The Turkish welfare regime under pressure: resilience or change?

(Preliminary version)

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Abstract

The state, the family and the market are the main pillars of welfare regimes that have different configurations from one country to another. In Turkey, the state and its formal institutions of social security are as important as informal mechanisms deployed by family relationships and political patronage in the production of welfare. However, these mechanisms are under increasing pressure today. The family seems unable to extend protection beyond the nuclear household. In addition to that, support to rural employment and urban housing, deployed through clientele networks, decline.

This article focuses in wage insurance as a way of accessing the social protection system. This formal channel is also challenged by the characteristics of the labour market. We argue that the structure of employment is increasingly incompatible with the existing welfare system framework, which is mainly centred on formal workers insurance. In this context, will the current pensions and health reforms lead to a better articulation between employment forms and the social protection system?

The first part of the article analyzes the evolution of the labour market since the 1990s. The growth of labour force overruns employment creation, thus increasing urban unemployment (12.6% in 2006 against 9.3% in 1990). Informal employment concerns more than one third of non-agricultural employment. In addition, productive transformations modify the sectoral distribution of employment. While jobs in agriculture were destroyed, a large amount of labour is absorbed into services and, to a lesser, extent into industrial sectors. These adjustments take place in the context of structural changes in the regulation of labour relations and of the economic model. The flexibility introduced by the labour reforms to achieve more efficient markets is completed at the expense of workers protection. On the other hand, economic liberalization also affects employment creation and wage level.

The second part of the article examines social protection reforms. Parametric adjustments in the case of pensions (retirement age, period of contribution and replacement rates) have sought to improve the financial viability of the system. In the case of health, measures have been adopted to ensure universal access to care and services. We argue that other forms of insurance and/or assistance might be necessary to increase the scope and depth of coverage.
INTRODUCTION

During the 1990s and 2000s, the Turkish social protection regime has experienced many changes and has been subject to different kinds of pressures. This article analyses how the Turkish regime has evolved and what could be its possible transformation in the near future, given structural changes of the economy and especially given the labour market characteristics and recent evolution. This question is important from the standpoint of the need to achieve universal coverage against social risks.

A first step will be to present how the system is organized and what changes have been introduced in the recent years. For this purpose, we will refer to the comparative literature on social policy that highlights the particularities of a country or a group of countries in the organisation and delivery of welfare, by the joint action of the state, the market and the family. According to Esping-Andersen (1999), the latter corresponds to an “inter-causal triad” that enables the identification of welfare regimes. These are defined as a “repeated systematic arrangements through which people seek livelihood security both for their one lives and for those of their children and descendants”\(^1\). Welfare regimes have three main components: the welfare mix, with different levels of state, market and family intervention; this mix leads to welfare outcome, measured by the achieved individual independence from both the market and the family; the final component, stratification, is a result from the latter as welfare states create a particular order of classes and status within society. The three components are thus interrelated, creating path-dependent evolution of regimes (Powell and Barrientos 2004, Barrientos 2009). Research on this subject expanded through the 1990s after the seminal work of Esping-Andersen (1990, 1999), to the point that Abrahamson (1999) refers to the development of a welfare modelling business. In developed countries, the consolidation of welfare regimes is based on the legitimacy of the state, pervasive labour market and wide financial markets. The study of welfare has also gained interest in developing countries, where these characteristics are not always found. The advantage of the welfare modelling literature to study this context is that it is not limited state intervention, but on the combined role of households and public and private spheres (Gough 2004).

Given its corporatist and fragmented structure added to the central role played the family, the Turkish welfare regime is often associated to the Southern European welfare regime. But these characteristics are also specific to developing countries. The first section will allow classifying Turkey in the realm of welfare regimes typologies, taking into account the recent reforms introduced in the social protection system. The latter seems ill-adapted to the dominant employment forms, a setting which is common in economies with large shares of informal employment. Consequently, we figure if the reforms adopted through the 2000s enable a better articulation with the labour market, leading to a larger number of contributors and beneficiaries. Today, the slack in contributions translate in high dependency ratios within the system, creating financial deficits. We argue that the reforms do not seem to alter this trend. Thus, the labour market will continue to play an important role in the possibilities of affiliation to the system, a situation that is confronted to the dominant employment forms.

This point is analysed in the second section, where we look at specific factors affecting employment creation, to understand its articulation with the social protection sphere. Three factors will be considered. Demographic pressures increase labour force growth, which outpaces available jobs in the economy. Secondly, the ongoing structural changes of the economy: on the one hand, workers are expelled from agriculture to industrial and service

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\(^1\) Gough (2004a), p. 5.
sectors that have limited absorption capacity. On the other hand, despite recent sustained growth, the economy seems in a weak position to stimulate employment. Finally, the labour market performance, in terms of quantity and especially in terms of employments’ quality, is influenced by the new labour laws adopted in the early 2000s. While some measures aim at securing workers careers, others introduce higher flexibility inside and outside the firm. As employment creation is gloomy and precarious employment grows, the number of workers able to contribute to social security fades. In this sense, the central question of this article is to inspect whether the Turkish welfare regime will maintain its existing structure and functioning or whether it will find ways to adapt, given the costs and constraints at play.

The third section explores the possible evolution that could be envisaged, given currents trends. Three main issues are analysed. The first one is the effects that increased labour market flexibility and reduction of social contributions could have in terms of affiliation rate. According to international organisations, these recommendations should enhance formal employment creation and diminish incentives to work informally. The validity of both arguments is analysed. Secondly, we explore the probable effects that could have a more active role of private insurance mechanisms. The role of the market in the social protection sphere is still marginal in Turkey, but private provision of welfare should develop in the coming years. The effects in terms of inequality, access and solidarity must be considered. A third element, to be examined is the inclusion of a non-contributive component into the system and, in that way, the shape that social assistance could take. The concern is about the implementation and feasibility of this component and whether assistance is going to be assimilated to charity or considered as a citizen right.

We intend to understand the current configuration of the Turkish welfare regime and its possible evolution, finding out which of these options will prevail. A combined solution must not be rejected, as one option does not exclude the other. This will depend on political choice and socio-economic evolution that will determine the shape of the welfare mix.

I. The Turkish welfare regime

1. The Social protection system

In this section we will characterise the Turkish welfare mix, starting by the analysis of the social protection system, understood as the formal institutions established by the state in order to protect individuals against risks related to sickness, invalidity, old age, unemployment, etc. We will also mention the role played by households in producing welfare for its members. Market provision of welfare will be analysed in the third section.

Table 1 shows the principal characteristics of the insurance component of the system. Before the 2006 reform, three funds coexisted for different types of workers. The degrees of insurance varied from a fund to another, as well as the level of contribution. Public employees benefited from the highest degree of protection given that they contribute the less to the system. According to official statistics, the total population covered by the system amounts to 82%.

Funds for public servants (Emekli Sandigi) and for private employees (Social security institutions –SSK-) were created after the Second World War and their scope was progressively expanded: first to workers of smaller firms (less than 10 employees) in 1964;
latter, in 1977, to contractual workers in agriculture and housework. Through the creation of a third fund in 1971, Başkur, artists and self-employed were also included in the system. In the case of pensions, each state-managed institution organised retirement funds for affiliated population through a pay-as-you-go system. The health system was also divided along the three mentioned institutions that financed health expenses of its affiliates. Provision was both private and public through facilities belonging to the Ministry of Health, Universities and the SSK fund. Unemployment protection was recently introduced to complete the insurance component. Is-Kur fund covers involuntary unemployed that have contributed at least 600 days during the three years that preceded the dismissal.

The assistance component has several institutions with different targets. The most important programme is the Green Card, whose total budget in 2008 was 4YTL billions and benefits more than 9 million people. This card was introduced in 1992 as a way of covering those deprived individuals without contribution capacity. There is also the Social Security Institution that assist invalid and disable persons, the General Directorate of Foundations and its decentralised network the Social Assistance and Solidarity Foundations (SYDGM), the Social Services and Child Care Institution the Ministry of Education and local Municipalities that deliver different type of aid. In total, more than 11 million people receive some type of aid in Turkey and the funds represented 0.94% of GDP in 2008. Starting from this institutional configuration and a using the existing typologies in developed and developing countries, the next section characterises the Turkish welfare regime.

2. Where can the welfare regime be classified?

2.1. Welfare regime studies

Influenced by previous classification like, for instance, Titmuss’ (1974), Esping-Andersen’s studies (1990, 1999) continue to be a main reference in the comparative studies of welfare regime. His work, considered as a “major classic”, brings to the foreground the existence of

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2 Expenses of active civil servants were not paid by Emekli Sandigi but directly by the Ministry of Finance.

3 Source: SPO (2007). Beneficiaries at the local level or aid from private institutions are not included.
different welfare regime in western countries. His objective is precisely to explain how and why welfare is organized differently from one country to another. As he points it: “the existence of policy regimes reflects the circumstance that short term policies, reforms, debates and decision-making take place within frameworks of historical institutionalisation that differ qualitatively between countries”. His “World of welfare capitalism” is composed by three ideal-types: Liberal regime, where there is a limited coverage of risks and a pervasive role of the market; a Social Democratic regime characterised by universal and comprehensive social policy; and a Conservative regime marked by corporatism and familialism, where occupation status and the family are central. Regimes vary along two dimensions: the degree of both, decommodification and stratification. In the Liberal regime, decommodification is minimized as market provision of welfare is central and stratification results from different purchasing power capacity. Decommodification is maximal in Socio-democratic regimes and, as such, stratification is minimal as the system relies on citizenship and a rights-based approach. In the Conservative regime, decommodification is linked to employment status that also determines the level of stratification.

This typology received many criticisms in different grounds. Initially, it did not consider adequately the role of family and especially of women in the production of welfare. It was built only based on a few social risks (pensions, sickness and unemployment benefits), giving too much emphasis on social transfers without considering social services. Many countries did not fit any of the three proposed regimes and later on other regimes could be identified. This is the case of the Southern European or Latin Rim welfare regime and others in developing countries that we will present later. The methodology, consisting on calculating stratification and decommodification index for classifying countries, was also criticised due to the lack of robustness (Bambra 2007, Kautto 2002, Arts and Gelissen 2002, Scruggs and Allan 2006, Powell and Barrientos 2008).

To identify the Turkish welfare regime, we need to give special attention to the extension of welfare modelling to other regions. We will refer next to the specificities of Southern European countries that constitute a regime in itself and to other typologies found in developing countries.

It has been a matter of debate whether countries like Greece, Spain, Portugal and even Italy constitute a regime by their own. Many authors argued that it is possible to refer to a Mediterranean, Latin rim or Southern European regime or at least to a sub-category of the continental model (Leibfried 1992, Ferrara 1996, Bonoli 997). Ferrara (1996) considers four distinctive elements. First, the social protection system is built around occupational status and is highly fragmented given the coexistence of several regimes with different degrees of protection. In fact, the generous protection given to core workers contrasts with the low benefits received by the rest. As a consequence and as a second characteristic, family is central as welfare producing unit. In this sense, it is important that one household member have access to social protection so that relatives can benefit from it. Thirdly, these countries have managed establish a universal health system, which moves them away from a corporatist tradition. Access to the system is provided in a standard way and based on citizens’ rights through national health services. However private sector intervention is important to the

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5 The first one is associated to Anglo-Saxons countries, the second one to Nordic countries and the last one to continental countries of Europe.
6 On his reply to critics, Esping-Andersen (1999) casts doubt about the validity of a fourth model given that there is no major deviance from the conservative model regarding the role played by the family. He compares for each sub-group of countries the correlation of welfare state defamilialism and household familialism with women’s employment rate and does not find major differences.
detriment of public actors. Fourthly, this regime is permeated by particular interests, clientelism and patronage. Finally, it is possible to add the low intervention in the area of social assistance, as a fifth characteristic. Out of indicators of the degree of generosity, exclusion and the extent of assistance programmes, Gough (2001) identifies different cluster of countries where the Southern European ones have the lowest score and are referred as having a “rudimentary assistance”.

Some of the characteristics of welfare regimes in developing countries can also be useful to characterise the Turkish regime. Given the low penetration of the state and the large informal sector in this context, it seems preferable to refer to welfare regimes instead of welfare state regimes. The state is not a central component and rather appears as one constitutive element of the welfare mix, together with the market, the family and other informal and formal institutions and mechanisms. Informal-security regime is one of the different types found in developing countries studied by Gough et alii. (2004). In the latter the family and the community are important in the provision of welfare and only protected employees manage to have some social protection guarantees. The remaining labour is subjected to patronage and clientele relations. Barrientos (2004) considers that in Latin-America prevails an informal-conservative regime, where households are also central in the welfare mix. Some workers benefit from “occupationally stratified social insurance funds” and from large and generous employment protection legislation, besides, services like education and health are declared to be universal. The parallel with conservative regimes lies in the role of occupational status, employment is highly protected and there are extended rights to the family. The informal appellative comes from the limited access to formal welfare institutions given the formal/informal divide in the labour market. The patterns described are thus quite similar to those found in Southern European regimes. We will see next if how Turkey suits these typologies.

2.2. The Turkish case

Occupational status is determinant for accessing the social protection system: employment is a central mechanism in the Turkish welfare regime. If we consider the number of regimes before the 2006 reform, we can say that Turkey has a “middle level” of fragmentation, with separate funds for private and public employees and for other categories. However, fragmentation comes from a broader divide arising from the real possibility of contributing to the system given the large size of the informal sector. From this setting emerge differences in the degree of protection, as formal workers benefit from large guarantees compared to the rest. This hyper-garantismo is visible in the pension replacement rates. Compared to OECD countries, Turkey occupies by far the first place, with rates superior to 100% (Figure 1). Differences also exist in the health sector: Emekli Sandigi members had an extensive coverage

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7 « Welfare regime is a more generic term, referring to the entire set of institutional arrangements, policies and practices affecting welfare outcomes and stratification effects in diverse social and cultural contexts ». Gough (2004), p. 26.
8 There are also welfare state regimes and informal-insecurity regimes where there is no stable pattern of welfare producing mechanisms given the degree of instability that prevails (Gough 2004).
9 As informal-conservative regime is a very general category that is supposed to include very different developing countries, one must expect to find sub-categories. For instance, using cluster analysis Martinez-Franzoni (2008) finds in Latin-America three different regimes: a state welfare regime, state-stratified regime and an informal-familialist regime.
10 In Spain, miners, fisherman and agriculture workers have their own regime. In Turkey they are assigned to the private employees fund or to the self-employed fund. In Portugal there is a single distinction between private and public sector. In Italy and Greece fragmentation is high, as many funds coexist (Ferrara 1996).
and could choose among both private and public facilities. SSK members could only attend the institutions’ hospitals and Bağkur’s affiliates required 90 days of previous affiliation.

The other side of the coin is that while some people benefit from large protection, the rest of the population is given little security by formal welfare institutions. According to the SPO (2007), total social expenditure in Turkey for 2007 reached 14.4% of GDP, health represented 4% and pensions 6.6%. These expenses, attached to insurance mechanisms, represent more than 2/3 of total expenditures, while social aids and direct income support payments add up to only 0.7%\(^{11}\). Social assistance expenditures are thus very limited and, compared to OECD countries, Turkey appears lagged behind, even against countries like Korea and Mexico (Figure 2)\(^{12}\).

Despite the corporatist character of the system, there has been an aspiration to universalise the health system. The Green card was introduced as an intermediary step on this direction; more recently the General Health Insurance Law was enacted with the purpose of extending coverage to the whole population. However, universality remains a major challenge and needs to be qualified in terms of the extent and the quality of coverage.

In addition to formal welfare institutions, other type of actors and arrangements intervene, shaping the welfare mix. On the one hand, family is called to play an important role, to the point that some argue that “instead of the welfare state model, a welfare model based on family characterizes the Turkish case”\(^{13}\). The principle of subsidiarity applies in the Turkish case in the sense that the state recognizes and delegates individuals’ protection to the family. For instance, eligibility for the non-contributory pension benefits depends on whether the potential beneficiary has a son or a daughter that is in a position to provide income support.

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\(^{11}\) Education expenditures represent 3%. Green card expenses are included in the health component.

\(^{12}\) For a detailed analysis based on ESSPROS from Eurostat, SOCX from OECD and ILO statistics, see Buğra and Adar (2007).

\(^{13}\) Erman (2003), p. 42.
Families are thus affiliated in an extensive and indirect manner as they receive health benefits and survivor pensions through the head of household affiliation. The role of the male bread-winner is thus central, but women also accomplish important tasks within household. They contribute to welfare protection of its members, an activity that cannot be reconciled with employment. Not only part-time jobs are not available, but also there are not many care facilities available so old-age and child dependents become women’s responsibility (ERF 2005). Thereof, Turkey has one of the lowest females’ participation and employment rates, as we will see later.15

Other “informal networks of reciprocity” exist and include relatives, neighbours, ethnic or religious communities (GCV 2003). The state has also fostered these informal arrangements, through its policy towards agricultural sector and urban housing. Firstly, farmers benefited from generous tax exemptions and from bottom prices. Grants and subsidies assured electoral support and acted as substitutes of policies against unemployment and poverty. Secondly, the development of urban informal settlements (gecekondu) could not take place without the permissiveness of public authorities. They not only allowed the use of public domain so that migrants could build their houses, but also proceeded to the legalisation of this settlements and the provision of public services (Buğra 2003).

Arin (2002) considers that the Turkish welfare regime “was established according to the principles of a liberal social insurance model”16. He argues that the regime is minimalist as benefits are low and assistance is directed to the most needed. It is true that there is a “narrow identification of social risks” as mentioned by Barrientos (2004). However, in Liberal regimes the state is supposed to intervene only when markets fail to provide welfare. In developing countries, it is the “failure” of the state in itself that explains the minimal recognition of

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14 This condition is legally established by the Law 2022 of 1977. More than 1 million people benefit from this allowance that is inferior to the absolute poverty level.
15 In Southern European countries, where the family also plays a prominent role in the welfare regime, Moreno (2006) refers to the emergence of a super-woman, as female activity grows without a decrease in their responsibilities within households.
rights. The development of private insurance mechanisms in Turkey will be one of the possible evolutions that we will explore in the last section of this article.

In opposition with Arin, we think that the Turkish regime is closer to a conservative typology, given its corporatist and familialistic character. From what we just said, it is close to the Southern European model but also to the Informal-conservative regime found in Latin America. In the first case, Grütjen (2008) finds as main differences with the Southern regime the marginal role of the market, of civil society and of regional authorities together with the absence of universal health coverage. Buğra and Keyder (2006) also find the comparison accurate. Buğra and Adar (2008) refer to a country “without mature welfare state”, with large informal sector, central role of the family without formal definitions of rights and duties. Finally Gough (2001) includes Turkey in the rudimentary assistance regime.

The same characteristics allow classifying Turkey as an Informal-security regime or more precisely as an Informal-conservative regime. For Ferrara (1996) in the southern European model “welfare rights are not embedded in an open, universalistic, political culture and a solid, Weberian, state impartial in the administration of its own rules”17. This description also applies to regimes found in developing countries. However, as Gough (2004) mentions, in the latter case, the role of the state is minimal, not to say, inexistent. In spite of a recent increase, Turkey social spending is closer to a country like Mexico than to Southern European countries (Figure 3). Therefore, we consider the country as having an informal-conservative regime, whose evolution we would like to explore.

Even if the family and others informal arrangements described play an important role, occupational status is a central determinant of welfare provision in Turkey. Employment insurance is at the basis of the welfare regime. In practice, as this mechanism fails, showing the incompatibility of employment forms and the organisation of social protection, people look for alternative means of welfare provision. Before we turn to the analysis of recent labour market evolution in the second section, next we will concentrate in the social

protection reform. We will like to see if current transformations change the regime in place, enabling further coverage through wage insurance or by other means.

2.3. Reforms
We will briefly explain the motivation, the content and possible results from the recent reforms of the social protection system. The changes cannot be analysed separately from the evolution of the country’s macroeconomic stance. According to Boratav et alii (2000) the year 1989 marks a turning point of the economic model as the capital account is liberalized. In the early 1980, the country adopted and export-oriented model where foreign exchange and capital inflows were regulated. With the subsequent opening to global financial markets control over interest and exchange rates was lost. During the 1990s the country started a cycle of increased and short-term indebtedness that contributed to volatility, financial crisis and economic downturn experienced through the decade. Indeed, fiscal debt was modest until 1996, thereafter, fiscal deficit grew via the emission of public debt bonds, and as a consequence, the stock of the Government Debt Instruments grew from 6% to more than 50% of total GNP in the mid-2000s. In 2001, as a percentage of GNP, interest costs on domestic debt reached more than 20% and the total public sector debt more than 90%. Structural reforms and disinflation programs under IMF’s auspice implied the implementation of austerity programs for achieving public sector primary surpluses. This target required public spending rigour and cuts. As a result, public investment expenditure has diminished from 20%, in 1975, to 5% of total expenditure, in 2003. Under this scenario of fiscal consolidation, social security reform was promoted as government transfers to social security institutions were increasing. However, the assertion that the social security deficits are the main factor of macroeconomic stability needs to be qualified by comparing government transfers to interest payments as a percentage of total expenditure. The former have certainly increased from 3.6%, in 1988, to 11% in 2003, but the latter were close to 0% in the mid-1970s, and rose to 40% in 2003 (Pamukcu and Yeldan, 2005; Elveren 2007).

If the successive pension’s reforms aimed at changing the established rules and parameters, the health reform was more ambitious as it looked for universal coverage. The 2006 reform was a major transformation as the three existing funds were unified under a single roof: the Social Security Institution. For Adar (2007), this is an important step to end the fragmentation and the corporatist character of the previous system. Universality is also an important development that should enable the inclusion of informal workers.

The pension deficit is explained in particular by previous laws that established generous rules in favour of pensioners increasing expenses, but also by shortage of revenues linked to the labour market performance. Laws introduced in the mid-1980s and early 1990s, allowed people to gain access to pension before 40 years old. Indeed, in 1992 retirement age was set to 38 for women and 43 for men, 25 years of affiliation and 5000 days of contribution were needed and if they had registered while studying, before starting to work, they could qualify for a pension. Early retirees are a problem that still in place to this day. Young workers receive their pensions and have access to health system, without paying contribution and, additionally, they continue to work informally avoiding any type of tax. This is problematic especially when Turkey has long average periods of pension eligibility (OECD 2006, World Bank 2006).
As a solution, in 1999, a first reform was implemented that intended to increase revenues while reducing expenses. The new rules adopted included: an increase in retirement age from 58 to 60 (50 to 55) years for men (women); 2000 days of contributions period were added reaching 7000 days; the contribution base included from then on the totality of contribution years, instead of the last 10 years; replacement rate are diminished and decrease in time (53% for 7000 days of contribution, 61% for 8500 days and 72.5% for 10800 days of contribution).

In 2006, another reform was adopted with stricter rules: the reference salary is now indexed to inflation and wage evolution and not to GDP growth plus the inflation rate; 25 years of affiliation and contribution period is raised to 9000 days for all; the accrual rate is diminished and retirement age is set at 65 years for all (Karayel et Math 2007). The problems with these reforms are that long transition periods were allowed before their full implementation, retarding the expected effects on financial terms. For instance, the new retirement age will not be effective until 2043 for men, so young retirement will continue to exist. In the end there are different pension rules engendering intergenerational inequalities OECD (2006). The World Bank and the OECD call for accelerating the transition periods and for further reform, especially reducing incentives for workers retiring at early ages. As we will see in the last section, they call for reducing the level of contribution as a means for increasing affiliation and reducing informal employment.

The health system was also part of the major reform in 2006. However, since the early 1980, efforts have been made for implementing new rules and mechanisms for health care provision and management. The different attempts like the “Basic Law on Health services” in the mid-1980 or the consultation of the “National Health Congress” in the mid-1990 have been blocked by Constitutional Court decisions, political instability, or opposition from NGOs, labour unions and medical associations (Agartan 2005). The “Health Transformation program” (HTP), proposed by the AK party in 2003, finally paved the way for current changes. The major transformations that aim at guaranteeing universal access include the separation of regulation, provision and insurance functions. The Ministry of Health should be in charge of management, planning, control and surveillance and abandon its role as provider. The Social Security Institution is in charge of insurance and should affiliate all citizens, even those without contribution capacity through a non-contributive system. Provision is in the hand of hospitals and medical facilities that should gain financial autonomy and offer quality services. Other measures aimed at rationalizing care services use are being implemented like a family medicine and human resources training programs (OECD 2008a).

To what extent these reforms transform the Turkish welfare regime allowing higher insurance? As we saw, the pension system reforms are only parametric as they mainly change qualifying rules. Besides, the main motivations are openly recognized and aim at ensuring the system’s financial stability, reducing financial constraints imposed on public finance. In health, universal coverage is the main objective and supposes major transformations. According to the HTP, insurance should be delinked from wage income. This suggests a step from corporatist regimes, based on occupational status, towards a universalistic-type regime. However, there are doubts about the system’s capacity to cover persons with low contribution capacity, i.e. working poor and informal workers. Toksöz (2008) and the OECD (2008a) express serious doubts in this respect. Until the new mechanisms are not fully operational, we cannot refer to a transformation in the model of welfare production. Hence, employment is still determinant as a mechanism of social insurance and household still play an active role in

2002. 21% of the 45 years old cohort received a pension, 65% and 78% in the case of 55 years olds and 65 years olds respectively.
individuals’ protection. On the sense, this next section explores labour market performance to see the possibilities of securing livelihood through employment.

II. The Turkish labour market

1. Demographic pressures and structural change

The analysis of Turkish labour market needs to consider current demographic trends and the country’s structural transformations as they affect labour supply. Unlike developed countries where the demographic transition took place in a century, in half of that time Turkey had a reduction of morality rate combined with low fertility rate. However population growth still important compared to similar countries: Turkish average annual growth was 1.3% between 2002 and 2008, against 1% in Europe and central Asia and 1.7% in upper-middle-income countries. This opens a “demographic window” in the sense of the important size of the working age population. This window that should close around 2040 can be an asset for promoting growth, as child and old age dependency are lowered; but it can also be a challenge in terms of education and employment generation given the extent of productive population. East-Asian countries benefited from this window to increase their productive capacity (Ercan 2007).

Turkey is thus confronted to a challenge of employment generation with the arrival of young working population contingents. The absorption of the labour force that joins the labour market is not actually happening. Indeed there is a gap between employment growth and active population. While employed population has an average annual growth of 0.47% between 2000 and 2008, the labour force grew on average 1.08%. As a result a large fringe of workers does not find employment alternatives as a means of support. The lack of regular employment leads to increased poverty, child labour, poor public health, low productivity and other undesired effects (Auer and Popova 2003).

If unemployment rate was rather stable in the past few years, it is mainly due to the reduction of labour force participation rate that grew at a lower rate than working age population (1.08% and 2.26%, respectively between 2000 and 2008). This might be considered as a positive aspect, but it also contributes to lower wealth creation through the waste of human capital. Turkey has indeed participation rates well below OECD average (51% in 20008 against 73% in OECD countries in 2008). The rates vary according to gender, age, location, education level and civil status. In particular women have really low participation rates (73% in the case of men and only 27% for women). Factors behind this phenomenon are multiple and comprise rural migration, the incentives to early retirement, the increase of education coverage and the lack of part-time jobs and low-skill employment opportunities (World Bank 2006).

Economic structural transformation is linked to the latter factors but also contributes to lower participation rates and to increase pressure on the need of labour absorption. Indeed

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21 As mentioned by the World Bank (2006): “with a population that is still growing, Turkey will have to generate about 10 million jobs in six years to reach the current average employment rate in 2010 and will have to generate 14 millions jobs to reach the Lisbon target employment rate (70%)” (p. iii).

22 Participation rates are higher in rural areas and for men. For the latter, the rates are high (more that 80%) until 50 years, then they decrease (40% for 55-59 male in urban areas). For women they are higher in rural areas until 50 years old (50%), compared to urban rates (only 10%). Higher educated labour force also has higher participation rates. For instance, the rate of women with tertiary education is around 70% against 38% for those with less than secondary (ERF 2005).
agriculture is lowering its contribution to GDP and employment. This sector represented 48% of total employment in 1990 against 30% in 2006. The contribution to GDP diminished from 18% to 8%. In the same period services increased their contribution from 33% to 47% in employment and from 48% to 63% in terms of GDP. There is thus a transfer of labour from agriculture to services and to industry in a lesser extent. Migration from rural areas to the city increases labour supply, but many migrants, especially women, migrate from a rural employment to inactivity. The latter is generally associated to socio-cultural conditions, under which women are assigned to domestic task in the sexual division of labour. In the coming future, the pressure over the labour market should raise as women’s participation in the city increases and as more educated people will start looking for employment opportunities.

How this relates to the described welfare regime? Firstly, it is important having a member of the household in formal employment to obtain some kind of security. This especially true given the mentioned participation rates and the role assigned to women in the labour market. Secondly, the low level of employment put at stake the possibility of wage contribution, this is problematic given the centrality of occupational status. In the next section we will analyse how labour demand has been affected by the economic model; together with the referred supply side pressures this contributes to a gloomy labour market.

2. Economic model and employment generation

Employment constitutes a major challenge in Turkey. To see the broader picture and measure the size of the problem one needs to go beyond unemployment rates (Toksöz 2008). The number of unemployed was above 11% in the mid-1980 and around 7% in the late 1990. After the 2001 crisis it returned to previous levels and has decreased in the past few years. In 2009, it reached 13% and 16% in the case of non-agricultural unemployment. In 2008, this was the highest level together with Spain in OECD countries and more than twice of OECD average. If we add underemployment rate we found that underutilized labour raises from 11% to 17% in 2008.

The adoption of an export-oriented model was supposed to encourage investment and thus generate employment. However, Turkish economy in the 1990 was marked by high volatility and erratic growth. If unemployment did not reach higher level it was probably due to self-employment and decreasing labour participation rates. For the World Bank (2006) a direct link cannot be established between volatility and employment performance, though. The evidence of the effects on employment is not conclusive and there is no indication that major laid offs took place during crisis. Nonetheless, the economic model had certainly an impact on the labour market that we can see on the level of employment creation.

Employment performance has been gloomy in the past years. The number of people employed was superior to 22 millions and in 1999, it decrease in the following years and only

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23 Female unemployment was 13.5% against 12.9% for men in 2009 (20.8% and 14.9 % respectively in the case of non-agricultural unemployment).

24 This figure results from adding up unemployment and underemployment rates. The latter aggregates persons “who are involuntarily working less than the normal duration of work determined for the activity, who are seeking or available for additional work” (OECD glossary). According to Toksöz (2008) it is necessary to add persons “who did not seek jobs while being ready to work”. In 2006, in the case of female this amounts for more than 1 million and less than 1 million in the case of males. The “excess labour force” corresponds respectively to 24.5% and to 17.6%. Here involuntary informal employment is not being considered.

25 Since 2003, Turkey economy regained stability and had an impressive economic recovery. The 2001 crisis served as trigger for improved governance and indispensable reforms (Ülgen 2005).

26 This performance is despite the reduction of labour force participation rates.
after 2005 it returned to previous levels. Despite the recent increase this has not been enough to absorb the labour force, as we will see later. The gap is clear between economic growth and employment rates. For the 1991-1999 period, the annual average growth rate of GDP was 3.6% against 1.6% of employment; for the 1999-2008 period, the difference was even higher, 5.6% against 0.47% respectively. It is possible then to refer to a jobless growth. Factors behind the weak employment generation are various and direct causalities are difficult to establish. Investment performance seems to have been insufficient to promote employment; exports and production growth rely on installed capacity and not on additional capital formation (ERF 2005). The latter was affected by the high economic volatility, but in particular high interest rates lead to the eviction of productive investment in favour of financial investment (Boratav and Yeldan 2000). Auer and Popova (2003) mention the size of agriculture and the low productivity found in this sector as factors affecting employment. Low human capital should also be considered, as it makes more difficult the transition from agriculture to industry and services. For Ercan (2007) jobless growth might be explained by the fact that the recent increase in productivity (61% in average between 1997 and 2006), does not translate in employment generation as there is an intensification of employment through longer working hours.

In 2003, the economy benefited from very high investment rates that led to very high employment rate. More that 2 million jobs were created between 2003 and 2006 (Gursel 2007). This impressive growth was not enough to solve employment deficit, though. An alternative explanation to this insufficient performance is the institutional framework of the labour market, that is, the effects of employment protection levels, labour costs and social protection contributions. This hypothesis will be analysed in the last section where we will consider if a flexible labour market is the condition for increased social security affiliation.

3. Low employment quality and labour reform
According to Tokman and Martinez (1999) labour reforms in the 1990 in Latin American countries adopted two strategies: on the one hand, reduction of labour costs through wage moderation and lower non-wage costs, on the other hand, introduction of more flexible employment arrangements through short-term contracts, outsourcing practices and less restrictions and cost of lay-offs. This same strategy has been implemented in Turkey.

Recently, two laws were enacted giving firms greater flexibility for hiring and firing. The employment protection Law (n°4773 of 2002) grants some protection to workers against unjustified dismissals (unionized workers are protected, a notice is required if more than 10 workers are dismissed at once, workers representative must be elected in the absence of a trade unions)\(^{27}\). However, the scope of this Law is restricted as it only applies to workers with over 6 months of seniority, provided they work in a firm with more than 10 employees. On the other hand, the Law 4857 of 2003 rewrites the labour Code adopted more than 20 years before (Law 1475 of 1971). It establishes that short-term contracts are now possible only if there is a founded reason given by the employer. Transfers of workers from one firm to another is authorised creating “temporary labour relations” up to six 6 months, renewable twice. Employee must agree this transfer and work must take place either in a subsidiary unit or in another firm, provided that the same type of job is accomplished. Besides, outsourcing and part-time job is authorised. The new Law restrains the scope of the previous one in regard to dismissals, as only employees working in firms of more than 30 persons are concerned. In

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\(^{27}\) This Law was only effective in 2003 “due to strong opposition from employers that considered it was an “electoral concession to workers”. Ataman (2008), p. 3.
fact, this leads to exclude more than 50% of salaried workers of small and medium enterprises\(^\text{28}\). Besides, dismissals’ restriction are lowered in the sense that firms can justify the lay offs according to their needs (reasons qualified as “business requirements”). Finally, the trial period is raised from 2 to 4 month, giving more time to employers to unjustified dismissals.

As for labour costs, different measures are taken that lead to lowering workers’ remuneration. The authorisation of working-days up to 11 hours (limited to 2 months as a maximum and respecting the working week of 45 hours) implies paying at the same rate overtime that should be considered as additional and therefore paid at a higher rate. In the same way, employees are obliged to compensate work not done due to the stop of productive activity or for taking leave in periods different to national holidays. Another article introduces the “work on call” which is an employment modality that allows the use of labour force only when needed. Under this form, unless it is previously agreed, the working week lasts 20 hours maximum and 4 hours as a minimum. Workers are paid according to the hours agreed.

The measures adopted allow for increased internal and external flexibilit\(^\text{y}\) to the firm. Besides, they contribute to enhance precarious employment. As we will see in the next part, there is a diminution of contributive affiliation to the social protection. As for wages, they have always been flexible, either for allowing export surplus or as a mechanism of post-crisis adjustment (ERF 2005, Boratav et alli 2000). In spite of reforms, we will see that the Turkish labour legislation is still considered as being one of the most rigid and protective of workers “within firms”.

There are both supply and demand side pressures leading to weak employment creation and the institutional framework contributes to create atypical and unstable employment forms. How this panorama affects the social protection system?

4. Effects on social security
A sluggish labour market, unable to generate enough formal employment opportunities, translates in restricted opportunities to contribute to social security. As shown in figure 4, after an important decrease until the early-1990, the number of persons non-affiliated to any social security institution experienced a continuous growth. A peak was reached in 2000 and since then a slight reduction took place. In 2006, this corresponded to more than 10 million persons, that is, 46% of the total employed population. With the recent increase of unemployment this figure should raise. In the case of non-agricultural employment the same trend is observed (2.6 million workers in 1988, 5.3 million in 2006). The category that contributes the most to the number of unregistered workers is regular employees: from 1988 to 2006, its contributions more than doubles (from 940000 to 2.4 million) which is higher than the other categories. Between those years, for all categories there has been an increased of non-registration: from 16 to 21 as a percentage of total regular employees, from 67% to 87% for casual workers and from 40% to 51% for own-account workers. The size of informality, defined in terms of contribution to social security, concerns 2/5 of total employment. Thus, there is an inadequate articulation between employment forms and social insurance, contrary to developed countries where formal employment is the rule. As a consequence, the functioning of welfare regime based, in theory, on occupation status is at stake.

\(^{28}\) Öngün (2005) points at the paradox linked to the adoption of these two laws that adapt Turkish legislation to international convention, but at the same allow a restricted application. The employment protection Law permits the application of ILO’s 158 convention previously ratified. However it is restrict to firms of a certain size.
The consequences of this reality are two fold. Firstly, there are low dependency ratios in each of social security funds. For the system as a whole, in the early 1980, the active-passive insured ratio, that is the number of persons actively contributing to the system (active insured, voluntary active insured and active insured in agriculture) reported to the number of pensioners (retired people or receiving an invalidity or survivor pension), was relatively high: more than 3.5 active contributor per each pensioner. At that time the number of pensions recipients was not very high compared to the number of people contributing. Since then this ratio has deteriorated progressively. This is due not only to the fact that there are more and more pensioners but also less people contributing. While the latter has increased at an annual average rate of 6.6%, the former has increased at a higher rate of 9.9% between 1990 and 2008. The dependency ratio that represents the relation between the number of beneficiaries (pensioners and dependants) and the number of active contributors remained constant until the early 2000, (around 3.7). After 2001, the ratio diminished considerably and today there are 2.5 beneficiaries for each contributor, due mainly to the reduction of the latter. As long as this figure continues to deteriorate, the mentioned ratios will not recover. The absence and restrictions to a mutual insurance system based on wage income is then at stake and requires alternative forms of funding, which leads us to the second consequence. The relative decline of the number of contributors affects the financial accounts of the system. The difference between revenues and expenditures is negative and if wage insurance continues to be a central insurance mechanism, these deficits will tend to endure. Therefore, the alternative way of funding found are the financial transfers from government budget mentioned before. These deficits started in the early 1990 and in 2007 they accounted for 3% of GDP.

To sum up, first we do not observe until today any significant change in the social protection system that could modify insurance access or the welfare provision in the system. On the other hand, there is a weak employment generation and increasing job insecurity. The labour reform leads to the emergence of particular employment forms that affect in particular the core segment of formal employment, that is, those in better position to actively contribute to

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29 This remark does not mean that wage insurance is inadequate per se, it rather points at the shortage of formal employment opportunities that could increase the number of contributors and, hence, equilibrate the financial balance of the system.
the system. To this trend, we most add the fact that other components of the Turkish regime, the informal mechanisms mentioned before, are also fading away. Indeed family is losing the capacity to play the central role assigned within the welfare system. The reduction of family’s size is one the factor behind this change. Nuclear families are in a more difficult position to help their relatives. Secondly, agriculture is losing its former primary position in the productive structure, which is more and more oriented to services and manufactures. Besides, there has been a process of modernisation and a rationalisation of public aids given to this sector. As a consequence there are fewer resources available to grant subsidies and other type of assistance to the population living in rural areas. Finally, the process of urbanization is more and more controlled and organized, today the expansion of cities leaves less land available for migrants than before (Buğra and Keyder 2003, 2006). It is thus certain that the Turkish welfare regime is under stress, experiencing a combination of different kind of pressures and transformations. It is necessary to elucidate whether the welfare regime will continue to function the way we know it today, with the constraints underway and the attached costs, or if it will change and in which way. Will there be resilience or adaptation of the system? We explore next three questions that in our sense could take place given current forces at play.

III. Welfare regime: where to?

1. Towards more labour market flexibility?

One of the possible evolutions of the system that needs to be analysed is the adoption of flexible labour market legislation and the reduction of labour costs. Here we will present the arguments behind this line of reasoning, the effects and implications attached to it, followed by critics and contra-arguments to these recommendations. Basically, from this point of view the labour market is not flexible enough due to strict employment protection legislation and to high labour costs. Employers not only pay high wages and contributions but also find it difficult to lay-off employees.

On the one hand, Turkey is supposed to have one of the most rigid employment protection legislation, even after the 2003 reform (World Bank 2006). To prove this, two sets of index are used. One, calculated by the OECD (2004), through different indicators, related to individual and collective dismissals, fixed term contracts and temporary employment forms. The other, calculated by Heckman and Pages (2004), consists on estimating the total cost of an employment relation that respects the legislation in place, considering the date of recruitment and the possible dismissal. According to both index, Turkey is at the top of legislation strictness. While the latter has an overall index of 3.5 (the highest together with Portugal), it is only 0.7 in the case of the USA. This result is mainly explained by the restriction related to temporary employment. According to Heckman and Pages’ method Turkey is close to Latin-American countries where there are larger restrictions. As a consequence employment creation is discouraged, explaining the bad performance in this respect.

Firstly, in relation to labour costs, it is claimed that wages are too high. According to the World Bank (2000), there is in Turkey a surplus of workers in informal activities in construction and trade due to the high setting of wages in formal activities in industry and the public sector. This is explained by the influence of wage setting level of the public sector to the private sector, the bargaining power of employers that manage to raise wages for their own, affecting employment, and the impact of labour market legislation. Besides, minimum wages are supposed to be excessively high in absolute terms: in 2006 it was twice the level of Poland and Slovakia, three and ten times the level in Bulgaria and Romania respectively. Compared to the formal average wage, Turkey has also one of the highest ratios among
OECD countries (38% in Turkey against 30% in Spain and 29% in Romania). Secondly, social contributions are supposed to be excessively high, increasing also labour costs. Therefore, the high amount paid by employers and employees to finance fringe benefits explains the emergence of a dual labour market with large informal employment. It is argued that the higher the gap between workers’ effective employment costs and their net income, the higher the informal employment will be. This gap is known as the “tax wedge” and it is defined as “income taxes and combined employer-employee social insurance contributions as a percentage of total labour compensation (wages plus employer contributions)”\textsuperscript{30}. Turkey is supposed to have one of the largest tax wedges among Europeans and OECD countries: 43% for a single worker earning the average wage against 35% in OECD\textsuperscript{31}. As individuals receive in the end less than their gross income they are encouraged to work informally (OECD 2006, 2008b; World Bank 2006).

The high level of the tax wedge is mainly explained by the size of social contributions. As a consequence the policy recommendation is the reduction of payroll taxes. Similarly, employment protection should be lessened. A reduction of informal employment should follow together with the increase of formal employment. For the OECD (2006), the fiscal cost of this type of measure should be compensated by the increase an increase in affiliation, as individuals will find more incentives to contribute to the social protection system.

These arguments need to be qualified, starting by the factors behind the emergence of informality. If labour costs might lead to informal employment, this is not the unique cause. Even if the cost of employing labour is reduced, other things make informality an attractive universe. It is the case, for instance, of avoiding other type of legislation and controls on issues related to environment, working conditions, etc. Reducing labour costs will not be enough for firms to go formal. Furthermore, if theoretically, from a microeconomic perspective, lower labour costs and less strict legislation should increase employment and reduce informality, the empirical validity of those relations is far from being proved. In this respect, the World Bank (2006) indicates that cross-country studies on the effects of employment protection legislation on employment and unemployment are modest and statistically insignificant in the latter case. The impact is only observable in the dynamic evolution of the labour market: turnover, seniority, unemployment duration, employment creation and destruction. This has been the case in Latin-American countries where, before the introduction of flexible legislation, there was neither major dismissals during economic crises, nor major recruitments during expansion. After that, employment was more sensible to economic evolution\textsuperscript{32}. As for employment level, results are ambiguous, showing positive effects in some cases and negatives in others (BID 2003). The negative effects of costly employment protection regulation are more conclusive in the case of self-employment than on informal employment (Kucera and Roncolato 2008)\textsuperscript{33}. In opposition to what it is deduced from the insider-outsider theory, Galli and Kucera (2004) find that in countries where “civic rights” are enforced and respected the share of formal employment is larger\textsuperscript{34}.

\textsuperscript{31} For a person earning 167% of average income the wedge was around 44%. This amount went down to 40% in Turkey after the introduction of a personal income tax allowance in 2008 that reduced the tax wedge. One particularity of Turkey is that the tax is not adjusted with the increase of family size. This is generally done as an instrument of income distribution and solidarity (OECD 2008).
\textsuperscript{32} Zerda (2003) analyses the Colombian case before and after the 1990 reform.
\textsuperscript{33} For Kurcera and Roncolato (2008), in opposition to the conventional wisdom: “most of the studies essentially show no relationship. In short, the empirical evidence does not support the view that weakening labour regulations is an effective policy for reducing informal employment” (p. 341).
\textsuperscript{34} “Civic rights” correspond to workers associations and trade unionism rights.
The same uncertainty prevails in the case of the effects labour costs on employment and unemployment. Again, for Latin-American countries there is a positive correlation between social contribution level and unemployment rate, however it is statistically insignificant. Based on Latin-American countries data, a study shows that a 10% increase of social contribution diminishes employment by 1.7 points (BID 2003). In the case of informality Cardenas and Marquez (2005) find a positive but very slight effect of labour costs. The impact must be measured in relation to who pays in the end for an increase of direct and/or indirect labour costs. If workers must assume the total raise, in terms of lower wages, the effect is lower than if employer were to assume the burden. Therefore, how social contributions affect employment depends on the way social protection is financed. Euzéby (1995) compares the European countries and find that, for instance, in France and in Spain, social contributions are high but wages and taxes are low. On the contrary, in Denmark, firms pay little contributions but pay higher wages and higher income taxes. In the end, in the case of Turkey, the only empirical proof given by the World Bank (2006) is a deduction from the fact that long working days are explained by the level of severance pay, supposed to be affecting employment creation. It seems that more empirical evidence needs to be brought.

Labour market flexibilisation will probably continue, with repercussions on the welfare regime. Turkey’s letters of intent to the IMF (2008) continue to mention the priority of this type of policy. However as we showed here, it is not certain whether the result will necessarily be higher employment rates and more affiliation rates to social security. On the contrary, a more flexible labour market could lead to more instability of employment forms and thus lower chances of contributing to social insurance mechanisms. This is especially true when labour reform undermine the stable or formal component of the labour market.

2. More market insurance?
The second possible evolution we need to explore is an increased role of the market as one of the component of the welfare mix. Private insurance mechanisms are not fully established in Turkey yet. According to Korkmaz and Uygurturk (2007), high interest and inflation rates, high public deficit, mistrust in private funds and high level of confidence on current social security system explain the slow development of a private pension instruments. Only in 2001 private voluntary schemes were introduced, complementing the previously existing substitutive private pension funds, occupational voluntary and mandatory private funds. A three-pillar system, with individual retirement private plans at the centre, has been recommended as the solution against existing problems of public managed funds by institution like Tusiad (2005). However, to a large extend Turkey’s pensions system still has a pay-as-you-go design. From 2003 until today, the defined-benefit private schemes have been increasing the number of affiliate and market values. In 2008, there were almost 2 million participants and the portfolio accounted for around USD4 billion. This figures are small compared to countries like the United Kingdom, where occupational voluntary funds concerned 22.5 million people and the market represented USD2000 billions, or even to Spain with more than 8.5 million affiliates and market size of USD69 billions (OECD 2009). However, Turkey’s market is promising and is expected to continue an accrual path, as membership should double and the funds’ assets multiplied by ten in the coming decade.


Occupational mandatory plans covered around 200000 people in 2001. There two funds, one for state-owned coal mining enterprise and the other for the armed forces. Occupational voluntary plans are offered by around 18 funds and had around 320000 affiliates in 2007.
Private health care and insurance is also poorly developed in Turkey. It was almost inexistent before the 1980s, and developed following government subsidies to this sector. In 2001, there was an estimated of 250 private hospital, mainly in urban areas, financed through services fees and contracts with social security funds (OECD 2008a)37. Private health insurance has been also limited: it represented 0.7% of total health expenditure (in 1994) and covered less than 2% of total population. In the United Kingdom where there is a National health system these figures were respectively 3.3% (in 1996) and 10%; in the United States 35% and 71% respectively (Colombo and Nicole 2004).

However, with the reforms being implemented since the early 2000, private health sector should certainly grow. The increasing autonomy of public providers will necessarily introduce competition as public funding will tend to decrease and should finance themselves selling care services. To be financially solvents public hospitals will have to increase their performance and efficiency and, as in an open market, the less productive will perish. Private sector development could also follow from the unification of different funds and the universalization of access. If this process, due to costs and/or institutional problems, result in lower quality of benefits or lower degrees of coverage, individuals will be eager to find complementary insurance mechanisms. Private actors could offer this type of alternative.

Universal coverage and improved efficiency within the system are certainly desired goals. However, in this respect, it is necessary to consider the undesirable effects that an increased role of the market could bring. Three possible effects could be mentioned. First, there could be a reduction of financial solidarity if higher income individuals, that contribute the most to the system, find it preferable to evade the contributive public system and look for private insurance. Secondly, it is probable that inequalities will raise in terms of care services and fees, as privately insured individuals will have larger coverage and as some will pay more than others. Last but not least, market provision is associated with information asymmetries, leading to inadequate levels of insurance for the community. For individuals, the risks are associated to moral hazard and adverse selection that could lead to efficiency and equity problems. People might be obliged to buy insufficient or too much insurance and those without economic resources or with pre-existent health conditions might be excluded. In this scenario, state’s intervention is necessary to solve these market failures (Barr 2001).

The welfare mix in Turkey will certainly develop the market component in the coming years. This is not a problem in itself, however, unwanted effects that could arise will depend on the institutional capacity to regulate, control and sanction actors within the system. Private insurance required as well that people have enough purchasing capacity, generally acquired through employment.

3. Assistance and non-contributive component

Non-contributive regime should also be considered as an alternative mechanism of insurance that could develop in a near future in Turkey. In this respect it is necessary to refer to what many commentators mention about the incompleteness of the 2006 reform. A draft on “Social Assistance and non-contributive payments” was absent in the document discussed in the parliament and submitted to the Constitutional Court. The proposition was to unify the different institutions in place and concentrate assistance in the hand of the Social Security Institution and build a right-based approach (Koral 2008). Instead of considering the

37 There were also 11000 general physicians in private practice and around 60% of public sector doctors exercised privately, due to low wages.
extension of social protection to most deprived people, unable to contribute financially to the system, the reform process saw the defence of acquired rights from different interest. Individuals in formal employment and especially civil servants lobbied to maintain their current status, reinforcing a regime based in occupational status. The Constitutional Court decisions tried to preserve those rights (Adar 2007, Buğra and Adar 2008) 38.

On the other hand, as explain formerly, the health system is supposed to incorporate a means-tested mechanism that should offer health care to beneficiaries. We mentioned the doubts that It is a valid and necessary initiative but there are doubts related to its implementation. Firstly, there are major financial constraints due to government deficits and an important debt burden. In this sense, what is the fiscal capacity to finance a subsidized regime, especially when beneficiaries are supposed to receive the same type of rights than the rest of the population? Budgetary restriction would not allow an open-ended mechanism that could aggravate current problems 39. The challenge is not minor and raises the question about the capacity of integrating in particular the working-poor, especially informal workers. Unskilled, women and young individuals are generally overrepresented in the latter category. With an official coverage of almost 90%, the fact that today more than 40% of the labour force is informal means that they have access to the health system as dependents or through the Green card. What are the possibilities of integrating these individuals to the system? The emerging scenario could be available coverage for the most needed, via a public subsidy, and for those contributing through their employment. Between these two categories there will be unprotected individuals in informal employment unable to pay social contribution or whose employers evade their obligations and, at the same time, who do not qualify for a subsidy. This type of reform is one of the World Bank’s recommendations to developing countries, however its implementation and results have not been convincing enough. Colombia gives an illustration in this respect. While less and less workers are able to contribute to the system due to employment forms, the subsidized regime explains the recent increase in coverage. This creates growing financial constraints; besides, equalizing the services offered in each regime has also been problematic (Soto Iguarán 2009).

A second difficulty is related to the fact that a means-tested mechanism requires institutional and technical capacities. It is necessary to identify potential beneficiaries and allocate the subsidies, which means additional costs. Finally, this kind of distribution to deprived population might lead to political manipulation as access to the subsidy might be conditioned to electoral support. As a consequence, some individuals that should qualify to the system might not get a subsidy and others that should not receive any type of public aid do. This is already the case with the Green Card. According to the OECD (2008a) between 1% and 8% of higher deciles have this card, while only 12% of the poorest deciles (according to per capita expenditure deciles) do.

These potential problems are linked to the question of the type of assistance that will be developed within the social protection system. As mentioned before, in Turkey this component is rather marginal or “rudimentary”. Two possible options can be considered. On the one hand, assistance enters in the realm of social rights by guarantying a minimum

38 According to Buğra and Adar (2007) the State Planning Organization and the Minister of State, in charge of the Social Assistance and solidarity fund (SYDGM), wanted to keep control of social assistance and opposed the transfer of responsibility to the Social Security Ministry.

39 The OECD (2008a) wonders if “efficiency gains in health and other public programmes and future growth allow the budget to expand sufficiently to absorb the increases costs from Universal Health Insurance, technology growth, relative prices changes, the demographic, epidemiological, and nutrition transitions, and other government priorities, without endangering the future fiscal sustainability of the Turkish economy?” (p. 107).
standard of living to each citizen. In this approach means and resources to this end acquire a permanent character together with a strong commitment by the state to ensure the livelihood of all individuals. A second approach makes assistance and charity alike, targeted in most deprived individuals. In this case, aid becomes voluntary and discontinue. The state withdraws from its responsibilities transferring assistance to actors at the local level, to the private sphere or to households or individuals themselves.

Different elements lead to think that the second approach is dominant. First, there is an increased responsibility transferred from central government to local authorities. Second, the central role played by the Social Assistance and solidarity fund (SYDGM) to deliver assistance. This institution grants mainly urgent and aid relief in the short run. This is different from a more permanent and durable assistance. Finally, we find the introduction of public-private partnerships in replacement of direct interventions from public authorities. Initiatives like “Project Rainbow”, that offers support to handicapped individuals, or “100% Support to Education”, that aims to improve education’s coverage and quality, illustrate this point. These partnerships call for private generosity in response to urgent needs together with public resources and allocate (Buğra and Adar 2008).

This last trend reinforces the already present principle of subsidiarity within the welfare regime, according to which there is as transfer of responsibility out of the public sphere. Nevertheless, Buğra and Keyder (2006) mention some steps that go in the direction of recognizing citizens’ rights and the state responsibility in this regard: for instance, the gratuity of school books or the willingness to transform the Social Risk Mitigation project, currently managed by the World Bank, into a permanent program.

CONCLUSION
Esping-Andersen’s analysis is important as it contributes to the understanding of welfare regimes’ framework and the existing differences between these structures. Moreover, it enables to move away from an idea of evolutionary welfare regimes, which should grow from rudimentary to more developed welfare production institutions, and thus from the idea of convergence. Welfare regimes are essentially political constructions and the country’s socio-economic forces will draw up the path to follow. Hence, in the case of Turkey, it is not possible to foresee which of the three trends that we mentioned previously will prevail in the long-run. As we said, labour market flexibility will probably continue, availability of private insurance mechanisms might increase and the public sector might diminish its intervention in social assistance. In any case, it is sure that current pressures favour an adjustment of the current regime that we qualified as conservative-informal. The three possible evolutions and consequences do not exclude one another. Market instruments could become pervasive, flexible employment prevail and social assistance become marginal. This will shape a residual welfare state. For Barrientos (2004) this evolution is taking place in several countries of Latin-America that are evolving towards Liberal-conservative regimes. Another option to envisage could be that market insurance keeps on being marginal or acting only as a complement of rights and guarantees offered by the state. This could take place with flexible labour market that could offer the needed flexibility to the productive system along with securing workers rights. This corresponds to a model of flexicurity which is part of the employment strategy and objective of the European Union. One element that we did not include in our analysis is how Turkey’s negotiation to join the EU, or its future membership,

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40 The Laws on Provincial Administration and Greater Municipalities accord larger responsibilities in this regard to local governments (Buğra and Adar 2007).
41 Flexicurity was included in the Lisbon Strategy for growth and employment.
will influence the shape of the welfare regime. The accession of Southern European countries had certainly an effect in their social policy, both in the expenditure level and, more recently, in the implementation of income support programmes\textsuperscript{42}. However, the impact on the new members from Eastern Europe might not be the same\textsuperscript{43}. The influence of the EU on the Turkish welfare regime and on the ongoing transformations remains to be determined.

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\textsuperscript{42} Moreno (2006), mentions for instance the promotion of “National Action Plans for Social Inclusion” by the European Commission that encouraged the implementation of safety nets and social minima.

\textsuperscript{43} In these countries, there not seems to be popular pressures in favour of public assistance and social inclusion. In the case of Turkey, social policies do not appear as a central point in the negotiation agenda set by the European Commission (Buğra and Keyder 2006).


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