence the extent to which subcontracting will take place: subcontracting to minimize and control labor costs, subcontracting to retail flexibility with respect to variable capital, subcontracting to maintain managerial control over the labor process, and subcontracting to ensure an adequate supply of labor.

Holmes (1998) even adds that the causes of subcontracting are both multiple and interrelated which means that the causes of subcontracting relationships are multicausal in nature.

Looking at the subcontracting relations from a historical perspective will make the scenery more clear. Until 1970s, subcontracting was considered by both orthodox and Marxists theorists to be an anachronistic feature of advanced capitalism and expected it to disappear with the declining pattern of manufacturing sectors (Holmes, 1988). This expectation is the same as the one for the informal sector. Both orthodox and Marxist theories of industrialization expect a decline in the rates of informal sector although the individual country experiences do not confirm the expectation. The scenery is not so different for subcontracting relationships. This similarity is not

surprising in that much of the wage workers linked to the parent firm through subcontracting relationships are the members of informal sector. That's why the expectations about the future of these two phenomena are the same. The numerical indicators point out to the accuracy of this similarity even in developed countries. Harvey (1989: 151-152) argues that "The most radical shift has been either towards increased sub-contracting (70 per cent of British firms surveyed by the National Economic Development Council reported an increase in sub-contracting between 1982 and 1985) or towards temporary rather than part-time work". He also gives data from newspapers:

In Britain, "flexible workers" increased by 16 per cent to 8.1 million between 1981 and 1985 while permanent jobs decreased by 6 per cent to 15.6 million (Financial Times, 27 February 1987). Over roughly the same period, nearly one third of the ten million new jobs created in the US were thought to be in the "temporary" category (New York Times, 17 March 1988) (ibid.).

Based on these indicators, it can be said that in the past 15-20 years the resurgence of subcontracting and other forms of outwork has led to the recognition that these relationships are persistent and structural, rather than an anachronism.

The international organizations and many (conventional) theorists cannot deny the growing pattern of the subcontracting relations because of the evidence given above. However, they do not attach a negative meaning to this process. In the 1970s and early 1980s, subcontracting was considered by many researchers and international organizations as a tool for modernization and employment generation (Taymaz and Kılıçaslan, 2002; Müftüoğlu, 2004). In this approach the emphasis is on the benefits to subcontractor (small firm). For instance, Watanabe (1971: 51) begins his leading article on subcontracting with the discussion that "how subcontracting can smooth the path of small enterprises and make them a suitable instrument for mass employment creation in developing countries that are committed to industrialization" and notes that "subcontracting has contributed considerably to industrial progress and the solution of unemployment problems in post-war Japan. It has also been playing an important role in certain industries in the United States, and some European countries, notably France and Sweden" (ibid: 53). UNIDO and World

Bank also call for the promotion of industrial international subcontracting since these relationships are seen as the important elements of international development strategies (Holmes, 1988). Paraphrasing Arimah (2001), the World Bank points out the need for strengthening of informal sector linkages with formal sector as a key strategy for industrialization in its report called as *Sub-Saharan Africa: from Crisis to Sustainable Growth* in 1989. As mentioned before, this promotion of subcontracting relationship is based on the idea that a small subcontractor derives benefits from a large parent firm. This idea can also be expressed as the result of the same line of argument that “suggests reasons for the paradox of informal earnings that are equal to or higher than those in the formal sector” (Portes and Sassen-Koob, 1987: 40) since it is claimed that in developed countries the incomes earned in subcontracting firms exceeds the wages paid in the modern sector (Tokman, 1990). To solve the paradox in defining informality, Portes and Sassen-Koob (1987) recommend analyzing the concept under at least two different positions: the first one is the self-employed and the second one is the informal wage workers.¹² In the case of the subcontracting relationships, there is also a need for a classification that resembles to the one used in the studies about informality. These subcontracting relationships affect both the owner of the small enterprise and the wage workers most of which are informally employed; the entrepreneur or the worker of the small firm. The benefits gained from subcontracting change from which point of view one is considering.

In other words, the gains depend on the selection of two sides of the comparison. i.e., the comparison the income of subcontractor (the entrepreneur of the small, informal firm) to the one of (the entrepreneur of) parent firm (large, formal), or the income of the subcontractor to the wages paid to the workers of the parent firm or other formal businesses, or the income of wage workers in the subcontractor to the one in the parent or other formal businesses, the wages of the workers in the subcontractor to the income of the entrepreneur of the parent or other formal businesses, etc. The components of this comparison will change the answer of question of “what is the nature of those ties: benign, exploitative, or mutually advantageous?”

¹² This emphasis of Portes and Sassen-Koob (1987) has also been mentioned in Chapter 2.

Arimah (2001) attempts to investigate the nature of linkages in the case of Nigeria. He firstly refers to the past studies that were conducted by the ILO (1985) and House (1984) indicating the point that “the informal sector is not subjected to exploitation by the formal sector with respect to forward linkages since a sizeable amount of the surplus produced by the informal sector is appropriated by the formal sector” (Arimah, 2001: 118). The result is the opposite for backward linkages; there exists an exploitative relationship in the case of backward linkages. This is because of the fact that a formal sector producer may be the sole supplier of the input in question. Then, to obtain a quantitative analysis of the nature of the informal sector’s linkages with the formal sector in Nigeria, after completing a comprehensive survey on informal sector enterprises employing no more than ten people he makes use of a logit regression model in which the independent variables are registration the enterprise, total investment to date, entrepreneurs’ annual income, access to credit, number of workers, type of training received, previous work experience, future expansion plans, profitability of the enterprise, whether enterprise operates on a full-time basis, payment of rent on business premises, educational requirement for employees, and whether the enterprise was established after the adaptation of SAP.¹³ After running the regression with the data gained from survey, the coefficients – which are “the partial derivatives of the expected probability of an informal sector enterprise having linkages with the formal sector, with respect to the variable in the question” (ibid: 131) – show the main factors accounting for the extend of the linkages. The main factors in the case of backward linkages with the formal sector are found to be registration of the informal enterprise, level of investment, annual income of entrepreneur, number of employees, entrepreneur’s previous work experience, and the education of employees whereas those for forward linkages are registration on the part of the informal sector enterprise, investment expended to date, annual income of the entrepreneur, level of profitability, vocational training and education

¹³ The database was prepared by the author himself via a two-stage data collection procedure: the first stage was composed of an enumeration of informal sector enterprises employing no more than ten people and in the second stage of the data collection procedure, a 10 per cent sample was selected from the enumeration of informal enterprises for detailed investigation using the random sampling technique. Then, the survey was conducted via questionnaire with the entrepreneur of these enterprises.

of employees. At the end, he concludes with the statement that the forward linkages with the formal sector are much lower than the backward linkages in the case of Nigeria implying that the subcontracting relationships in Nigeria are exploitative.

However, another study in Burkina Faso results in an opposite statement that indicates the relationships between the informal and formal sectors are primarily described through the forward linkages. Grimm and Günther (2004) analyze the linkages between the formal and informal sector in macro (inter-household) as well as micro (intra-household) level with the help of the same theoretical framework, logit regression model.¹⁴ In the article, the inter-household linkages are used as the synonymous with backward linkages whereas it is forward linkages for intra-household linkages. The linkage coefficient is much stronger within households than between households. “In sum this indicates, that the formal and informal sector in Burkina Faso are primarily linked through the final product market (forward linkages) and through the informal capital factor market (formal sector earnings being invested into formal business of other household members), but less through the input product market (backward linkages) and the labor market” (ibid: 19). When the link between exploitation and the type of the linkages constructed in Arimah’s study is accepted, this conclusion means that the informal sector is not subjected to exploitation by the formal sector.

In addition to these studies, Taymaz and Kılıçaslan (2002) try to find out the determinants of subcontracting in the case of Turkey. Their study has two different characteristics: Firstly, it focuses on the nature of the linkages from the point of different sectors rather than in whole; secondly it considers the establishments employing 25 or more workers, because of that it can be considered as the investigation of the interfirm linkages rather than informal and formal sector linkages. Because the surveys for the size group 10-24 cover questions about subcontracting since 1992, they do not include those firms in order to have a

¹⁴ They use three household surveys undertaken by the Institut National de la Statistique et de la Demographic (INDS) with the assistance of World Bank in the years 1994, 1998 and 2003.

consistent long panel.¹⁵ They analyze the determinants of subcontracting in Turkish textile and engineering industries because of their subcontracting intensity – as measured by the share of subcontracted output in total output and the share of subcontracted inputs in all inputs - and dominant positions within the manufacturing industry. For the estimation of two models - one for the share of subcontracted inputs (subcontract offering firms) and the other for subcontracted output (subcontract receiving firms) – the random-effects tobit model is used. The explanatory variables for this model are more comprehensive than the ones mentioned before: the share of hours worked (this variable which is not the case for the other mentioned regression models is worthwhile emphasizing in that it is a good indicator for the usage of flexible production techniques or exploitation), the advertising intensity of the firm, the communications intensity of production, the proportion of shares held by private and foreign agents, a dummy variable which takes the value 1 if the firm acquired any international technology, the (log) average annual wage rate per employee, the shares of women, administrative and technical personnel in all employees, (log) annual depreciation allowances per employee, (log) annual energy expenditures per employee. The (log) number of firms in the same sector in the same province, the annual growth rate of output, the annual growth rate of sectoral output, the (log) level of employment in the establishment, the time variable. Estimation results, for our purposes concentrating mainly on wage rate and women variable, reveal that “in the case of the textile industry, large, high wage firms tend to play the role of the parent firm, and small, low wage firms the role of subcontractor, but gender differences do not seem to be important in explaining subcontracting behavior. In the engineering industry, neither size nor gender is an important factor” (ibid: 22). In other words, subcontracting relationships in the textile industry are established between “similar” whereas these relationships turn out to be short-termed as well as unequal in the textile industry.

It is important to keep in mind that these examples reflect the nature of the subcontracting relationship between the formal and informal businesses. In other

¹⁵ The data used in the article come from the Census of Manufacturing Industry (1992) and Annual Surveys of Manufacturing Industry (all other years in the period 1987-97).

words, these studies focus on the nature of the linkages from aspect the small firm's owner (entrepreneur). But, concentrating on the other side of the coin, the subcontracting relationships between the formal businesses and informal wage workers or households, makes the unequal relationship be seen easily.

One of the studies that can be used an example for such relationship is the one conducted in Pakistan with the home-based subcontracted workers.¹⁶ This study reveals a contradicting result in that forward linkages also have exploitative character. Contrary to the findings of Taymaz and Kılıçaslan (2002), it is obvious that gender has an effect on the nature of the linkages.

Table 3.2: Wage as a Percentage of Value Added (Exploitation Index) per Sector

Sector	Unit	Wage (\$)	Value added (\$)	Exploitation index
Carpet weaving	5*8	3,484	5,266	66.2
Prawn shelling	11 kg (raw)	8	287	2.8
Incense stick making	1000	6	953	0.6
Sack stitching	100 bags (10 kg capacity)	35	45	77.8

Source: Khan and Kazmi, 2004, p. 27.

(The authors compare the unit wage of workers relative to unit value added as a measure of exploitation.)

Based on these evidence gained from the mentioned studies, it can be said that the main aim of the large (parent) firm in entering into subcontracting arrangements with the small (subcontractor) firm is to minimize and control labor costs. "If labor supply

¹⁶ In the Khan and Kazmi (2004) article, home-based work in four sectors (carpet weaving, prawn shelling, incense stick making, sack stitching) in Pakistan is documented in a value chain context. The authors compare the unit wage of workers relative to unit value added as a measure of exploitation.

is not homogenous and if variable capital can be purchased at different prices then subcontracting can be used to exploit supplies of the cheapest labor” (Rubery and Wilkinson, 1981: 123; quoted by Holmes, 1988: 92). Paralleling to this concern, Gouverneur (1982; quoted by Holmes, 1988: 93) mentions that “subcontracting has a two-fold effect on rates of profit in that it increases the average rate of surplus value through a higher rate of exploitation of the workers employed by the subcontractor, and it creates the potential for a transfer of surplus revenue from the subcontractor to the parent firm through the low regulated price imposed by the latter on the former”.

Via subcontracting relations, firms achieve to hire formal and informal workers together in the production process more easily whose working conditions are not the same. In addition to the wage differentials between these two types of workers, there also exist differences in job ladders, control mechanism, working hours and legal protection. These differences are the main focus points of the labor market segmentation theory.

CHAPTER 4

LABOR MARKET SEGMENTATION THEORY

There are good jobs and bad jobs in the labor market. Good jobs are associated with stability, high wages, social security coverage, existence of promotional ladders whereas the opposite is true for the bad jobs. Even at the first sight, this classification of jobs implies the nonexistence of single labor market. Rather than this, there are different labor markets, with different working conditions, different promotional opportunities, different wages, and different market institutions (Reich et al, 1973). The recognition of segmentation is not new (especially in the sense of wages), it goes back to the writings of Adam Smith.¹⁷ However, the newness of the labor market segmentation theory comes from its explanation of why noncompeting groups form and are sustained. For such an explanation, the theory needs to answer three specific sets of questions that are emphasized by Vietorisz and Harrison (1973: 366):

- (1) What explains the existence of LMS? What mechanisms bring about within the prevailing institutions?
- (2) What processes select and stabilize the institutions which lead to segmentation? What functions does segmentation perform within the prevailing social organization of production, and how are these functions changing over time?

¹⁷ “The segmentationalist approach may be seen as a continuation of older debates. More especially, it may be traced back to Cairnes; John Stuart Mill and Pigou who, dissatisfied with Adam Smith’s competitive conception of the labour market, argued in favour of institutional realities which defy the workings of the competitive labour market. The American Institutional school of thought in the early 1900s was built upon this tradition and developed the so called “structuralist” and “balkanised” models of the labour market which were associated with Dunlop and Kerr” (Leontaridi, 1998: 65). For a more comprehensive analysis of the distant history of segmentationalist approach see Leontaridi (1998), pages 65-69 and Cain (1976), pages 1224-1229.

- (3) What ensures the coherence of the labor market as a system-defining institution of a modern industrial market economy in the face of strong tendencies toward segmentation?

In what follows, we attempt to find out answers to these questions keeping in mind both the liberal and radical consideration of labor market segmentation. What we mean by “liberal” and “radical” will be clear in the following section

4.1. The Challenge of Segmented Labor Market Theories to Orthodox Theory

Neo-classical labor economics consists of the marginal productivity theory of demand that is based on profit maximizing theory of employers and a supply theory based on utility maximization by workers. The labor-supply theory has two components: (1) the theory of investment in human capital, which determines one’s skill and occupation – the *kind* of work supplied - , and (2) the theory of labor/leisure choice, which determines the *amount* of one’s labor supply. In turn, the wages are thought to be differing from each other because of worker attributes. Furthermore, in this labor market analysis the tastes of individuals and details of the institutional framework of markets are largely ignored (Cain, 1976; Leontaridi, 1998).

Segmentation theory on the other hand questions the existence of a direct linkage between the productive capacities of an individual and her wage as well as the allocation of that individual across jobs, implicit in the neo-classical and human capital version of labor market theory (Leontaridi, 1998: 64).

This theory does not admit the assumption of the individual differences in productivity determines the distinction between “good” and “bad” jobs. There are other mechanisms that influence the structure of jobs (or segmentation), such as industrial organization, product market and technological conditions, managerial control strategies, system of labor market regulation. All these have an effect on the differentiation of the jobs considering wages, promotional ladders, legal protection, working conditions, etc.

The most important feature of the segmentationalist theory is that the theory assumes that the division of labor force is inherent to the market mechanism. Paralleling to this concern, Vietorisz and Harrison (ibid: 367) claim that “labor market segmentation is an instance of divergent development rather than of convergence to equilibrium”. To be clearer, he makes use of the concept of “feedback” which is a closed cycle of causation in complex systems whose parts are dynamically interrelated. Since we are interested in especially wage differentials in the labor market, the interaction of wage levels and production techniques will be served as an illustration of the neoclassical economies example of feedback.¹⁸

As the first assumption, we accept that the two activities A and B differ in their wage levels. The feedback cycle presented below (table 4.1: a and 4.1: b) will tend to decrease or even eliminate the difference. The mechanism under this expectation is as follows: Where wages are high (activity A), the substitution of capital for labor will reduce the demand for labor. As a result of this, wages will tend to decrease in activity A (see table 4.1: a). The opposite result will be the case whenever wages are initially low (activity B) (see table 4.1: b). “In both cases, the induced price movement - after completion of the cycle - counteracts the original price deviation. This is called *negative feedback*, since the original change and the induced change have opposite signs” (ibid: 367). What is important for us is that this negative feedback seems to restore equilibrium via decreasing the higher or increasing the lower wages (unless the feedback is either too weak or so strong that it badly overshoots in the opposite direction). As the authors note, the stability of equilibrium in neo-classical market models turns out on negative feedback and this negative feedback is guaranteed by two assumptions of the very same models:

- (1) Marginal substitution along the capital-labor isoquants in response to rising wages increases the marginal productivity of labor just enough to offset the higher wage level. The higher productivity of labor leaves no surplus because the labor-saving substitution along the isoquant requires increased use of capital which must be paid the value of its marginal product. The

¹⁸ The explanation of feedbacks will be based on the Vietorisz and Harrison (1973) article.

entrepreneur's excess profit remains zero, leaving no room for labor to bargain for increased wages.

- (2) The economy is static. There is no way for labor released by labor-saving substitutions in one part of the economy to be reemployed in another part at the newly established, higher marginal productivity and wages. The marginally derived, static labor demand function will fail to clear the labor market until wages fall back to their equilibrium level and the labor saving substitution along the isoquant is reversed (ibid: 369).

Table 4.1: Production Technique Cycle (Negative Feedback):

(a) Activity A	(b) Activity B
1. high wages	1. low wages
2. adoption of capital-intensive techniques	2. adoption of labor-intensive techniques
3. reduced labor demand	3. increased labor demand
4. wages diminish	4. wages increase

Source: Vietorisz and Harrison, 1973, p. 368.

However, a more realistic way of looking at the labor market will reveal the inevitability of the occurrence of negative feedback. Hence, it is more appropriate to define the feedback mechanism in the labor market with *positive feedback* that points out the situation in which the induced effect has the same sign as the original effect (see tables 4.2: a and 4.2: b). Whenever the effect of the choice of technique is added to the scenery, the picture differs totally. The main difference is the dynamic consideration of this mechanism. The productivity increase in Activity A is the result of the mechanization and automation that reinforce a change in the entrepreneur's existing productive structure. "In industries with rising wage levels the entrepreneur will be motivated to invest in research and development in anticipation of the need

for labor-saving innovations” (ibid.). The workers will become highly productive via the technological improvement. Since their wage is determined by their productiveness, they continue to be paid higher wages than the ones in the Activity B. The opposite transition is valid for Activity B.

Table 4.2: Production Technique Cycle (Positive Feedback):

(a) Activity A	(b) Activity B
1. high wages	1. low wages
2. Adoption of labor-saving innovations	2. persistence of more labor-intensive techniques
3. higher productivity	3. low productivity
4. wages increase	4. wages stagnate

Source: Vietorisz and Harrison, 1973, p. 368.

These two tables (4.1 and 4.2) illustrate the claimed and experienced consequences of the market economy. Activities A and B undergo *divergent*, rather than *convergent development*. Technology levels, labor productivity, and wages continue to reflect better scenery for Activity A than Activity B. In this picture, “The cluster activities of type A will determine the primary labor market and that of type B, the secondary labor market. This mechanism of positive feedback thus underlines divergent development and labor market segmentation” (ibid: 370). However, the existence of positive feedback is not enough to explain segmentation alone. There is a need for the other component of the theory: “labor mobility”.

Another difference between neo-classical and segmentation theory is based the assumption of individual’s choice of jobs. Neo-classical theory assumes that individual workers can freely make choices among a wide range of job options in the labor market. Their personal tastes, preferences, abilities and skills will determine

their job choice. Hence, if someone is unemployed or employed in a “bad” job, this situation is accepted as his choice because the theory is constructed on the idea that individuals receive rewards (such as “good” jobs) on the basis of their human capital endowment. The poor human capital characteristics are assumed to be the fault of him(her)self. On the contrary, segmentationalists claim that the labor market is not a single competitive market.

It is composed of a variety of non-competing segments between which rewards to human capital differ because institutional barriers prohibit all parts of the population from benefiting equally from education and training. It is argued further that vulnerable groups of workers may become trapped in the lower segment of the labor market thereby limiting severely the mobility of employees between the lower and the upper segment so that excess demand pressures cannot compete away the wage differential (ibid.).

The only way of the decrease in the earnings gap between low-skilled and high-skilled workers is the nonexistence of barriers within and between the sectors, however, this is not the case. This low mobility between the segments implies that there are noncompeting groups in the labor market. Since they do not operate in a competitive market, the expectations of the orthodox theory do not become real (the theory expects that labor market differences among groups will *decline over time* because of competitive markets).

The empirical evidence was far away from confirming the expectations of orthodox theory even in the 1970s: “(...) bad jobs are found to be so widespread that perhaps 60 percent of workers in the inner city fail to earn enough to support a family at even minimum levels of decency” (Victorisz and Harrison, 1973: 366).

As O’Connell and Gash (2003) notes, the optimistic interpretation of the increase in part-time working derives from its potential to reduce high unemployment levels and from the fact that part-time jobs appear to be more open than full-time employment to the unemployed and other labor market “outsiders”. Therefore, temporary working is accepted to be a survival strategy for the poor and/or less qualified (even high qualified) individuals. But, finding a work does not mean that they are working under the same conditions within the same labor market. They witness earnings as well as

welfare losses under their unstable jobs. Thus, it becomes so difficult to talk about the disappearance of the labor market differences. Instead of disappearance, these differences deepen. That's why it sounds more reasonable to think the tendency toward labor market segmentation being inherent in the core institutions of a modern market economy. In other words, the sources of segmentation are endogenous to the labor market, rather than exogenous. (The mentioned analysis of Vietorisz and Harrison (1973) confirms this statement via explaining segmentation with the concept of *positive feedback*.)

In short, it can be said that “what emerges as the crux of the SLM approach is the idea that the labor market segmentation that exists does not correspond to skill differentials in the labor market, but rather institutional rules are substituted for market processes” (Leontaridi, 1998: 64). This idea reflects itself in the theory as its demand-side focus analysis: “Insisting upon the fragmented nature of labor markets and the importance of institutional and social influences upon pay and employment, the segmentationalist approach shifts the emphasis away from the supply side of the labor market and places the focus on the demand side” (ibid: 63).

Up to now, we have dealt with the underlying assumptions of the labor market segmentation theory. Although different writers agree on these assumptions of the segmented labor market model, there exist some differences in their analysis of the sources of segmentation. It will thus be useful to give a brief summary of their arguments.

4.2. Sources and Descriptions of Segmentation

The contemporary segmentationalist literature is highly varied. Analyses differ with respect to definitions attached to the segments. Besides this, the associated sources of segmentation make the difference as well. Apart from their differences, the main empirical hypothesis of the SLM approach is, as stated by Leontaridi (1998) and Cain (1976) that observed wage differentials are not a result of underlying skill differentials, but rather a direct consequence of the “dual” nature of the labor market.

In what follows we try to give brief information about the central ideas of several new theories that attempt to explain the fragmented nature of labor markets.¹⁹

4.2.1. Thurow, and the Job Competition and Queue Theory

Thurow's job competition model places great emphasis on the importance of on-the-job training in determining pay and employment levels in the labor market. The differentiating point of this theory from the neo-classical model of wage competition is that: in the neo-classical model, individuals compete against with each other on the basis of their acquired (before entering into the labor market) job skills whereas in the job competition model their earnings depend upon the quality of the job they acquire. Therefore, the concept of "trainability" plays the most important role in this model (Cain, 1976; Leontaridi, 1998).

Because individuals have different 'background characteristics' such as education, innate abilities, age, habits, personalities etc., they tend to incur different potential training costs for each job they enter. Hence, the existence of a 'labor queue', on which workers are ranked on the basis of their training costs, determines the order of access to job opportunities (Leontaridi, 1998: 75).

What it means that individuals who are associated with the lowest training costs are employed at first with higher wages than the ones who need higher training costs. Although this model puts the cost of trainability as the choice criterion of workers, it does not reflect a clear cut difference from the neo-classical assumption of labor demand since this cost is determined by their human capital characteristics.

4.2.2. Piore, Doeringer and Piore, Harrison, Bluestone, and the Dual Theory

Doeringer and Piore are the ones who are most associated with the dual labor market theory. "They define a primary labor market as one composed of jobs in large firms and/or unionized jobs, which tend to be better jobs – higher paying, more promotion

¹⁹ Our summary of the new theories of segmented labor markets will be mainly based on the literature review articles of Cain (1976) and Leontaridi (1998).

possibilities, better working conditions, and more stable work” (Cain, 1976: 1222). The jobs in the secondary labor market reflect the opposite of the mentioned characteristics of the primary labor market jobs. For Doeringer and Piore, the stability of the employment is the main indicator of dual labor markets. “The introduction of career ladders and mobility chains, on-the-job training, pension schemes, rewards, discipline systems and the exercise of strict managerial control over the workforce” (Leontaridi, 1998: 70) are the other components of the polarization of jobs.

In order to explain the persistence of urban poverty, unemployment and income inequalities, Doeringer and Piore linked their “Dual Labor Market” theory with the writings of Harrison and Bluestone. The most important argument of them for the segmented labor market theory is that mobility between the two markets is limited implying that excess demand pressures cannot compete away the wage differentials.

4.2.3. Wachtel; Edwards, Reich and Gordon, and the Radical (Segmentationalist) Theory

“Radical theories of segmentation are similar to dual labor market theories in stressing institutional change and behavioral rules as the most important elements determining the nature of the labor market and labor process” (Leontaridi, 1998: 73). Concerned with the problems of persistent poverty and unemployment in the USA in the 1960s, Edwards, Reich, Gordon and Wachtel sought to examine the important divisions and income inequalities in the American working class by focusing on the evolution of American capitalism. They, especially Gordon, Edwards, and Reich (GER), challenged the conventional assumption of a single labor market and argued instead for the recognition of deep historically-shaped divisions along racial, gender, and class lines. After the publication of their widely cited book, *Segmented Work, Divided Workers: The Historical Transformation of Labor in the United States*, in 1982, segmentation theory became a main concern in labor economics. According to GER’s first joint publication (Reich et al., 1973: 359-360), the outcomes of four segmentation processes will help one to understand labor market conditions:

- (1) Segmentation into primary and secondary markets: These two segments are differentiated mainly by stability characteristics. “Primary jobs” are considered to be stable with high wages and existence of job ladders. Whereas “secondary jobs” are mostly temporary, wages are low and job ladders are few.
- (2) Segmentation within the primary sector: The primary jobs are divided into two parts/segments, namely “subordinate” and “independent” primary jobs. The working conditions make the difference between them. Subordinate primary jobs are routinized and encourage personality characteristics of dependability, discipline, responsiveness to rules and authority, and acceptance of a firm’s goals. On the other hand, independent primary jobs encourage and require creative, problem-solving, self-initiating characteristics and often have professional standards for work.
- (3) Segmentation by race: Certain jobs are “race-typed”, segregated by prejudice and by labor market institutions.
- (4) Segmentation by sex: Certain jobs have generally been restricted to men; others to women. Wages in the female segment are usually lower than in comparable male jobs. (Moreover, their working hours are not limited to some hours in the case of home-based work and they are especially employed on the principle of “*last-in, first-out*”. Women are not taken as the first employee among candidates, but also in sudden economic crises, they are the ones firstly dismissed from the firm.²⁰)

These four processes altogether generate the conception of what is termed “labor market segmentation”. This term is, therefore, determined by a combination of three authors’ theses: Gordon’s work on dual labor markets, Edwards’ work on the hierarchical organization of the modern corporation, and Reich’s work on the sources of economic differentials by race and/or sex (Bowles and Weisskopf, 1998).

²⁰ The statements between the parentheses are my own contributions, rather than GER’s emphasis.

GER's account of LMS is predominantly historical in approach: "We define LMS as the historical process whereby political-economic forces encourage the division of labor market into separate submarkets, or segments, distinguished by different labor market characteristics and behavioral rules" (Reich et al., 1973: 359). Hence, they explain the emergence of labor market segmentation with the transition from a relatively competitive to a more monopolistic form of capitalism in the United States (Reich et al., 1973; Edwards et al., 1975; Cain, 1976; Leontaridi, 1998; Bowles and Weisskopf, 1998). "The segmentation was associated with a growing wage gap between the rising monopolistic sector and the remaining competitive sector as well as with the development of hierarchy within the workforces of large corporations" (Bowles and Weisskopf, 1998: 157). The competitive local-market-oriented nineteenth century factory system eliminated many skilled craft occupations, creating large pools of semiskilled jobs. These semi-skilled line workers engaged in mass mechanized production of goods that was characterized by its' standardized work requirements. And large establishments drew greater numbers of workers into common working environment (Reich et al. 1973; Cain, 1976; Leontaridi, 1998). These labor market developments, as Reich et al. (ibid.) emphasize, pointed out the homogenization of the labor force, not segmentation. According to Tokman (1989), this process went hand-in-hand with unionization as Gordon et al. (1983; quoted by Tokman, 1989) stated that the increase in the strength of the bargaining capacity of workers due to the growth and expansion of trade unions.

The increasingly homogenous and proletarian character of the work force generated tensions which were manifest in the tremendous upsurge in labor conflict and this revealed the emergence of monopoly capitalism (Reich et al., 1973). The new era was composed of the rise of giant corporation and the emergence of a monopoly core in the economy which implied a greater segmentation in the labor market. "The large firms tended to develop concentrations wherever the product market could be stabilized, whereas smaller firms tended to be concentrated in the more competitive sectors where demand fluctuates more widely" (McPhail, 1977: 117). As Reich et al. (1973) notes, the large firms' new concerns became the creation and exploitation of monopolistic control rather than the allocation calculus of short-run profit-

maximization. The new needs of monopoly capitalism for control were threatened by the consequences of homogenization and proletarianization of the work force. The historical analysis suggests that to meet this threat employers actively and consciously fostered labor market segmentation in order to “divide and conquer” the labor force.

Tokman (1989) explains this process with the effects of the Great Depression on United States. At the beginning of the 1970s, the world economy entered into a difficult period due to the increase in the price of petroleum. It caused a slowed increase in productivity for the United States. It implied an entrance to a new era to combat the decrease in investment. Thus, the search began for new ways to organize both production and labor. One response to the crisis was restructuring of the labor process, which served to introduce greater segmentation in the country, with the help of new system of control and decentralization of the production process (to increase flexibility in both production and the use of labor).

The new system of control, which was an attempt to restructuring of the internal relations of firm, emerged out of the workplaces, gave rise to employ educated white collar workers.

The (other) efforts toward change in this area included Taylorism and Scientific Management, the establishment of personnel departments, experimentation with different organizational structures, the use of industrial psychologists, ‘human relations experts’ and others to devise appropriate ‘motivating’ incentives, and so forth (Reich et al., 1973: 361).

These efforts were resulted in the intensification of hierarchical or “bureaucratic control” as establishing “a rigidly graded hierarchy of jobs and power by which ‘top-down’ authority could be exercised” (ibid: 362). Besides this, “the restructuring of the internal relations of firm furthered labor segmentation through the creation of segmented ‘internal labor markets’” (ibid.). Along this line, job ladders were created. White-collar workers entered the firm’s work force and they were behaved differently from the blue-collar production force. Tokman (1989: 32) links the choice of firm’s employing more technicians, professionals and supervisors with its aim of

creating “an independent primary labor force characterized by flexibility and whose interests coincide with those of the owners of the capital”.

Decentralization of the production process became easy as a result of dichotomization of industrial structure. Since different firms and industries grow at different rates, there are large and small firms operating in the labor market. The larger ones are generally associated with capital-intensive production, barriers to entry, technological and market power, higher rates of profit and growth when they are compared with the smaller ones. From a structuralist perception of the labor market, this scenery reflects “core” oligopolistic large corporations/firms on the one side, “peripheral” competitive small firms on the other. But this segmentation does not mean that there is any relationship between them. Since “large firms require(d) stable demand and stable planning horizons in order to insure that their investments would not go unutilized”, “more and more, production of certain products are (were) subcontracted or ‘exported’ to small, more competitive and less capital-intensive firms on the industrial periphery” (Reich et al., 1973: 363). The rationality behind this strategy is that in such a case they do not need to consider about the fluctuations in demand and they transfer the risks associated with these fluctuations to the subcontractors. Along with the dualism in the industrial structure, there exists a corresponding dualism of working environments, wages and mobility patterns. Most of the subcontracted workers are employed temporary with low wages and lacking of legal protection and social security under long and exhausting working hours. In this sense, it is easily seen that the dualism of industrial structure also reinforces the segmentation of labor force that are employed formally and informally. This division in workforce will become more visible while studying the working conditions of the workers tied with standard (formal/regular) or nonstandard (informal/irregular) working arrangements. In what follows, we try to investigate the segmentation between these groups with special reference to the flexibility discussions.

4.3. Extension of Labor Market Segmentation Theory

Recently, intensified (international and price) competition (in product markets), accelerated by globalization, deregulation and rapid developments in technology have resulted in further labor market differentiation. Kalleberg (2003) attempts to link this tendency to the rise of nonstandard work as employers search for cost containment and flexibility to fluctuations in demand for their products and services.

Firms appear increasingly to combine functional flexibility – by employing multiskilled employees – with numerical flexibility – by using contingent labor of various kinds, including independent contractors, contract labor employed by specialist contracting or labor hire firms, and directly employed part-time and temporary workers (Kalleberg, 2001; quoted by Byoung-Hoon and Frenkel, 2004: 508).

And this process increases the segmentation of the labor force via increasing inequality in rewards and (working) conditions among workers. The reasons why employers prefer to employ persons on a self-employed, part-time, or temporary basis (all of which points out informal employment) is quite clear: In such way, organizations can limit the duration of employment. These part-time or short-term temporary workers:

- (a) are often viewed as being disposable and can be recruited and selected quickly;
- (b) may be used when the organization does not have the authorization to hire;
- (c) often cost less than regular, full-time employees (Kalleberg, 2003: 155).

The employment of these workers points out flexible usage of labor force. The expansion of this type of employment means increased segmentation of the firms' workforce into core and periphery components. Core components are expressed as the organizational insiders with high wages, permanent jobs (via standard work arrangement), high-skills, social security coverage, whereas, the periphery consists of organizational outsiders with low wages, temporary/short-term employment (via nonstandard work arrangements), low (even high) skills and noninsurance.

It is interesting to note that “an increased use of a core-periphery model would mean that an individual’s pay, security and career opportunities will increasingly be secured at the expense of the employment conditions of others, often women, more of whom will find themselves permanently relegated in dead-end, insecure and low paid jobs” (Atkinson, 1984, quoted by Kalleberg, 2003: 160).

There is another point worth emphasizing is the degree of control that workers have over their skills and their market situations. This aspect is crucial in that “Whether or not workers are able to take advantage of the opportunities presented by these (*standard and nonstandard*) work arrangements depends on the degree to which they can exercise individual or collective control over their skills” (Kalleberg, 2003: 163). With this aspect in mind, the following table illustrates the nature of the relationship between these dimensions of labor market segmentation; differences in degree of worker control, as well as the core versus periphery nature of the employment relationship.

Table 4.3: Dimensions of Labor Market Segmentation

Relations to Employer	Degree of worker control	
	High	Low
Core	High firm-specific skills; high security with employer	Low skills; low security with employer
	Example: autonomous jobs in Standard employment relations	Example: regular part-time, routine jobs
Periphery	Highly portable skills; effective occupational association; high security with an occupation	Nontransferable skills; weak occupational association; low security with employer or occupation
	Examples: high-skilled independent contractors and consultants; high-skilled temporary help agency employees	Examples: short-term hires in routine jobs; low-skill temporary help agency employees

Source: Kalleberg, 2003, p. 164.

What the table 4.3 underlines can be listed as follows (ibid: 163-164):

- The division between an organization's core and periphery is distinct from the degree of control that workers have over their skills and market situation.
- Some core workers have considerable control over their skills and autonomy over their work whereas some periphery workers have relatively little control.
- Some of peripheral workers have skills that are in high demand, so they are highly employable and should have little trouble obtaining highly rewarded employment elsewhere.
- Some workers who might be classified in the core of organization have few skills and relatively low security but have few opportunities to move elsewhere either.

Shortly, what all these imply is that occupational differences are a reasonable indicator of variations in worker autonomy/control and skills. Even these occupational differences reflect itself via occupational hierarchy in the working process. (What we mean will be clearer when we are discussing the segmentation process in the case of Turkey with special reference to cement industry.)

Therefore, as Kalleberg (2003: 173) remarks, "understanding the nature and consequences of workplace restructuring for labor market segmentation is a potentially fruitful area for cross-national research and of collaboration between sociologists and economists". That's the reason we attempt to identify the evidence for labor market segmentation within workplace restructuring via the help of informalization and subcontracting process in Turkey.

4.4. Testing for Segmentation: Statistical and Econometric Techniques

Apart from the (historical) empirical evidence of labor market segmentation, there is also a growing literature on testing the claims of the segmentation hypotheses. The two most important claims of the segmentation hypothesis can be listed as follows (Leondariti, 1998: 80):

- (a) that there is a distinct low-wage labor market in which there are no returns to schooling, experience or in some cases tenure and workers do not receive on-the-job training and
- (b) that there are non-economic barriers that prevent mobility across sectors.

The latter is crucial to the segmentationalist theory since the existence of inter-sectoral mobility would imply the equalization of wages between sectors.

The four distinct methods of analysis are used for testing the validity of the above claims:

- (1) testing for LMS with human capital models given a priori segment determination
- (2) factor analysis
- (3) cluster analysis and
- (4) switching regressions (ibid.).

In what follows, there is a brief summary of the methods will be given that consists of their logic rather than providing a detailed information about these four analysis. This approach is preferred since the main interest of the present study is not testing for segmentation in labor markets (even in Turkey).²¹

4.4.1. Human Capital Models

The emphasis is on the worker heterogeneity that refers to differential investments in human capital, in human capital models rather than differences among jobs, as the primary cause of wage differentials. What this points out is that low wage jobs are associated with low productivity workers who are unable or unwilling to obtain

²¹ For a detailed analysis of these techniques, one can see Leondariti (1998) and Sloane et al. (1993). One will be faced with a table that shows some recent empirical studies of labor market segmentation with the information about their author(s), data, group, sector definition, number of sectors, methodology, findings between the pages of 570-571.

necessary skills. Therefore, it is claimed that poverty will be eliminated through the investments in human capital.

To test directly the hypothesis that the wage-setting mechanisms are different between segments, the authors predetermine the number of segments in the labor market. This classification is based on the characteristics of the jobs or of the industry. After that, it is time to test for differences in the wage equations for each segment. The differences in the wage determination process are captured by regression analysis and separate earning functions are estimated for each segment.

4.4.2. Factor Analysis

Factor analysis is a technique for testing strict industrial dualism. It is a statistical method to reduce the overall dimensions of a data set via identifying a relatively small number of factors that can be used to represent complex relationships among various sets of interrelated variables. If the data are consistent with a core/periphery type distinction, one should identify a common factor that separates individuals into these two distinct groupings.

4.4.3. Cluster Analysis

Cluster analysis is a method of grouping cases (occupations or employees) into relatively homogeneous groups with respect to a given set of variables. “It therefore provides a means for drawing together the full set of job characteristics that are presumed to define boundaries” (Leontaridi, 1998: 89). It is purely a statistical method in which specific hypothesis cannot be tested. The advantage of using this method is that it can determine into how many clusters the observations fall naturally. It means that the data are not forced into a predetermined number of segments. The other important aspect of this method is its’ resulting information on the distance between clusters or segments.

4.4.4. Switching Models

Estimating separate earnings equations for each labor market sector is the starting point for the analysis of the segmentation hypothesis. But, the main difficulty with this beginning is that no prior information exists on the assignment of individuals to primary and secondary sectors. In order to overcome this problem, Dickens and Lang (1985, quoted by Leontaridi, 1998 and Sloane, 1993) have used a technique that allows one to estimate the wage equations for unobserved sectors. This technique is then called as switching regression model with unknown regimes. “This technique enables one to derive the probability of sector attachments directly from the observed distribution of wages and worker attributes and thereby resolves the problem of attributing primary or secondary sector employment to everyone in a given industry or occupation” (Leontaridi, 1998: 91).

Since testing for the two hypotheses of segmentation theory is not the main focus of the present study, the underlying ideas of the four methods have been given in order to provide an idea about these techniques.

From then on, we will try to investigate the implications for the existence of segmented labor markets in the case of Turkey. Since the subcontracting is believed to reinforce and intensify the segmentation, we will attempt to see its' effect on labor market and labor process.

CHAPTER 5

SEGMENTATION AND INFORMALITY IN THE CASE OF TURKEY

In the following chapter we will try to discover evidences for an explanation of informality via labor market segmentation in Turkey. For such an analysis, the studies on informal sector in Turkey will be reviewed at first. The findings of the studies that focus on the nature of the linkages between formal and informal sector, especially the subcontracting relations, play the most important role in the present study because the clues for the existence of segmented labor market will be gained from these studies.

5.1. The Labor Market in Turkey

5.1.1. The Main Indicators of Turkish Labor Market

Following expressions of Tansel (1998b) and Şenses (2000), the main characteristics of the Turkish labor market are strong supply sides pressures due to rapid population growth, high rates of unemployment, large wage segmentation along various lines, pressures which are mitigated by declining participation rates.

The main labor market indicators that are presented in the tables 5.1 and 5.2 indicate the accuracy of these expressions based on the statistics taken from State Institute of Statistics.

Based on the indicators (see tables 5.1 and 5.2) Şenses (1996) emphasizes the problem of the pace of employment creation which falls drastically short of the increase in labor supply (Labor Force). “Although participation rates have been falling as a result of the shift in the structure of population towards urban areas with lower participation rates and increased enrollment rates, labor supply has been increasing at a rapid pace, reflecting the still high rate of population growth” (ibid: 67-68). [This is also the case pointed out by Tansel (1998b) as one of the main features of the Turkish labor market.] Even though this basic feature persists, one is always faced with the high rate of unemployment. It fluctuated around eight percent during the 1990-94 period and it suddenly rises to 10.6 percent in 2002 (see table 5.1). Up to the year 2002, the rate of unemployment fluctuated around seven percent such that during that time, Turkey faced one of the lowest unemployment rates among the OECD countries (Özdemir and Yücesan-Özdemir, 2004).

Despite rapid growth in GNP and an increase in exports, there is not an improvement in employment statistics after the 2001 crisis.²² According to the report of the Independent Social Scientists Group (2005), the unemployment rate of increases to 10.5 percent in 2003 and it is 10.0 percent due to the fourth quarter of 2004 (see table 5.2). However, the report warns the reader about the occurrence of the highest employment level in the third quarter of every year because of the seasonal effect. Therefore, it is added that the rate of unemployment will not be so different from the one experienced in 2003 when the year 2004 is considered in total.

The declining participation rate points out the size of the people who lose their hopes about finding a job. This reflects the discouraged workers.

Another feature of Turkish labor market that is worth emphasizing here is the widespread employment in small scale establishments. Tansel (1998b: 10) notes that about 56 percent of the urban employment is in establishments with less than ten workers, about 37 percent of urban employment is in establishments less than four workers, according to the Household Labor Force Survey in 1996. These figures turn

²² Because of that this process is characterized as “jobless growth”.

out to be more striking in the manufacturing industry. As of 1995, 95 percent of enterprises in manufacturing employ less than ten workers. These small scale establishments capture 30 percent of the formally employed in 1980 whereas it reaches 38 percent in 1994 (Köse and Öncü, 1998).

In order to picture the employment structure of small and large establishments, one needs to look at the diversification of workers according to their employment status. In fact, it also helps us to recognize the link between informality and small enterprises.²³ As of 1989, 45 percent of the employees in the small firms are unpaid family workers and 34 percent of them are self-employed. In ten years' time these figures do not change much, except for a decrease in unpaid family workers by 8 percent. The most remarkable aspect of the employment status is that regular employees' (wage and salary earners) constitute 12 percent of the total employment in the small firms. Considering the same year (1989) this figure increases to 96 percent for the case of large enterprises those employing more than ten workers. Thus, this employment structure of the small enterprises may another important characteristic of the Turkish labor market: the high share of informal employment.

²³ The reasons under the usage of the census count of small enterprises as one proxy for the number of firms operating in the informal sector see Portes and Sassen-Koob (1987) and Castells and Portes (1989).

Table 5.1: Main Labor Market Indicators of Turkey (1980-2002)

	1980	1985	1990	1991	1992	1993	1994	1995	2000	2002
Population (12 years and over)	44,438	50,306	38,846	40,433	41,532	42,672	43,734	60,901	67,420	69,626
Civilian Labor Force	17,615	18,530	20,847	21,438	21,503	21,469	22,158	22,900	22,031	22,699
Civilian Employment	16,225	17,277	19,146	19,736	19,769	19,804	20,356	21,378	20,597	20,287
Unemployed	1,390	1,303	1,701	1,703	1,735	1,665	1,802	1,522	1,452	2,412
Unemployment Ratio (percent)	7.9	7.0	8.2	7.9	8.1	7.8	8.1	6.9	6.6	10.6
Underemployment Ratio (percent)	-	-	6.2	6.8	7.7	6.9	8.1	6.9	6.9	5.4

Source: SIS, Household Labor Force Surveys results.

Table 5.2: Main Labor Market Indicators of Turkey (2003-2004)

	2003				2004				
	2003	1 st quarter	2 nd quarter	3 rd quarter	4 th quarter	1 st quarter	2 nd quarter	3 rd quarter	4 th quarter
Population (15 years and over)	48,912	48,587	48,799	49,022	49,250	49,482	49,694	49,944	50,189
Participation Ratio (percent)	48.3	47.5	49.4	50.5	47.1	45.9	49.2	50.6	48.4
Civilian Labor Force	23,640	23,088	24,115	24,739	23,206	22,732	24,457	25,265	24,297
Civilian Employment	21,147	20,244	21,696	22,411	20,811	19,902	22,188	22,874	21,870
Unemployed	2,493	2,844	2,418	2,328	2,396	2,830	2,269	2,390	2,428
Unemployment Ratio (percent)	10.5	12.3	10.0	9.4	10.3	12.4	9.3	9.5	10.0
Underemployed	1,143	1,161	1,113	1,149	1,166	1,175	1,002	1,010	764
Underemployment Ratio (percent)	4.8	5.0	4.6	4.6	5.0	5.2	4.1	4.0	3.1

Source: SIS, Household Labor Force Surveys result

5.1.2. The Numerical Indicators of Turkish Informal Sector

The size of the informal sector in Turkey differs from one author to the other due to the definition that is attached to the concept. Ansal et al. (2000: 46) emphasizes the same point by stating that “it is not always so easy to draw a line between formal and informal sectors. The ground (space) of this line differs via the definition that is used for informal sector”. Whichever the definition used, it does not change the scenery: the informal sector does not disappear; it even expands over the years. In what follows, we will give a brief summary about the size of the informal sector that calculated by different authors.²⁴

One of the critical approaches to measure the size of the informal sector comes from Bulutay and Taştı (2004). The authors attempt to measure the informal sector in the Turkish labor market by using five different concepts to capture the multidimensional nature of the sector. These concepts reflect different definitions – based on different employment status – that are defined as follows (ibid: 7):

Definition 1. *Employment in Non-Fixed Workplaces.*

Definition 2. *Extension of Definition 1.* The addition of the employment in fixed private workplaces with one, two and three employed persons to the employment in Definition 1.

Definition 3. *The Definition that Depends on the Status in Employment.* It covers the self-employed and unpaid family workers.

Definition 4. *Extension of Definition 3.* The addition of the regular and casual employees who work in private workplaces with one, two and three employed persons to the Definition 3.

Definition 5. *The Definition that Depends on Persons Employed in Small Workplaces.* It expresses the share of the employment of the employed persons working in workplaces with one, two and three employed persons in total (all workplaces) employment.

²⁴ The definition that fits well the purpose of the present study belongs to Boratav et al. (2000).

The following table represents the size of the informal sector according to the each definition.

Table 5.3: Informal sector employment (thousand) and the share of the informal sector employment (percent) in non-agricultural employment, Turkey

Years	Period	Def.1	Ratio (1)	Def.2	Ratio (2)	Def.3	Ratio (3)	Def.4	Ratio (4)	Def.5	Ratio (5)
1990	April	553	5.8			2,177	22.7			3,589	37.4
	October	1,009	9.5			2,469	23.3			3,857	36.4
1991	April	1,147	11.3			2,281	22.5			3,734	36.8
	October	1,155	11.3			2,369	23.2			3,690	36.2
1992	April	1,303	11.9			2,513	23.0			4,033	36.8
	October	1,547	14.0			2,607	23.6			4,020	36.4
1993	April	1,260	12.2			2,086	20.2			3,617	35.0
	October	2,053	18.2			2,355	20.9			4,037	36.2
1994	April	1,849	17.2			2,182	20.3			3,895	36.3
	October	2,104	18.5			2,485	21.8			4,332	38.1
1995	April	1,937	17.7			2,277	20.8			4,047	36.9
	October	1,961	17.6	4,444	39.9	2,307	20.7	3,097	27.8	3,971	35.6
1996	April	1,969	16.9	4,608	39.6	2,357	20.3	3,198	27.5	4,136	35.6
	October	2,016	17.2	4,641	39.5	2,347	20.0	3,132	26.7	4,087	34.8
1997	April	1,951	16.8	4,600	39.7	2,354	20.3	3,130	27.0	4,123	35.6
	October	2,127	16.9	4,709	37.4	2,440	19.4	3,239	25.7	4,082	32.4
1998	April	1,971	16.2	4,527	37.1	2,310	18.9	3,097	25.4	4,045	33.2
	October	2,114	17.0	4,713	37.9	2,288	18.4	3,057	24.6	4,133	33.3
1999	April	2,033	17.0	4,598	38.5	2,485	20.8	3,282	27.5	4,128	34.5

Source: Bulutay and Taştı , 2004, pp. 9-10; [SIS, Household Labor Force Survey results]

The data represented according to these definitions (see table 5.3) do not take into account the unincorporated and tax related characteristics of the informal sector. To point out these characteristics, there is a need for another data set that covers the following economic units (Bulutay and Taştı, 2004: 8):

- i) They are unincorporated (they are units of individual property or simple partnership).
- ii) They pay constant taxes or none et al.

- iii)* They have one to nine employed persons.

Paralleling this concern of the size of the enterprise in defining informality, SIS (2000) published a report based on its survey on small and non-incorporated enterprises and defined them with the concept of “informal sector”. According to this report, 1,340,000 people are working in the informal sector in 2000. The 2000 Household Labor Force Survey results indicate that the total urban non-agricultural employment equals 10,751,000 people, 12,5 percent of which is categorized under the heading of informal sector. This approximation to informality reflects the “entrepreneur-based” definition of the informal sector. Since it only takes account the number of enterprises ignoring their employees, such an approach underestimates the size of the informal employment.

Apart from the mentioned indicators, the size of the informal is also calculated based on another definition – “employment-based definition” – that can be described as follows: the informal labor is a “part of the employed labor force which is not officially registered under any social security coverage and also is not entitled under the ‘self-employed or employer’ status in the labor force statistics” (Boratav et al., 2000: 9). Keeping this definition of informality in mind, Tansel (1998a: 132) notes that 34 percent of the male wage earners and 35 percent of the women female wage earners do not have social security coverage and thus work in the informal sector, according to the 1994 Household Expenditure Survey. It points out in average 33 percent of the wage earners are not registered in the Social Security System. This figure turns out to be 57 percent according to the 1996 Household Labor Force Survey.²⁵

Another “employment-based definition” of informal sector is based on the employment status categories that can be found in the Household Labor Force Surveys. Considering the year 1996, Boratav et al. (2000) calculate the size of informal sector as follows: According to the 1996 Household Labor Survey, the economically active population above 12 years age is about 23 million, 23 percent of

²⁵ The data is taken from the article of Boratav et al. (2000: 9).

which is categorized under the heading of “employer and self-employed”. This group will be kept outside the wage-labor market in order to reach the potential supply of wage-labor in Turkey which accounts 16,611,000 persons. With this classification, Boratav et al. (2000: 9) find that 58 percent of the total employed labor force is engaged under different wage relations (regular or informal).

Looking at the figures used in the reports of different institutions make the scenery more complex in that they do not confirm with each other. It is estimated that approximately 4 million workers are employed without social security coverage according to the report prepared by State Planning Organization (SPO) in 2001 (Selçuk, 2002). On the other hand, in the “*2004 yılı Katılım Öncesi Ekonomik Programı*” (2004: 80) this figure reaches to 45 percent of the employed. In the same programme it is also noted that this situation leads to a decrease in the revenue gained from tax and insurance, and an unequal competition among the enterprises. Besides this, in the programme it is noted that this situation has drastic effects on the employees such as bad working conditions, lack of social security coverage, and the like. The inconsistency between these two statistics (the first presented by SPO and the second by the government) can not be explained by their data referring to different years (the first report referring to the year 2001 and the latter to 2004). Hence, it can be said that the figure given by SPO underestimates the size of the non-insured workers. For a clue of this statement, one can look at the table covering the rate of the non-insured workers in the years of 1991, 1995, 1999, 2000 and 2002 (Table 5.4). Hence, one can surely claim that the lack of social security provision for a considerable number of workers is highly evident in Turkey.

Table 5.4: Civilian Employment and the Total Active Insured Population
(thousand)

	1991	1995	1999	2000	2002
Civilian Employment	19,735	21,105	22,049	20,597	20,287
Total Non-Insured	12,444	12,145	11,040	10,890	10,393
Rate of Non-Insured to Employment (percent)	63.1	57.5	51.1	52.8	51.2
Total Active Insured	7,291	8,960	11,008	9,707	9,894
Rate of Insured to Employment (percent)	36.9	42.5	49.9	47.2	48.8

Source: Özdemir and Yücesan-Özdemir, 2004, p.39.

A glance at the status of employment in Turkey will also give an idea about the size of the informal employment in that most of the casual or temporary workers, if not all, are not covered by any social security institution coverage. Therefore, the “casual workers” status can be thought as confirming our definition of informal employment.

Table 5.5: Status of Employment (percent), 1990-2001

	Wage and Salary Earner	Casual Employee	Employer	Self-employed	Unpaid Family Worker
1990	33.4	5.6	4.5	26.4	30.1
1995	33.4	8.5	5.6	24.9	27.6
2000	39.6	10.0	5.3	24.5	24.5
2001	40.3	8.3	5.6	24.6	21.2

Source: Özdemir and Yücesan-Özdemir, 2004, p. 36.

Table 5.6: Status in Employment (thousand), 1989-2003

Years	Period	Wage and Salary Earner (regular)	Casual Worker (casual employee)	Employer	Self-employed	Unpaid Family Worker
1989	April	4,295	589	514	1,433	480
	October	4,366	678	493	1,469	457
1990	April	4,504	582	553	1,326	418
	October	4,801	550	738	1,498	497
1991	April	4,499	623	798	1,391	467
	October	4,630	659	748	1,383	386
1992	April	4,628	784	844	1,396	542
	October	4,781	723	892	1,458	460
1993	April	4,813	757	912	1,360	421
	October	4,978	814	901	1,398	468
1994	April	4,937	776	911	1,381	520
	October	5,043	1,069	893	1,537	538
1995	April	5,103	1,001	881	1,428	519
	October	5,329	980	919	1,522	470
1996	April	5,459	984	938	1,451	483
	October	5,450	989	1,001	1,403	543
1997	April	5,361	1,063	952	1,475	492
	October	5,905	1,189	867	1,613	376
1998	April	5,789	994	1,034	1,516	469
	October	5,908	1,123	1,044	1,416	445
1999	April	5,658	1,059	831	1,583	625
	October	6,395	1,310	1,001	1,592	434
2000*	April	NA	NA	NA	NA	NA
	October	NA	NA	NA	NA	NA
2001	April	6,856	1,048	852	1,694	422
	October	6,764	1,186	928	1,720	611
2002	April	6,858	834	866	1,561	452
	October	7,202	1,174	986	1,529	606
2003	April	7,267	872	848	1,602	424
	October	7,263	1,141	832	1,766	553

*: The labor force data of 2000 were not gathered in the same manner with previous years.

Source: SIS, Household Labor Force Surveys (1989-2003)

Other than measurement analysis, many researchers in Turkey have shed light on various aspects of the informal sector. These previous studies have focused on different facets of the informal sector: migration, poverty and income potentials (Peker, 1996; Şenyapılı, 1998; Keleş, 1998; Tansel, 1998a; Şenses, 2001; Işık and

Pınarcıoğlu, 2001; Buğra and Keyder, 2003; Bulutay and Taştı, 2004), the extent of unionization of informal sector activities (Selçuk, 2002 and 2004; Özdemir and Yücesan-Özdemir, 2004; Özdemir et al. 2004), the impact of the structural adjustment programme, trade liberalization and privatization on the informal sector (Çam, 2002; Kalaycıoğlu and Rittersberger-Tılıç, 2001 and 2002; Erlat, 2000; Boratav et al. 2000; Onaran 2000 and 2003; Özar and Ercan, 2002; Taymaz, 1998; Köse and Öncü, 1998 and 2000; Tansel, 1998b; Nichols et al, 1998; Şenses 1996 and 2000; Yeldan, 1994; Demir and Suğur, 1999). However, few studies have rigorously investigated the nature of the linkages and interaction between the informal and formal sectors (Taymaz and Kılıçaslan, 2002; Güler-Müftüoğlu, 2000 and 2004; Peker, 1996; Nichols and Sugur, 1996b; Kaytaç, 1994; Evcimen et al., 1991). In what follows, the literature on each aspect of informal sector will be briefly discussed.

5.2. The Informal Sector in Turkey

5.2.1. In its Relation with Migration and Poverty

According to Bulutay and Taştı (2004) the main reason under the occurrence and even expansion of the informal sector in Turkey is the internal migration. They describe the mechanism that accelerates informality as follows: Large and surplus population in rural areas pushes the people to cities with the hope of finding a job. In addition to this, there are other reasons for the extensive contemporary migration from rural to the urban areas, such as “the effects of mechanization in the countryside and the fragmentation of land from one generation to the next because of the inheritance system, combined with the traditionally high birth rate” (Nichols and Sugur, 1996: 73). However, the last 20 years has witnessed another type of internal migration. As Peker (1996) asserts the major form of internal migration has turned out to be from the urban parts of one city to another. That is worth emphasizing because it makes us realize the differences even between urban areas of different cities. This new phase of internal migration also makes clear the reason behind the growing population in some cities, such as İstanbul, İzmir, Ankara, Bursa, İzmit (Kocaeli) despite “the declining trend of migration form rural to urban in the 1990s”

(Şenses, 2000-2003). However, the formal industrial sector has not been large enough to absorb these new migrants. Because of that reason, most of these migrants are pushed into the marginal, informal or subsistence sector of the economy. The field survey conducted by Şenyapılı (1998) reveals the heterogeneous character of the informal sector since it includes peddlers who sell small items, “*pazaracı*”s who work in neighborhood bazaars, water sellers, shoe shiners, “*kahya*”s who are in charge of the queues at *dolmuş* (shared taxi) terminals, apprentices and domestic female help.

It is also necessary to note that the early migrants were somehow luckier than the new ones. Peker (1996: 8) indicates that the 1950s were the years where occurred “an increase in joint stock companies in joint ventures which led to some growth in medium-sized enterprises in the cities”. Thanks to this change, some of the migrants had a chance to be employed in these companies which means they were able to move out of the marginal sector, and their place in the marginal sector became occupied by mainly new migrants. This process is explained with the term of “Poverty in Turns” (*Nöbetleşe Yoksulluk*) by Işık and Pınarcıoğlu (2001) referring to “a situation where there is a continuous turnover within the population who suffer from poverty” (Buğra and Keyder, 2003: 19). But, this does not mean that the informal sector stays the same size. According to Buğra and Keyder, among the interesting examples of informal employment are “the job of placing gum in boxes, putting ink cartridges into pens, attaching plastic sticks to candy, sewing slippers and shoes, assembling plastic water guns, etc.”, and these jobs give us an idea about the expanding character of the sector. The presence of such a rich variety of employment in the informal sector is noteworthy vis-à-vis the process of self-reproduction poverty (Şenses, 2003). Hence, it will be convenient to consider poverty along with the concept of “working poor” who are seemed as having a job although neither their job nor income are stable (Koray, 2001).

From the employer perspective, the reason for employing informal workers is evident: to reduce production costs. The easiest way of reducing labor costs is via reducing wages and not paying the workers’ social security payments. Although we

do not have certain information about the wages of the informal workers, some studies reveal that these “market wages” are under the minimum wage (Köse and Öncü, 1998 and 2000; Köse and Yeldan, 1998; Yeldan, 2001). As an indicator of this fact, Yeldan (2001) refers the table 5.7 since the table shows that average real labor costs of small private firms and also marginal sector are lower than the legal minimum wage in the period 1980-1995.

Besides the studies mentioned above, Tansel (1998a) compares the wages in the informal and formal sector. The registration to the Social Security System has been chosen as the differentiating point of the sectors. The study aims to find out the answers to the questions of “Are there differentials in employment sector selection and in wages between the covered and uncovered sectors?” and “Are there gender differentials in the sector selection process?”. In order to reach an answer Tansel (ibid.) presents a joint model of sector choice and wage determination with the help of the data set taken from the 1994 Household Expenditure Survey of SIS. The underlying assumption of the model Tansel (ibid.) uses is that individuals face four mutually exclusive choices which include not working, wage earning in the covered sector²⁶, wage earning in the uncovered sector, and other employment. In addition to this assumption it is stated that the actual and perceived net differentials in the monetary and non-monetary compensation in the sectors as well as workers’ tastes, preferences, personal and human capital characteristics are the determinants of this sector selection process. Tansel (ibid.) makes use of the multinomial logit model, in which education, experience, locational variables, unearned income of the individual, unearned income of the other household members and the amount of the land owed are included, to estimate the employment sector choice. The maximum likelihood multinomial logit estimates of employment sector choice are prepared exclusively for men and women to investigate the gender aspect of employment. Based upon the estimates she concludes with the education as being an important determinant of employment choice and wage differentials. Alternatively saying, “The results indicated that wage earners with more education are likely to have social security

²⁶ Covered under the Social Security system.

coverage while those with less education are more likely to be uncovered” (Tansel, 1998a: 141).²⁷

Furthermore, the wage equations are obtained by using the results of the multinomial logit sector selection equations via selectivity correction. The results indicate that there exist substantial wage differences between covered and uncovered wage earners. According to the author, this large wage differential implies segmentation in the labor market between covered and uncovered sectors. It is concluded with the statement that experience and education are the main determinants of the wage level.

Tansel’s (1998a) study is worth mentioning in that it makes us realize the unequal payments in the same labor market. That’s why we are referring to a concept of “segmented labor market”. However, her joint model of sector choice is based on an assumption that does not reflect the reality. The assumption is that persons choose to be employed in the informal or uncovered sector. This assumption holds for a small number of persons who can be expressed as the members of the “first-tier informal sector” being in the sector with own volition. In that sense it is a voluntary employment. Nevertheless for a large number of the informal wage workers, being a worker in the informal sector is the only choice to survive/combat poverty.

Therefore, the underlying assumption of the model is not completely accurate for all informally employed. The other oversight of the study is that inadequate education level is considered to be one of the reasons behind the prevalence of informal employment. This way of understanding indicates that these people are informally employed because they are uneducated: if they had been educated, there would have been no obstacle behind them to find a formal job. This issue raises the debate on the direction of the causation between education and informal wage workers (mostly synonymous with poverty): Which one is the real cause, and which one is the result? Paralleling to the conclusion of Tansel’s (1998), the World Bank Report called *Turkey: Economic Reforms, Living Standards and Social Welfare Study* suggests that

²⁷ For the estimates of employment sector choice see Tansel (1998: 145-146).

the absence of adequate education is the cause of inequality and poverty (This approach fits well the assumptions of the human capital theory). But, what if the reverse is actually true, i.e. what if inadequate education is only an effect? The answer to this question is somehow complex and also behind the scope of the present study in that it generates another question of “what are the reasons behind inadequate education?”

Another study conducted by Özar (1998) based on a field survey²⁸ in low-income neighborhoods of İstanbul enables us to notice the employment aspects of the informal sector. Her definition of informal sector – capturing the individuals who are self-employed, employers, employees and unpaid family workers, but who are not members of any social security institution - is different from the one belongs to Boratav et al. (2000) in that self-employed and employers are excluded from their total employment figures. Via the questionnaires, socio-economic and demographic profiles of the informal sector have been investigated. The findings indicate that “65.8 percent of the informally employed have at most a primary school education” (Özar, 1998: 188) which confirms Tansel’s (1998a) emphasis on the level of education. But the difference between these two studies (one belongs to Tansel (1998a) and the other to Özar (1998)) stands in the line of thought: Özar (1998) does accept the statement of the persons being voluntarily employed in the informal sector. Moreover, Özar (ibid.) expresses that “the education levels of the informally employed are relatively lower than those of the formally employed, however, the gap is not immense and there are even university graduates among informal sector members” (ibid.).

²⁸ The field survey was conducted in 6 different municipalities of İstanbul, of which 4 are on the European side and 2 are on the Asian side of the city including a sample of 1,210 households.

Table 5.7: Employment Status and Average Real Labor Costs in Manufacturing Industry, 1980-1995

	1980	1985	1990	1992	1993	1994	1995
Total Employment (in thousands)¹	2150	2440	2741	3085	2766	3034	2942
1. Employer and Self-Employed ²	445	505	556	686	547	652	584
2. Total Labor Employment	1705	1935	2185	2399	2219	2382	2358
<i>Formal (Registered) Labor³</i>	1005	1186	1284	1254	1258	1212	1274
Public	287	276	250	228	214	197	170
Private, Employing 10+ workers	500	652	774	752	761	736	802
Private, Employing "1-9" workers	218	258	260 ⁴	274	283	279	302
<i>Marginal (Unregistered) Labor³</i>	700	749	901	1145	961	1170	1084
Monthly Average Labor Cost (1980, Thousand TL)⁶							
Public	39 000	26 727	45 328	79 738	72 501	57 150	55 349
Private, Employing 10+ workers	25 480	22 696	32 542	40 103	43 287	33 300	28 311
Private, Employing "1-9" workers	6 743	9 324	9 367	10 100	9 004	6 491	6 654
Weighted Average Formal Real Wage Rate ($W^A W^F$)	25 276	20 725	30 339	40 754	40 544	31 005	26 785
Memo							
Small Private Firms ("1-9") Wages/ $W^A W^F$	0.267	0.450	0.309	0.248	0.222	0.209	0.248
Marginal Labor Wages/ $W^A W^F$	0.218	0.367	0.252	0.245	0.219	0.207	0.246

Source: Boratav et al. (2000) and Yeldan (2001).

(1) SIS, Household Labor Force Survey (HLFS).

(2) SIS, HLFS: The values of 1980 and 1985 were calculated by taking into account the share of this group in total employment during 1992-1995.

(3) SIS, Annual Manufacturing Industry Statistics: Annual Average Number of Employed.

(4) Figure for 1990 is based on average estimates.

(5) Defined as the difference between total employment and formal employment.

(6) Deflated by the CPI.

Additionally, Özar (1998) states that 80.5 percent of the working population is under informal employment among the persons interviewed in the field survey area. The informal sector members were also asked their age as they took their first job. The answers state the issue of employing child labor since the statistics show that 24 percent of these workers are below the age of 12. The comparison of the monthly earnings of the informal sector and formal sector points out the less payment to informal sector members than the formal sector ones.²⁹ But, Özar (1998: 190) also adds that “the evidence, however, also indicates that not all informal workers are all low-income earning people employed in the informal sector. Some people earn considerable incomes in the informal sector”.³⁰ However, the growth in the informal sector is not so easy to be solely explained by the increase in the urban population due to migration. This tells only the half of the story since it only considers the factors that take place in the supply side of the informal labor market: the increase in the supply of the informal labor market via the increase in population and (related to that) migration. Once the demand side of the informal labor market is considered, the story will be complete. This means that the increase in the informally employed persons can be explained through not only the increase in the population who are capable of work, but also the decrease in the firms’ demand of formal employment.

The declining trend of formal employment demand is closely related with the impact of the globalization of economies and intensification of international competition. As Özar and Ercan (2002) remark, after the 1970s, there exist incredible changes in the organization of production and these changes in the organization of production do not only bring about the decrease in labor demand. Furthermore, this process affects the utilization of labor and the mode of control. Quite different modes of labor utilization have emerged as a result of this.

²⁹ 40.9 percent of informal sector members earn less than 11 million TL. per month as compared with only 21.5 percent of the formal sector members.

³⁰ This finding confirms the existence of wage differential due to the individual’s class position (Portes and Sassen Koob, 1987).

In particular, the possibility of dividing the process of production into distinct sub-processes and deploying each sub-process in the most appropriate location provides capital with the opportunity to utilize labor in the most efficient manner, i.e. at the lowest cost or in the most productive way possible. Production has been moved from one country to another, to different regions within the same country, from factories to neighborhoods and homes (ibid: 165).

This process of transformation has affected the Turkish economy without long delay due to the unfavorable macroeconomic indicators of Turkish economy in the late 1970s (i.e., high inflation rates, large balance of payments deficits). In January 1980 the stabilization and adjustment program was launched, which was a departure from the earlier import-substitution policies. Going on with the details of the structural adjustment programme (SAP) will make clear its link with the recent increasing trend in the informalization of employment in Turkey. Hence, we try to find out the answers of the questions of “What is the impact of the SAP on labor market?”, “What is the mechanism under the linkage of the reducing (formal) labor demand and the SAP?”, “What are the motives that make firms demand informal workers rather than formal ones?” Since these questions have been answered generally in the third chapter of this study, from now on we will try to discuss the questions with special reference to Turkey’s experience. The answers of these questions are expected to shed light on the importance of demand side in explaining the source of the informal employment growth in the case of Turkey.

5.2.2. Structural Adjustment Policies and Employment

At the very beginning of the discussion about the impact of the SAP on labor market in Turkey, it is worth noting the point that, with reference to Şenses (1996 and 2000), labor market issues were not presented as a direct component of SAP (The two important direct components of the program were the trade and financial liberalization). However, the labor market took its place among the most affected markets from this neoliberal transformation. The indirect effects of the SAP on the labor markets were materialized through two following channels (Şenses, 2000):

The first one came from the implemented labor market policies came from the military government. During 1980-83, new and highly restrictive labor legislation was introduced by the military government. Severe repression of labor rights began to appear along side with this legislation.³¹

The second channel that the neoliberal transformation being effective on labor market was the economic policies.³² There existed a transition from import-substitution to export-orientation via increased reliance on market-based policies. The liberalization of foreign trade and financial markets were the main components of the new economic programme. Privatization also started to appear due to the emphasis of downsizing the state. Furthermore, “the IMF-supported stabilization programme that was implemented starting in January 2000, deepening a tendency started in the 1980s, accelerated the flexibilization of labor markets and the adaptation of new forms of labor control” (Özar and Ercan, 2002: 166). This flexibilization of labor markets cause an increase in subcontracting, home-working, contract labor, and temporary forms of employment. Moreover, as Peker (1996) notes rising unemployment, especially in the 1990s, make migrants ready to accept any work regardless of its kind, insecurity or poor earnings.

In order to see the effects of the transformation in economic policies on Turkish labor market (especially on informal employment), the processes of trade liberalization, privatization and subcontracting will be discussed separately.

5.2.2.1. The Liberalization of Foreign Trade

As Taymaz (1998) and Şenses (2000) remark, the import substitution industrialization strategy was believed to distort relative prices against export-oriented industries. The logic under the implementation of export-oriented

³¹ See Onaran (2000) and Akkaya (2002) for a detailed analysis of the impact of the changes in the Labor Code on the employees.

³² For a comprehensive information about the economic policies implemented in Turkey before and after 1980, see Boratav (2003).

industrialization is therefore to remove these price distortions. The elimination of anti-export biases will help the economy in this removal via encouraging exports.

(In addition to that) An initial reduction in wages (necessary to sustain real devaluations, to enhance international competitiveness, and to make a room for export expansion) and an increase in interest rates (*necessary to encourage domestic saving and investment*) would lead to reallocation of resources towards labor intensive (and export-oriented) sectors, and the substitution of labor for capital in all sectors. Thus, the demand for labor, and employment were expected to increase as a result of liberalization (Taymaz, 1998:5).

It is also claimed that there could be increases in real wages due to the increase in labor demand. However, the empirical evidence in Turkey is far from confirming the expectations of neo-classical orthodoxy.

Contrary to the expected employment increase in export-oriented sectors, Erlat (2000: 1169) found that “the switch to export-oriented growth in 1980 did not lead to export-based employment to be dominant in employment changes”. The increase in employment has been computed as five percent from the year to 1982 to 1999 considering the employment statistics of the 500 large enterprises (Özar and Ercan, 2002).

Onaran (2003) points out the fact that the main factor under the increase in employment in the export-led growth period after 1980s is the increase in domestic consumption. By making use of the growth accounting method, she reaches the smaller impact of export on the increase in employment than the impact of domestic consumption which is not expected by neo-classical theory. The limited impact of exports on employment can be explained by the components of export promotion policy. “The increase in exports during the 1980s was sustained by and large through fuller utilization of installed capacity and suppression of domestic absorption” (Özar and Ercan, 2002: 167). For this reason, this increase in exports has a relatively low impact on employment generation.

Besides this point, a rise, although small, observed in employment during 1980s did not result in an increase in real wages. Paraphrasing Yeldan (1994), real wages are estimated to have declined by almost 40 percent between 1980 and 1988, while real profits almost doubled. According to Özar and Ercan (2002), this decline in real wages and the fall in the wage share of value-added imply the existence of a redistribution of income from labor to capital.

Additionally, looking at the effect of investment in employment generation will make one realize that the expected relationship between investment and employment is far from being realized in Turkey. As Özar and Ercan (2002) remark that the year 1995 witnessed a boom in the number of persons who applied for investment incentive certificates. Most of these investments flowed to labor-intensive industries in the cities that are called “Anatolian Tigers”. The industries in these new locations are characterized by low wages and low productivity (Köse and Öncü, 1998 and 2000; Filiztekin and Tunalı, 1999). Thus, it can be said that the occurrence of “Anatolian Tiger” provides evidence for the Boratav et al.’s (2000: 2) statement of “the search for competitiveness and the freedom of movement of capital generates strong pressures for minimizing the individual and social cost of labor at the national level”.

Through this sub-title, up to this point, we will explain the experienced effect of trade liberalization on the formal employment, and the data shows that the direct relationship between the liberalization and employment does not occur in the case of Turkey. Hence, if one wants to find out a direct relation between trade liberalization and employment, one should regard the informal employment rather than the formal one. To be clearer, it will be helpful to remember the mechanism under the argument that trade liberalization leads a rise in informality:

Formal establishments face foreign competition after the implementation of trade reforms which forces them to reduce labor costs in order to gain an advantage. Such establishments try to reduce labor costs by applying one or more of these strategies:

- cutting worker benefits (i.e. via not paying the workers' social security premiums);
- replacing permanent workers with part-time labor;
- subcontracting with establishments in the informal sector, including home-based and self-employed micro entrepreneurs; and
- laying-off workers (most of whom will then be employed in the informal sector).

Carrying out one of these strategies will automatically cause an increase in the informal sector, rather than the formal sector. The figures presented in the previous section (see tables 5.3, 5.4, 5.5, 5.6) can also be regarded as an evidence of the existence of these strategies, since after 1980s the informal sector continues to grow contrary to the expectation of the neo-liberal theory.

This increasing trend in the informalization of the employment is also reinforced with the idea of downsizing the state. During the 1980s, almost all of the increase in employment was created in the private sector. Ansal et al. (2000) state that the ratio of public sector employment to total employment in the manufacturing industry was 40 percent during the import-substitution period whereas this ratio declined to even below of 25 percent in the period of export-led industrialization growth. The importance of this phenomenon in the case of informal sector will be clearer when we recall the fact that especially private manufacturing industry employs informal workers to reduce costs. Therefore, in what follows, we hope to find an answer to the question “What is the impact of privatization on labor with reference to informal employment in Turkey?”

5.2.2.2. The Impact of Privatization on Labor

The history of State Owned Enterprises (SOEs) in Turkey goes back to the early 1930s. The government developed plans at that time which emphasized primarily the production of producer goods and heavy industry but also some consumer goods such as textiles and sugar (Tansel, 1998b: 3).

But, this outlook changed in the 1980s with the change in the role of the government. Starting in the 1980s, the government starts to gradually abandon its role as an active producer, investor and mainly confines its role in the economy to being a regulator, only. This means that the government will take less place in the economic activities, especially in the investment and production process. Government's main role is now on described as regulating and controlling the economic activities/relations, not being a main part of the production process. And its new role has been accelerated with the privatization process in the early 1980s via January, 24, 1980 Structural Adjustment and Stabilization Programme.³³ The inherent merit of privatization that has been declared is resolving the problem of the low efficiency of public enterprises, but priority of privatization in Turkey was accorded to the most efficient state companies (Çam, 2002: 77). The most recent example for the incoherence between the aim and practice is the privatization of TÜPRAŞ.³⁴

Through the privatization process workers are dismissed from their formal job that implies earnings losses as well as welfare losses for them. However, as Tansel (1998b: 1) remarks, “welfare losses were higher than those indicated by the earnings losses since the post-dismissal jobs lacked formal arrangements and social benefits. This implies that for most workers the dismissals were a movement from formal into the informal sector of the economy”. These dismissed workers can either enter into informal sector activities as self-employed or wage workers. Through which channel they are included in the informal sector does not change the result: they are faced with losses in income and wealth. These earnings and welfare losses are revealed in the interviews (conducted by Tansel, 1998b and 2000) with the dismissed workers about their pre- and post-dismissal labor market experiences. The results of the interviews illustrate how severely pro-market policies can affect employees' work-lives.

³³ For a more detailed historical analysis of privatisation in Turkey see Nichols et al. (1998: 2-3).

³⁴ A detailed analysis of privatization experience of Turkey including its implementation, politics and performance results can be found in the Yeldan's (2005) article that points to the recent privatization process in PETKİM, TÜPRAŞ, SEKA and ERDEMİR.

Considering the income of the workers' in pre- and post-dismissal periods (earning losses) at first, Tansel (1998b, 2002) finds that cement workers lost an average of 61 percent and Petkim workers 57 percent of their pre-dismissal earnings. "Even if a ten percent real return on the severance compensation is added to the post-dismissal income, earning losses remain sizeable" (Tansel, 2002: 14). The answers of the dismissed workers confirm these statistics since about 92 percent of the cement and 87 percent of the Petkim workers accept that their post-dismissal level of income was lower or much lower than their level of income at the state employment. The other important findings of Tansel's (1998b, 2002) in relation with earnings losses can be listed as follows (see Table 5.8):

- The earning losses of the dismissed workers are higher in the petrochemical industry when it is compared to the one in the cement industry.
- The level of earning losses change with the post-employment status in the informal sector. Earning losses are smaller for the self-employed than for the wage employed (There exists a 69 percent average earnings losses of wage earners, however, it is ten percent less for the self-employed).
- The high school graduates experience the smallest losses whereas the largest losses are experienced by middle school graduates.
- The losses are smaller for the younger than the older ones.
- The fall in earnings did not vary much with tenure in the public sector.

Table 5.8: Change in Earnings after Dismissal as a Percentage of State Earnings

	Wage Earners	Self-Employed
Primary School	-69	-59
Middle School	-73	-64
High School	-64	-53
Vocational High School	-67	-57
University	-67	-57
Age \leq 50	-68	-58
Age \geq 50	-72	-64
Cement	-66	-56
Petkim	-73	-63
State Tenure = 5	-70	-61
State Tenure = 20	-67	-57

Source: Tansel, 2002, p. 12.

In addition to earnings losses, dismissed workers experience welfare losses, such as lacking of job security, fringe benefits, health and retirement benefits, after privatization. These reflect the nonmonetary aspects of dismissal. These changes in welfare are discovered with the help of the workers' subjective evaluations of previous and current levels of welfare. Firstly, they are asked to compare their pre- and post- dismissal welfare. A majority of the workers' agreed upon the worse current situation when it is compared to the state employment. Secondly, the respondents were asked if, had they choice, would they have preferred to stay or leave state employment. The answers to this question are so crucial in that they reflect the workers' unwillingness in entering into informal sector. Tansel (ibid.) contends that about 63 percent of the cement workers and 85 percent of the Petkim workers stated that they would have preferred to stay. These statistics contradicts the underlying assumption of the model Tansel (1998a) uses. In other words, the assumption of the joint model of sector choice (that is presented as follows: the individuals have four mutually exclusive choices: working, wage earner in the covered sector, wage earner in the uncovered sector, and other employment) does not fit well the reality. Although this assumption holds for the workers' who choose to be self-employed, it is far away from reflecting the whole. Thus, it can be said that there appears a matching problem of the model that is used. The reason behind the

workers' preference to be employed in the formal sector is so simple: the formal employment provides the employee social security and health benefits, and the latter also extend to close family members. That's why Nichols and Sugur (2005) use "Hello Factory (*Merhaba Fabrika*)" to describe the meaning of "formal employment" for workers (ibid: 41-61).

The findings of Nichols et al. (1998) study are also used for the investigation of the welfare losses after privatization in the cement industry. The difference of their study from the Tansel's (1998b, 2002) comes from the fact that Nichols et al. (1998) ask workers to appraise the effects of privatization on aspects of own work which means that the assessment comes from the workers' who are employed in the privatized cement companies. Besides this, the study of Nichols et al. (ibid) reveals the different attitudes of four categories of employee: managers, clerks, manual workers and "tacherons"³⁵. It is important to see how occupational difference shapes their assessments of the effects of privatization.

³⁵ The French term "tacheron" means petit entrepreneur, jobber/hired hand/journeyman. Pejoratively it extends to means drudge/workhorse. In the Turkish construction industry the term tacheron (taşeron) is applied to small employers and the self-employed who do jobbing work (Nichols and Sugur, 1996: 237).

Table 5.9: Employee Assessments of Effects of Privatization on Aspects of Own Work (percent)

		Turkey		
		Better	Worse	No change
Pay				
	Managers	84	0	16
	Clerks	63	16	21
	Manual	44	13	44
	Tacherons	0	97	0
Working conditions				
	Managers	63	16	21
	Clerks	40	25	35
	Manual	20	32	44
	Tacherons	9	66	22
Job security				
	Managers	58	16	26
	Clerks	14	53	33
	Manual	13	51	35
	Tacherons	13	72	13
Job satisfaction				
	Managers	68	11	21
	Clerks	37	30	33
	Manual	24	31	44
	Tacherons	9	78	13
Pressure				
	Managers	16	37	47
	Clerks	9	61	30
	Manual	3	67	30
	Tacherons	13	63	22

Source: Nichols et al., 1998, p. 13.

“About 90 percent of managers and of clerks and about 80 percent of manual workers expressed the view that their pay was either better or much the same following privatization” (Nichols et al., 1998: 14). The earnings losses are severely experienced in the case of “tacherons” and almost all “tacheron workers” declared their worse payments after privatization. Besides this, a reasonable amount of “tacheron” workers complain about heavy working conditions and the lack of job security.

In briefly, what Table 5.9 underlines is the sharp difference in the experience of tacheron labor to that of any category of labor in Turkey. The firms insist on employing them because of their low labor costs. They are often employed on an informal basis, effectively lacking legal protection and temporary. Employing temporary/part-time workers instead of formal and stable workers is mechanism that is mainly reinforced by the trade liberalization process. Therefore, the informal sector grows rather than the formal one. The other mechanism that is accelerated by the liberalization process is the subcontracting relationship between small, informal firms. In what follows, this process will be examined.

5.2.3. The Subcontracting Experience of Turkey

The studies concerning the subcontracting practices carried out in Turkey differ from each other in terms of their definitions of subcontracting and methodologies used. Therefore, before discussing the subcontracting experience of Turkey, these differences will be stated as follows:

5.2.3.1. Definitional Differences

The production and exchange relations between firms are expressed by a single concept as “subcontracting” in the literature while for the same relations there are various terms used synonymously in Turkey such as “*taşeron*” (tacheron), “*yan sanayi*” (related or subsidiary industry), “*fason*” (jobbing), “*alt sözleşme*” (subcontracting). Although each concept emphasizes different power relations between firms, they are all used as alternatives to the “subcontracting” concept. For example, when one is talking about subsidiary industry relations, it usually means that there is no unequal relationship between the firms engaged, and it seems to be a mutually advantageous relationship. However, using the term tacheron implies inequality at the expense of the smaller firm. On the other hand, in Turkey the most used concept is jobbing as the counterpart of “subcontracting”. Therefore, Güler-Müftüoğlu (2004) attempts to study the term jobbing with its all aspects which

gives an idea about the importance of the definition in explaining the nature of the relations between firms.³⁶

Ayata (1991, quoted in Güler-Müftüoğlu, 2004) divides the jobbing relations between firms into two categories or types. In the first category, the firms are thought to be equals which implies that there is a continuous relation between them. However, in the second category, the firms are very different from each other in terms of technology used, labor productivity and capital formation. Hence, the firms cannot gain mutual advantage from this relationship as this constitutes a hierarchic relationship at the expense of the small firm. Furthermore, referring to Sayer and Walker (1992), Ayata (ibid.) notes that even the relationship between equal firms may turn out to be a hierarchic one in the long run.

Güler-Müftüoğlu (2004) accepts Ayata's differentiation because this differentiation is based on the characteristics of the firms and reflects the nature of the relationship as well. On the contrary, this classification is not meaningful at the conceptual level since the very same concept defines these two different types of situations, namely equal and unequal relations. Hence, Güler-Müftüoğlu (ibid.) insists on the existence of the confusion about the concept in the literature. The more meaningful classification, at the conceptual level, comes from Aktar (1990). To avoid the conceptual confusion, Aktar (ibid: 73-74) defines the relationship between firms which does not constitute any dependency as the subsidiary industry relationship. Per contra, "*tipik fason*" (typical jobbing) relationship has a hierarchical component in it. Such a classification is successful at the conceptual level since the different concepts are attached to the relationships that have different features. In short, the translation of the term "hierarchical subcontracting" in Turkish appears to be typical jobbing or just jobbing according to Aktar's (ibid.) classification. Therefore, the conceptual confusion about the term jobbing seems to be solved theoretically. In practice, the problem still exists because most authors use the term jobbing instead of "subcontracting" without attaching a meaning to the concept, neither negative nor

³⁶ The present sub-section will continue with the ideas that are mainly based on Güler-Müftüoğlu's (2004) article.

positive. Alternatively, most scholars prefer to make a judgment about the nature of the subcontracting relationship observed (whether hierarchical, or not) after they finish conducting their survey. This sounds reasonable when we think about subcontracting relationships at the enterprise level whereas it does not seem to reflect the reality in the case of employees of the small firms. What we mean will be made clear in the following sub-section.

5.2.3.2. Methodological Differences

The criterion that is used to describe the subcontracting relations will make up the methodological differences between the studies considered. Some of the authors choose to discover the nature of subcontracting relations from the enterprise level whereas the others from the workers/employees level. These criteria (enterprise/employer of worker/employee level) determine the method of their surveys. For the first one, the effects of the subcontracting relationship on the entrepreneur of the small firm are tried to be discovered. On the hand, the studies concerning the second criterion focus on the impact of these relationships on the employees of the small firm.

Treating the subcontracting relations as neutral at the outset of a study sounds meaningful at the enterprise level since there is a possibility that the larger firm may be assisting the smaller firm. Such relations can sometimes be the only way for the small firms to survive and integrate with the global market. Yet, in some sectors, subcontracting has now proved to be the “most profitable way of restructuring” (Eraydın, 1994: 171) because of the lack of sufficient capital formation of small firms. On the other hand, it is also likely that the large firms may tend to transfer the burden of risks and costs of production on their subcontractors. Thus, it is so difficult to tell something about the nature of the subcontracting relations at the enterprise level from the beginning since it could exist in a mutually advantageous or exploitative manner. However, this is not the case for the small firms’ employees. Even from the very beginning, the subcontracting relations point out inequality, at the expense of the workers. Accepting the gained advantages of small firms from the

subcontracting relationship is not sufficient to change the picture since it does not mean that these advantages will be automatically transferred to the employees of these firms. Moreover, most of the employees of small-scale enterprises are employed informally with low wages, devoid of social security payments, difficult and unfavorable working conditions, and long working hours in order to generate as much profit as possible. That's why subcontracting is generally considered to be one of the main reasons behind the increase in informal employment. Therefore, it can be said that an analysis of subcontracting relations from an employee-based aspect will demonstrate the exploitative character of these relations. In what follows, we will try to analyze the nature of the subcontracting relations with the help of case studies or field surveys conducted by different scholars in Turkey having in mind this methodological difference.

5.2.3.2.1. The Subcontracting Relations from the Aspect of Enterprise

Treating the subcontracting relations as neutral from the outset is the approach we have in mind in this section. The case studies which will be mentioned below attempt to clarify the dynamics of the subcontracting relationship between large and small firms, in the sense that whether those ties are benign, exploitative or mutually advantageous. Before proceeding on with the details of these studies, it is important to note that the small firm employee size varies across studies. Some of the authors consider firms employing less than 10 workers as small firms while other studies regard a small firm as employing less than 50 or 100 employees. Even SIS does not maintain the same definition of a small firm in its surveys. As Kaytaz (1994: 154) writes, "SIS in its surveys and censuses until 1983 classified establishments with a total work force of fewer than 10 as 'small'; afterwards this definition included those with a work force of fewer than 25. Recently, establishments with a workforce of one to nine employees were classified as 'very small' (*informal*) and those with 10-49 employees as 'small'" (italics, author's own addition). Since we are interested in the nature of the ties between the firms, the differences in the definition of the small firm are not our primary concern.

Taymaz and Kılıçaslan (2002) concentrate on the subcontracting relationships in the case of Turkish textile and engineering industries. In doing so, they estimate two models for both sectors: one for the share of subcontracted inputs (subcontract offering firms) and the other for the share of subcontracted output (subcontract receiving firms). They make use of panel data (based on the Census of Manufacturing Industry (1992) and Annual Surveys of Manufacturing Industry) on all establishments employing 25 or more workers in the period of 1988-1997. They estimate the determinants of subcontracting in these two industries via a Tobit model. Their findings indicate that “short-term/unequal relationship exists between parent firms and subcontractors in the textile industry whereas subcontracting relationships in the engineering industry are established between ‘similar’ firms” (ibid: 1).

Another study that also focuses on the subcontracting practices in the Turkish textile industry is by Kaytaz (1994) which is based on interviews with the entrepreneurs of the SMEs and LSEs in the Istanbul and Kocaeli region. Those establishments with a total work force of 10-99 are defined as SMEs. The subcontracting practices in the metal working industry are also considered to make comparisons. The main question Kaytaz tries to answer is that whether the subcontracting relationship promotes the development of SMEs or not. Based on the survey answers, he finds out that most of the subcontractors do not receive any form of assistance from the subcontract-offering establishments (parent firms). The only positive contribution that comes from the subcontract-offering firms is the improvement in quality control. Although a positive meaning is attached to the intervention of the parent firm via quality control³⁷, this does not change the subcontractors’ assessment of the existing relationship. They find these relationships exploitative, rather than to their advantage. The other finding of the Kaytaz (ibid) resembles to the one in Taymaz and Kılıçaslan (2002): the subcontracting relationship is rather limited in the case of Turkish manufacturing industry which means that the relations are mainly short-termed.

³⁷ The very same quality control mechanism has gained a negative meaning in the discussion of segmented labor markets that mentioned in the previous chapter.

The question of whether there exists any assistance from the parent firm to the subcontractor via subcontracting relationships leads to another study done by Evcimen et al. (1991). [Though the conclusion is not different from the Kaytaz (1994)'s.] “The hypothesis is that subcontracting increases the growth potential of small-scale firms as it ensures a steady demand for the firm’s output and alleviates problems arising from its marketing” (ibid: 131). Based on their field survey in Bursa, they split their sample of 100 small-scale firms (with less than 25 employees) into three subsamples (subcontractors, non-subcontracting firms and part-time subcontractors), but then they excluded the part-time subcontractor firms from the sample. The feasibility of this classification shows that some of small-scale firms choose not to enter in subcontracting relation with large firms. The other step is the comparison of these separated groups in terms of their profitability. They concluded with the statement that, on average, gross profits per employee of the non-subcontractors are 9.6 times that of the subcontracting firms. It can be the case because of the fact that the small-scale non-subcontractors largely sell their products in monopolistically competitive markets and have some control over the determination of the prices. Capital accumulation also differs significantly between these two types of small firms. This implies that the field survey results do not confirm the initial hypothesis about the growth potential of small scale subcontracting firms. The other important finding is that there may be no easy transition from subcontracting to independent production. In other words, subcontracting relations reproduces their initial capacity of the lack of business capital or capital accumulation.

The study by Nichols and Sugur (1996b) differs from the others in that their sample group is the small employers who employ on average six or seven workers. The authors conduct their survey in the metal industry at OSTIM where “the formal sector meets the informal sector and the fine line between of formal and informal is blurred” (ibid: 76). OSTIM’s most of the working population can be characterized as rural migrants with the hope of escaping from remaining a wage worker. In so doing, they enter into the informal sector from the channel of self-employed. They thought that they could earn more on their own than by working for someone else. But, it is

not so easy to perform. The main difficulty they face with is obtaining the capital to start up a small business. Besides this, “small employers themselves are by no means always ready to allow workers their due time off for technical training” (ibid). It sounds reasonable from the employer’s perspective because whenever his worker becomes a small employer, one more firm is added to the scenery as competitors. Even they achieve to become a small employer, the difficulties do not end there. Most of the small scale enterprises at OSTIM work under subcontracting relations. It will be more accurate to describe this link as sub-sub-contractor since they get contracts from the second dealer, not the main/large dealer. This process lowers the profit margins for the small employer which also means an insecure and low paid environment for workers. In addition to this low rate of capital accumulation for small employers, they do not get money for work that they had done. As Nichols and Sugur (1996b) assert 99 percent of small employers refer to difficulties in making payments. The financial problems become more severe even one thinks the competition between small employers/firms (ibid; Sugur, 1997; Güler-Müftuoğlu, 2000⁽³⁸⁾). Getting work at a potentially profitable price is so far away from the realized prices because there are always firms ready to make offers lower than the one does. Hence, this survey again confirms the unequal relationship between large and small firms.

Regardless of the size of the small firm, it is seen that the gains from the subcontracting relationship are not equal for the two parties engaged. In addition to lacking off any assistance from the large firm, the small firms do not get their payments in time. Moreover, it is not so easy to become independent for the small firm if it continues to produce under subcontracting; because it will take a long time to reach the needed capital accumulation to produce for itself. The competition between the small firms also results in smaller profit returns to the subcontractor firm.

³⁸ Güler-Müftuoğlu (2000) points out the competition between small-scaled enterprises in the case of shoe industry at İstanbul, Gedikpaşa.

Faced with low profit margins, the only option for small firms, other than cutting corners on quality, is to squeeze their own labor force, often including the employer's own labor, by extending working hours and holding down wages. In this context, various types of subcontract work result in an secure and low paid environment for workers, and often in long working hours and a low rate of capital accumulation for small employers (Nichols and Sugur, 1996b: 85).

Thus, the wealth of small employers does not change much: they enter into such relationship because of the lack of capital accumulation and even this relationship does not conclude with high capital accumulation. As Nichols and Sugur (ibid.) remark just before, in order to gain more profit from this relationship small employers apply to the labor-based savings; such as employing informal workers (temporary/casual/part-time workers with lacking legal protection) under unfavorable working conditions. A significant portion of the subcontractors in the mentioned case studies find the existing relationship not to their advantage and consider it as exploitative, however this exploitative character of this relationship is more severe for the subcontracted (wage) workers.

5.2.3.2.2. The Subcontracting Relations from the Aspect of Employee

The expansion of subcontracting relationships is very closely related with flexibility in the use of labor. "Firms appear increasingly to combine *functional flexibility* – by employing multi-skilled employees – with *numerical flexibility* – by using contingent labor of various kinds including independent contracts, contract labor employed by specialist contracting or labor hire firms, and directly employed part-time and temporary workers" (Byoung-Hoon and Frenkel, 2004: 508). Especially this "numerical flexibility" plays an important role in controlling the labor costs in production process. These temporary workers are mainly employed on an informal basis and not registered to social security system. Therefore, they are also lacking legal protection.

Çam (2002) describes the acceleration of temporary employment via pro-market policies with its two basic forms: contract work and the "tacheron" system. The expansion of contract work finds its legal basis in the Constitution. As Tansel

(1998b) notes, the Decree No. 233, 1984 enables the public enterprises employing workers under contract work. Furthermore, the Decree No. 399, 1990 leaves all contract workers devoid of unionization. It is worth emphasizing that the timing of the expansion of contract work in the public sector coincides with the privatization process. According to Işıklı (1994, quoted by Demir and Suğur, 1999) this coincidence is not surprising in that “after mid-1980s, the contract work system as a temporary employment model became an overriding recruitment strategy in the public sector companies that were scheduled to be privatized. On the eve of privatization, white-collar workers were initially employed by government through the contract work model. Later, the system was swiftly extended to blue-collar workers, and the total number of employees working under this system climbed from 20,000 to 500,000 between 1985 and 1996” (Çam, 2002: 95).

The other temporary employment model is doing with the “tacheron” system. And this system overlaps with the practice of “numerical flexibility”. Moreover, this system goes hand-in-hand with the privatization process. This statement will be clearer with an example based on the privatization of cement industry. Demir and Suğur (1999) conducted a field survey in the two cement firms that were privatized in order to ascertain the conditions of the workers’ after privatization. Their findings are crucial in the sense that they demonstrate the stages of implementation of the “tacheron” system.

The employer of the large and privatized firms should firstly decide in which production units they will employ “tacheron” workers. Subsequently, they will consider which workers should be employed as “tacheron” workers. Some of these workers are their own dismissed workers. Almost half of the workers are laid off after privatization, however, they are offered to be employed as “tacheron” worker in the same firm. Most of them accept this offer although they are aware of the difference in social benefits and wages between permanent and temporary staff. Before going on with their new working conditions, the figures will reveal the importance of privatization in the expansion of informal employment with reference to cement as well as petrochemical industries. The tables prepared by Tansel (1998b)

present the total and subcontracted workers after the privatization in the mentioned industries.

Table 5.10: Cement Plants, Sale Date, Total and Subcontracted Workers

Plant Name and Location	Sale Date	Employment	
		1988	1995
Ankara	1989	407 (0)	257 (71)
Balıkesir	1989	399 (0)	172 (0)
Denizli	1992	305 (0)	243 (85)
İskenderun	1992	200 (0)	185 (86)
Konya	1990	349 (0)	347 (165)
Niğde	1991/92	419 (0)	251 (99)
Söke	1989	289 (22)	235 (139)

Source: Tansel, 1998b, p. 13. (The number of subcontracted workers is given in the parentheses.)

Table 5.11: Pektim Sale Details

Complex Name	Share Sale Date	Employment	
		1990	1995
Aliağa	1995 *	7297 (0)	7504 (1350)
Yarımca	1995 *		

Source: Tansel, 1998b, p. 16. (The numbers of subcontracted workers are given in the parentheses.)

*: the date some shares and real estate were sold.

As for the cement industry, except for the plant in Söke, the plants did not employ any subcontracted workers before privatization. With the privatization, the loss in the formal employment is offset by subcontracted workers. With this new employment policy, employers try to not only to decrease labor costs, but also to discourage

unionization (and they achieve these objectives). The scenery is not so different in the petrochemical industry.

The temporarily employed workers witness welfare losses in addition to earnings losses. Although the previously presented tables 5.8 and 5.9 give us clues about their losses, there are losses mean more than that. Demir and Suğur (1999) describe the workers' working conditions as follows: The "tacheron" workers are employed for short-term, mainly less than a year. [As Parlak (1996: 134) remarks, the temporary employees' signed a contract before they start to work including the following items: (1) The term of this employment contract is 11 months; (2) I agree that I may be called upon to perform any task within the limits of my ability in any part of the production without my contest.] If the employer is satisfied with the workers' ability, (s)he can renew the contract. Their daily wages are not paid whenever they are absent because of sickness. Moreover, they neither receive premiums nor have a right for annual leave since they are not employed more than one year. They also do not get reimbursed for transportation and for working clothes. (Some of the respondents report that they are provided working clothes, but these are cheap and poor quality.) Furthermore, they do not have any idea about their registration to the social security system. Besides all these, they are obliged to do heavier jobs that need more physical power. Even when one adds the long working hours to this, the picture becomes even darker. Although they are not satisfied these working conditions (see table 5.9, 78 percent of the "tacheron" workers are dissatisfied with their job), there is no other way than obeying the rules and accepting to work (Demir and Suğur, 1999; Parlak, 1996; Yücesan-Özdemir, 2000). They are aware of the fact that there is no guarantee that they can find either better jobs or be paid higher wages in other workplaces. What's more, there are many people who are ready to work under these conditions. Thus, they are afraid of losing their jobs and this dismissal fear keeps them from asking for the rights they are guaranteed by their contract. Due to the contract rules, employers must provide job security in order to protect them from on-the-job accidents; employers can not cut their daily wages because of not coming to work due to sickness. Moreover, if they continue to be employed in the same firm

after one year, the workers can also be eligible for health insurance, annual leave, and unionization.

To override these rules, employers begin to follow new subcontracting strategies. Demir and Suğur (1999) note that employers choose to open an auction to give some subcontracted work to the small firms rather than employing “tacheron” workers by itself. In so doing, the employer her/himself supports some of his (her) workers to construct a “tacheron” firm and offer a bid in the auction to get the subcontracted work. In this case, employer gains benefits not only from doing work with the familiar workers, but also ignoring the responsibilities attached to the contract work. From now on, if there is an accident in the work, the responsible party will be the “tacheron” firm. The very same “tacheron” firm also seeks to ignore these legal liabilities. Their solution is easy: the firm is closed before one year is over and then is re-opened under a new title. Since the very same workers are employed as if they are the newcomers, the new “tacheron” firm does not have any link with the old one. In this way, the small firm seems to be employing anyone not more than one year although the employees are mostly the same. The meaning of this process for the workers is obvious: although in practice they work for long-term, they are seen as working not more than one year for the same firm. That’s why they never ask for compensation or vacation time. Due to these circumstances, as long as this new subcontracting system continues, it is very difficult, even impossible, for the “tacheron” workers to gain any, if at all, advantage from this relationship. The system replicates itself after a year (which also means the reiteration of informality). Although there are some small firms in which the working conditions are better than the ones mentioned above, it does not change the moral of the story. The subcontracting relationships do not create mutually advantageous environments for both parties involved. In other words, the subcontracting relationships do not prove to be mutually advantageous for both parties involved.

5.3. Informality and Subcontracting from the Aspect of Labor Market Segmentation Theory

From now on, our discussion turns to find an answer to the question of “how do these dimensions of informality, identified in Section 5.2., fit into the perception about labor market segmentation theory, main statements of which are summarized in Chapter 4?”. In the following we will first try to find out the basis of the relationship between informality and segmentation. That means we are searching for the unit of segmentation in the case of Turkey. There are two main approaches to this issue: one is concerned with the type of the activity and the second is more interested in the employment characteristics. In the former, the segmentation unit is the enterprise size. The division of labor market into large and small firms can be used as a clue for investigating the segmented nature of the market. Whereas for the latter, the working conditions make the difference in the labor market which means the “good” and “bad” jobs are defined with respect to their working conditions. Thus, the segmentation unit becomes the employment quality. In this approach, social security registration, long or short working hours, promotional ladders, controlling mechanisms are the evidences of the segmentation in the labor market or labor force. This unit of segmentation concerns the working population, rather than the enterprises. In the present study, carrying on with the employment unit seems to be more appropriate because we define the informal sector on the basis of informal wage workers, with special reference to precarious (irregular) employment. Moreover, we have investigated that this type of employment is mainly accelerated by privatization, liberalization and subcontracting relations, three closely interrelated processes.

In what follows, we will try to deal with the informalization process in Turkey from the point of labor market segmentation theory on the basis of employment quality. The subcontracting practices in Turkey will be integrated in these discussions since this process makes us realize the segmentation in both the *labor market* and the *labor process* (Edwards et al., 1975). In so doing, we will try to find out the evidences that confirm our suggestion of explaining informality via labor market segmentation

theory in the case of Turkey. The two core hypotheses of the theory, which are the existence of wage, security, working conditions, control mechanisms differentials between the segments and the existence of limited labor mobility between the segments, are questioned with the help of the evidence from Turkey. These evidences are gained from the field surveys that were conducted by different scholars. In that sense, we are presenting the findings of such studies in order to put forward an alternative way of approaching informality in the case of Turkey.

The evidences will be presented in two headings in order to differentiate the segmentation units that are used. Firstly, the evidences are collected with regard to the enterprise level as the segmentation unit, and then the employment quality is considered as the segmentation unit. But, before moving on to these two sections, it proves to be helpful to look at Tunalı and Ercan's (1997) study concerning the labor market segmentation in Turkey. (The other existing studies that we will discuss in the following sections are not giving reference to labor market segmentation theory except the one belonging to Parlak (1996). However, the theory is intuitively in all these articles mentioned in sections 5.2.3.2.1 and 5.2.3.2.2. Therefore, what we intend to do is underlying clues for the existence of labor market segmentation in Turkey.)

What is special about the Tunalı and Ercan (1997) article is that, as far as we know, it is the first and the only study on labor market segmentation in the case of Turkey. Although its data source is outdated (the results of 1988 Household Labor Force Surveys), what it captures seems to be perpetual over time. There is a widespread agreement on the segmented nature of Turkish labor market (Tansel, 1998a and 1998b; Şenses, 1996; Bulutay, 1998; Tunalı, 2003; Boratav et al., 2000; Köse and Öncü, 1998 and 2000; Köse and Yeldan, 1998; Yeldan, 2001). Tunalı and Ercan (1997) express that they do not try to test segmentation statistically. Rather, they attempt to draw a picture of the Turkish labor market in which one can see the segments with respect to the characteristics of individuals, working conditions and earnings. They determine the segments due to the size of the firm. In other words, the large firms are thought to be associated with the primary sector and the small firms

with the secondary sector. To collect the evidence for claiming segmentation in the labor market from the aspect of large and small firms, they prefer to look at the labor market conditions for wage and salary earners.

Their major observations are as follows (ibid: 98):

- Based on the results of 1988 Household Labor Force Surveys, more than one fourth of the wage and salary earners are not registered to the social security system. This ratio is 16 percent in the large firms whereas it turns out to be 57 percent for the small ones.
- The hourly wage is 18-25 percent more in the large firms than the small ones.
- The difference in monthly income between small and large firms is 27 percent and it is 35 percent for annual income.

Furthermore, they also find out that the average wages in large firms are higher than the ones in the small firms. What is more, the wages of the permanent male workers are higher than the ones for the women. The technical part of their paper begins following these results: they intend to determine the wage differentials via logarithmic wage regressions with multivariate variables. The coefficients of the explanatory variables will give one an idea about the importance of that variable in determining the wage level. These explanatory variables are education, age, seniority, gender, large firm, temporary employment, rural, region, and sector and the dependent variable is the natural logarithm of the hourly wage.³⁹ However, the authors warn the reader about the conclusions of the model since they are faced with selectivity and endogeneity problems. The selectivity problem occurs because of the fact that the sample is not chosen randomly. The authors have determined the sample group consisting of wage and salary earning before running the regression. Besides, the variables that take place at the right of the equation can absorb endogeneity problem, such as when the workers who experience an increase in their wages choose to stay at the firm, but the others prefer to leave, this will cause a systematic

³⁹ For the detailed information about the model and its' conclusions see Tunali and Ercan (1997).

relationship between the error term and seniority (Tunalı and Ercan, 1997: 107). They state that there are econometric techniques to overcome these problems but there are so complex, that's why they ignore these at that time.

Özar (1997) criticizes Tunalı and Ercan's (1997) article on three important grounds that can also be thought as the inaccuracies of the mentioned article:

- (1) Tunalı and Ercan (1997) do not test the core hypothesis of labor market segmentation approach which is the existence of limits to labor mobility. Özar (1997) thinks that the reasons of not testing this hypothesis should have been given in the study. Therefore, she evaluates this as the big oversight of the article since this is the first study analyzing the segmentation in the Turkish labor market via micro-econometric techniques.
- (2) The segmentation is studied only within the wage and salary earners and their choice of units of segmentation are the size of firm and gender. However, they do not give us information about why they do not think about the other possible units for the investigation of segmentation. Especially the divisions between public and private; registered and unregistered are so important for reflecting the characteristics of the firms and even the Household Labor Force Surveys contain these data.
- (3) The third point is the most crucial flaw or shortcoming of the study according to us. Özar (1997) states that the studies on labor market segmentation should also highlight the reasons behind the occurrence and continuity of segments in addition to the investigation of segments technically. However, this article does not provide any reference to the historical, institutional, social and cultural dynamics of the country.

It is worth noting that Özar (1997) also suggests adding some questions to the Household Labor Force Survey in order to gain clues about the path of labor mobility on the individual basis. No information that reflects whole periods of the individuals' work lives is collected by the SIS. Even from the collected data gives us a general idea about the picture. Adding one or two question(s) to the survey will provide

information about the periods of the individuals' work lives. For instance, their age when they first started to work, their first jobs, any previous jobs, a comparison between them especially from the aspect of income or wages. Henceforth, we can reach some information about the labor mobility between segments which are formal and informal sectors. Özar's (1997) unit of segmentation is the same one as we contemplate. Rather than dividing the labor market into small and large firms, and then accepting this division as the unit of segmentation, we choose to use formal (standard, permanent) and informal (nonstandard, temporary) employment as the units of segmentation. Such a consideration will also capture the difference between large and small firms.

5.3.1. Enterprise Level: Segmentation among Firms

Looking at the issue of segmentation from the point of enterprises makes the reader face the segmentation in the labor market, rather than in the labor process.⁴⁰ As Reich et al. (1973) contends there are firms differing in size implying a division of the market into large and small firms' production. But, firms do not differ from each other just with respect to their sizes. There are also other characteristics that cause the differentiation and segmentation. The most important differentiating point is their capital accumulation. The small firms' capital accumulation is so less than the one in large firms. Related to this, small firms face with the problem of access to markets. Moreover, they do not even take place in price determination process since they are too small to be able to affect the market mechanism (this approach belongs to the neoclassical economics). Moreover, the small firms' technological capacity is much smaller than the large firms. That's why they are mainly regarded as producing labor-intensive goods implying that their capital-labor ratio is low. Furthermore, the small firms mainly employ workers informally in order to keep labor costs down.

This segmented nature of the labor market is deepened even more through the expansion of subcontracting relations between large and small firms. Rather than

⁴⁰ For the difference of the meaning of segmentation in the labor market and in the labor process, see Edwards et al. (1975).

decreasing the gap between these firms, subcontracting accelerates segmentation. There exists any form of assistance from the large firm to the small one (Nichols and Sugur, 1996; Güler-Müftüoğlu, 2000; Kaytaz, 1994; Evcimen et al., 1991). Besides, the small firms are not paid on time. This indicates the exploitative character of subcontracting relations. Therefore, small firms' capital formation never reaches the amount needed for becoming an independent firm. Whenever the competition among small firms is added to the picture, it turns out to be more difficult for them to abandon subcontracting relationships.⁴¹ As Sugur (1997: 97) mentions "in a market, where lack of demand is considered to be the biggest problem, it is not surprising that the forms of co-operation and collaboration are unlikely to emerge among firms". The competition between them can be seen from suggested price for the subcontracted work and results in small firms' falling returns in a chain of subcontractors.

The lower profit margins do not allow them to upgrade their technology. That is the main barrier, in addition to the lack of capital formation, behind the mobility between the segments (large and small firms). Thus, it can be said that the subcontracting relations even in the enterprise level reproduce (or feed) segmentation in the labor market.

There is another point that coincides with the other hypothesis of labor market segmentation theory in Turkey is that the labor mobility within the segments is possible whereas it is not the case between the segments (Reich et al., 1973). The survey conducted by Sugur shows us how this works in practice. Most of the small employers at OSTIM had been once an employee (or an informal wage worker) of one of these small firms. As soon as they collect the needed capital to open a small business, they do not wait even for a moment. Because they think that they would earn more in their new position. This example indicates the existence of labor mobility within the same (informal sector) segment. The small businesses at OSTIM represent the self-employed status of the informal sector components since they are

⁴¹ Sugur (1997: 94) notes that at OSTIM "co-operation and collaboration occur at times, but not in the sense of collective efficiency".

not registered, their employees are temporary, they employ at most seven workers, they are tied with subcontracting relations with the large firms. When we turn to the mobility between segments, things become more complex. Segmentation is asymmetric in terms of the transition between formal and informal. Whereas transition from the former to latter is quite easy, the converse is not true.

It is so difficult, very close to impossible, to become an employer of a large firm (formal establishment) for the owners of the small firms (informal establishment). The reason is that being a large firm's employer needs so much capital that cannot be so easily collected or saved because of the exploitative character of subcontracting relations. Evcimen et al. (1991) note that whenever the small firms enter into such a relationship, it is very difficult to get rid of it. Therefore, becoming a subcontract-offering rather than subcontract-receiving firm will represent mobility between segments for the employer of the firm.

From the aspect of the workers, the situation is more dramatic. Whenever one is employed in informal sector, one loses almost all chances to become a worker in the formal sector. This is stated in Güler-Müftüoğlu's (2000) article explicitly with the help of an example. The author discovers the employers' unwillingness to employ informal wage workers in their factories because they identify low productivity, low-skills with the informal workers. That's why the informal work is considered to be a dead-end job. On the contrary, transition from formal to informal sector is relatively easy. Tansel (1998b; 2000) reports that some of the dismissed workers of cement plant due to the privatization were employed in the informal sector under a different employment status: wage worker or self-employed. Based on these findings, we can say that the limits behind the transition within or between the segments will become more visible when we move on to considering the segmentation from the workers' level.

5.3.2. Employee Level: Segmentation among Workers

The most visible component of the segmented labor markets is the wage differentials among the sectors and workers. Even a glance at the main indicators of the labor market will make one realize this differential (Tansel, 1998a and 1998b; Şenses, 1996; Bulutay, 1998; Tunalı, 2003; Boratav et al., 2000; Köse and Öncü, 1998 and 2000; Köse and Yeldan, 1998; Yeldan, 2001). Here are some statements - related to segmentation - from the studies mentioned above: Tansel (1998b: 11) confirms the segmented nature of the Turkish labor market based on the results of earning equations (the data comes from a field survey in cement and petrochemicals industry) via stating “the Turkish labor market can be considered to be segmented along the lines of agricultural versus industrial sector, formal versus informal sector, public versus private sector, and small versus large establishments”. Moreover, Şenses’s (1996) giving the numerical indicators that shows the extent of agricultural and industrial sector, formal and informal sector, public and private sector, and small and large establishment activities in total employment can be regarded as a support for Tansel’s (ibid.) assertion.

In addition to these, the findings of the Nichols et al. (1998) study make one realize the occupational hierarchy with the firm. Although the aim their article is to investigate the effect of privatization on labor in the case of cement industry, the very same study can be used as pointing out the clues about the segmented nature of the Turkish labor market. The reason behind this implication is that the privatization process accelerates the use of contingent or temporary workers that quite fits the rationale of numerical flexibility. In this way segmentation takes place among the workers of the same firm, temporary and permanent workers. Therefore, it is meaningful to consider the working practices in a privatized firm. There is one more point that must be mentioned is that the responses of the workers reflect their assessment of the process in comparison between pre- and post-privatization.

Based on the table 5.9 we can see that there are different assessments of the effects of privatization on wage levels. Managers are satisfied with the pay levels since they

are paid more when their current wages are compared to the previous ones. The tacheron workers are the ones who complain about their worsened payments (97 percent give the same answer). What this table implies is that there is segmentation in terms of wage levels.

However, the wage differences experienced are only one part of the story. Other than the wage differentials, there also exist differences in the working conditions, promotional opportunities and market institutions (Reich et al., 1973). Therefore, it will be misleading in observing segmentation through only wage differentials. Hence, to avoid this problem, we try to deal with the other aspects of segmentation, as well. In so doing, we will evaluate both the numerical indicators of the table 5.9 in terms of working conditions, job security, job satisfaction and pressure and the other surveys' results. In each category of the table 5.9, we can easily see the occupational hierarchy between the segments.

In terms of working conditions, among all employment categories, only the managers report improvements. The most negatively affected category of employees is, without a doubt, the tacherons. As Nichols et al. (1998: 14) states "Not only that tacherons have a bad deal in terms of pay but that they feel themselves to have been affected in terms of working conditions. Two out of three of them report that their working conditions have grown worse". This picture can be used as a clue for the idea about the employers' implementation of different employment strategies to different workers or segments. This differentiation also can be seen from the responses of the employees to the question about job satisfaction. A good deal of managers report that they are satisfied with their work, whereas, the opposite is true for the tacherons.

The working conditions in the car industry at Tofaş are not so different from the case mentioned above. Almost all the temporary workers, which are interviewed by Parlak (1996), express that the works attached to them, are extremely difficult, such as work in body, paint and press and conditions are harsh. Although permanent workers can resist this type of work, there is no chance of refusing the job for

temporary workers (since they are in fear in losing their jobs) (Parlak, 1996; Yücesan-Özdemir, 2000).

With respect to the pressure of work, the picture is not much different. Looking at the professional categories with lower qualifications and skills, one can see that following privatization the pressure to raise the work load is much higher. Even the tacherons report that they are now doing the same work, which was done by four people before, alone. So that, both privatization and segmentation seem to foster the argument of “fewer workers doing more work”. In order to achieve this aim, the new technology is also used (the impact of the new technology on labor will be discussed briefly in the following while dealing with control mechanisms).

To make the distinctions between tacherons and contract workers more visible, Demir and Sugur (1999) ask the tacherons evaluate their work intensity and job security in comparison with the contract workers (Table 5.12).

Table 5.12: Work Intensity and Job Security (n: 32)
(percent)

	Work Intensity	Job Security
More in “tacherons”	63	13
More in contract workers	3	78
More in both	34	0
Less in both	0	0
The same	0	9

Source: Demir and Sugur, 1999, p. 178.

The table shows the more intensification of work and the less job security for the tacherons.

The increase in both work intensity and pressure implies the increase in control mechanisms in the firm (see table 5.13). Nichols et al. (1998) make use of the

concept of “monitoring of performance” to investigate the effect of control mechanisms on each of four categories of employee.

Table 5.13: Employee Assessment of Changes in Working Conditions over Last 4 Years (percent)

		Turkey		
		Closer	Less	No change
Monitoring of performance				
	Managers	74	5	21
	Clerks	65	2	33
	Manual	66	5	26
	Tacherons	41	0	41
		More	Less	No change
Choice over how best to work				
	Managers	68	11	21
	Clerks	26	42	28
	Manual	19	54	27
	Tacherons	13	53	16

Source: Nichols et al., 1998, p. 15

According to the findings of Nichols et al. (1998), it can be seen that clear majorities of those in each category claim that they are now subject to closer monitoring of their performance. It is interesting to find that the managers are the ones who are more likely to claim this than others are. This issue can be related to their position/duties in the working process as follows: the role of the controller is played by the managers in the firm on the behalf of the employer. Therefore, for the managers, rating the monitoring performance of the firm is the same as rating their performance which implies how they are successful at doing their job. This fact fits very well with the segmentation process in the theory since these managers represent “an independent primary labor force characterized by flexibility and whose interests coincide with those of the owners of the capital” (Tokman, 1989: 32). But, the workers are not pleased with the control of managers (from then on we will call them “foremen”). Also, the use of new technology make jobs more machine-paced than before

facilitates the extension of managerial control and increases intensity of labor. Even when the intervention of the foremen is added to the picture, it becomes clear why workers complain about the intensified control mechanism. As Parlak (1996: 130) notes, in dealing with the conditions of the automobile factory workers of Bursa-Tofaş, “an outstanding example of the extension of managerial control and intensification of work is the installation of new automated engine assembly line with direct numerical control (DNC) facilities”. What is special about this control mechanism is that the line attached to this system dictates the pace of work and provides managerial control via reducing the control of workers over their work. The implementation of DNC affects both permanent and temporary workers. But, as always, the temporary workers are affected more severely than the others. This is because of the fact that they are more vulnerable to dismissals and redundancies. “During the term of their employment contracts (lasting for 11 years), they are kept under close surveillance and management assesses their performance according to their efficiency, productivity, diligence, discipline and obedience” (Parlak, 1996: 135). Their performance attached to all these criteria will determine whether their contract will be renewed or not. Therefore, the temporary workers are the ones who mostly feel the pressure on themselves, especially via managerial control. One of the workers in the automobile industry describes this process as follows:

“I work in the new engine assembly line and assemble a couple of parts. There is an order to it and if I get it wrong the whole line halts and everybody looks at me. The foreman comes and scolds at me” (ibid: 137).

In addition to Parlak (1996)’s study, the findings of another survey which is conducted by Yücesan-Özdemir in another automobile plant operating in Adapazarı makes us realize the importance of technological improvements in controlling the labor force. In this case, escaping from control for the temporary workers is much more difficult. The production process is supported by the use of *andon* lamps which are the lamps to stop the assembly line in case of emergency. This emergency implies there is something wrong within the production, such as someone may be late for his duty or made a mistake. This mechanism eases the work of foreman

because even when he is not nearby, he can be aware of the problems. Hence, the source of the problem can be found easily. The other important aspect of this mechanism is that the worker himself reports his fault to the foremen. Even this situation coincides with the one experienced in the Tofaş plant. Another worker tells his condition as follows:

I can't say anything because I am a temporary worker. I want to stay here after my contract expires. My future is in the foreman's hands. If I am to stay here, I feel that I have to make him happy. If he so wishes, he can get me dismissed any time (Parlak, 1996: 143).

Their fear of dismissal is not unfounded. There is even a legal ground behind this since workers with less than a years' tenure are excluded from some rights under the Labor Code (that has been mentioned even before in the present study), such as severance payments. Furthermore, these workers can be dismissed at any time with 15 days' notice during their trial period. When this occurs, they cannot do anything to defend themselves because they are not members of a trade union. (The trade union has virtually no prevalence among the temporary workers.) Thus, coping with the intensification of control mechanisms is left to each individual. It can be a clue for the gain of entrepreneurs' from the segmented nature of workforce because this process limits workers' collective strength or resistance.

For most workers, the only way to get back at management is through the "*hidden resistance*" (Parlak, 1996) of lowering quality, deviating from production norms and methods. Their "own methods" help them in order to keep up with workloads. Clegg (1979, quoted by Parlak, 1996) defines this process with the concept of the workers' "discretionary knowledge" (Clegg, 1979). The workers do not have any chance to apply for their own methods because if they work by obeying all the rules, they are not able to produce anything in time. The use of non-standard tools, altering settings of machines, and reducing the standard number of welding spots and sequences of machining and welding operations are the most popular methods among the temporary workers in Tofaş. But, these methods do not always work. As a confirming example to this statement we can consider the experience of the firm operating even in the same industry. Yücesan-Özdemir (2000) reports that the well-

working control mechanisms in the firm located in Adapazarı do not let workers skip not even one step of the production process. In that case, another “*hidden scenario*” (Scott, 1990; quoted by Yücesan-Özdemir, 2000) comes into effect. To circumvent the function of *andon* lamps, the workers inform each other if there is something going wrong within the system. This method will be helpful whenever the foreman is not nearby. However, this method does not alleviate their duty; just help them not to be recorded in the firms’ register.

In addition to the division of workforce with respect to the contractual status of workers (temporary workers tied with “nonstandard employment contracts” (in Kalleberg’s (2003) terms) or permanent workers tied with “standard employment contracts”), where exists another division with respect to their military service, conscripted of non-conscripted (Parlak, 1996). This division due to their military service implies inequality between workers in that there are the non-conscripted workers who will be dismissed first from the firm when it is faced with recession or fluctuations in demand. Thus, “the employment of non-conscripted workers constitutes a mechanism through which workers with family responsibilities can be protected from losing their jobs, thus improving their morale and loyalty” (ibid: 136). We can understand the success of this mechanism form one of the permanent workers’ saying as:

Before, whenever there was a redundancy I could not sleep for fear of losing my job. ... At the end of each day, I thanked Allah that I had not been made redundant. But, nowadays, things are different. We do not have such fears. We know that there are non-conscripted chaps who will go before us. When they have all gone, we will start thinking when it is going to be our turn (ibid.).

This expression also implies the decreasing coherence between the workers although they are working within the same firm (but under different employment status). Whatever the division is with respect to, segmentation achieves in limiting the dialog between the workers. The study conducted among the cement industry workers also results in the same manner. Demir and Sugar (1999) note that even the tacherons and contract workers time to time work together, they seem to have become worlds apart.

They are not interested at the others' working conditions. Like the case in the automobile industry, the contract workers do not intend to do anything to protect the tacherons' from bad working conditions and dismissals. Moreover, the appearance of temporary workers makes contract workers feel themselves in safety. This fact coincides with Kalleberg's (2003) quotation: "an increased use of a core-periphery model would mean that an individual's pay, security and career opportunities will increasingly be secured at the expense of the employment conditions of others, often women, more of whom will find themselves permanently relegated in dead-end, insecure and low paid jobs" (Atkinson, 1984; quoted by Kalleberg, 2003: 160).

The situation is more severe for the workers who are paid by piece-work. The logical interpretation of this payment system is that if one produces more, (s)he can earn more. This is the case in İstanbul, Gedikpaşa in the shoe industry. The small enterprises employ informal and short-term workers and these workers work hard in order to produce/earn more. That means they compete against their own production capacity. Each time, they try to produce more than before. This practice results in such a situation that the worker is "*atomized*" (Güler-Müftüoğlu, 2000) to the working place. It is even an individual basis struggle like the ones experienced in the automobile industry.

Apart from the control mechanism, there is another important point worth emphasizing in the table 5.13 is the effect of privatization on choice over how best to work. The workers are asked to evaluate their freedom to decide how best to do job under this heading. A stratified pattern of response is still in evidence. It is seen that managers have clear gains. Again, tacherons are affected more. This phenomenon is closely related with the Kalleberg's (2003) notion of the degree of workers control on their work. Since a considerable share of temporary workers is associated with low skills, they do not even gain control on their work. These workers must accept the jobs and working conditions determined by the entrepreneur.

The other crucial aspect of the labor market segmentation theory is the limited labor mobility between the sectors. Güler-Müftüoğlu (2000) explains this fact in the case of the employees of small scale enterprises in the shoe industry. The small scale production in Gedikpaşa is about to disappear because of the rigid rules of the subcontracting relations. They are tied with subcontracting relations which do not provide them the needed amount of capital accumulation to become an independent producer. Therefore, the dependent relationship between the firms continues and day by day their situation in the market becomes less favorable. The workers of these enterprises are the most vulnerable groups who are employed in an informal basis. They are also bound with limited labor mobility that is one of the core assumptions of the labor market segmentation theory. These informal workers do not have chances to be employed in the formal sector. This is because of the barriers between the sectors. In addition to these barriers, there is also another fact which causes this limitation whose rationality can be defined as follows: The employers of the large firms in the shoe industry search for inexperienced workers in the concerned job because they think that the inexperienced workers can adapt the production organization of the firm more easily since they learn it from them. In that sense, the employers also prevent the firm from any resistance because these new workers would work the way of they want. This issue is also mentioned in the work of Yücesan-Özdemir (2000) in the same manner: the firms do not prefer to employ experienced workers. If their experience comes from their tenure in the informal sector, to be employed in the formal sector would become more difficult. This is because of the fact that the informal sector is generally used synonymous with independent, inefficient, less qualified workers. Thus, it seems difficult (if it is possible) to become an employee.

What all these evidences confirm that the informalization process can be studied through labor market segmentation theory. The important point is that segmentation and informality feed and deepen each other. That's why both never disappear. These are the concepts that should be thought as endogenous rather than exogenous to the labor market because the labor market mechanism produces them. That's why we encounter with divergent development rather than the convergent one, as Reich et al.

(1973) state. Even the firms' search for flexible use of labor strengthens this process. Therefore, it seems to us that the source of the growth in informalization should also be searched at the demand side rather than only in supply. Since the labor market segmentation theory shifts the emphasis away from the supply side of the labor market and places the focus on the demand side, it sounds more reasonable to study the informalization process via this theory. In such an approach, one can add economic, historical, institutional, social and cultural dynamics of the country to the story.

CHAPTER 6

CONCLUSION

In the early literature on the informal sector, the concept is defined in contrast to the formal sector. Hence, defining one of these sectors is enough for characterizing the other one. Such an understanding implies strict lines between these sectors. Undertaking the sectors separately make us not realize the (backward and forward) linkages between them. The backward linkages indicate the flow of raw materials, equipment, finance and consumer goods from the formal to the informal sector. Whereas the forward linkages include the flow of goods and services from informal sector enterprises to the formal sector as inputs into the latter's production process. The supply of consumer goods from informal sector enterprises to the formal sector and the subcontracting arrangements between the sectors constitute the two types of forward linkages (Arimah, 2001). Not only is the existence of these linkages but also the nature of them important in analyzing the position of the informal sector in the labor market.

Along the present study we are mainly interested in the features of the subcontracting relationships since this type of linkage provides a more employee-based approach to the informal sector concept. Based on the existing field surveys on the nature of subcontracting relations in Turkey, we are faced with its' exploitative character even in the enterprise level. And these subcontracting relationships especially began to expand through the channel of trade liberalization. In order to gain an advantage in international competitiveness firms try to find out some strategies for reducing their production costs. The easiest way is reducing the labor cost via employing informal labor in the production process. This strategy overlaps the practice of "functional" and "numerical flexibility" and results in the restructuring of the workplace.

The restructuring of the workplace ends with two types of workers employed within the same firm. On the one side there are formal (core, regular, permanent) workers bound with standard work arrangements, on the other side there are informal (periphery, irregular, temporary) workers bound with nonstandard work arrangements. These workers are not only differentiated from each other along their job stability. There also exist differences in job ladders, working conditions, legal protection and control mechanism which are the main points labor market segmentation theory focus on.

The two hypotheses of the labor market segmentation theory are the existence of wage differentials between the segments and the limits behind labor mobility between the sectors. These hypotheses are materialized in the Turkish practice of subcontracting relations. More explicitly, we are faced with the following statements after having reviewed the existing literature in Turkey on subcontracting relations:

- There exist wage differentials between the informal and formal workers.
- There are job ladders among the sectors. In relation to this issue, there exist barriers in front of labor mobility between the segments. However, the labor mobility is easier within the segments.
- The working conditions change from one segment to the other. The informal workers are obliged to work longer hours and do heavier jobs than the formal ones.
- The pressure of the control system binds mostly temporary workers.

All these result in occupational hierarchy within the same firm.

At last, it can be said that the evidences from Turkey confirm a possible explanation of informalization via labor market segmentation theory. However, as mentioned before, the collaboration between sociologists and economists is needed in order to understand the nature and consequences of workplace structuring for labor market segmentation (Kalleberg, 2003) and informality.

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