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# THE TURKISH WELFARE REGIME UNDER PRESSURE: RESILIENCE OR CHANGE?

Carlos Soto Iguarán

## ABSTRACT

This article studies the Turkish welfare regime, with a particular accent on wage insurance as a formal mechanism of accessing the social protection system. We argue that the structure and transformation of the labour market is increasingly incompatible with the existing welfare system framework, which is mainly centred on formal workers insurance. In this context, we question whether the current pensions and health reforms will lead to a better articulation between employment forms and the social protection system. Different scenarios of the possible evolution of the Turkish welfare regime are analysed: will it maintain its existing structure or will it find ways to adapt?

**Keywords:** welfare regime, social protection, labour market, Turkey.

## *Le régime turc de protection sociale sous pression : résistance ou changement ?*

### *Résumé*

*Cet article s'interroge sur le devenir du régime de protection sociale en Turquie, soumis à de multiples pressions. Les assurances contributives par le biais de l'emploi jouent une place centrale comme mécanisme de protection des individus. Cependant, il existe une incompatibilité croissante entre le fonctionnement du marché du travail et l'organisation de la protection sociale. En ce sens, on s'interroge sur les changements qu'introduisent les dernières réformes en la matière. Permettent-elles une meilleure articulation entre emploi et protection sociale ? Différents scénarios sont analysés à propos des possibilités et des moyens d'adaptation du régime turc de protection sociale.*

**Mots-clefs :** régime de protection sociale, marché du travail, Turquie.



## INTRODUCTION<sup>1</sup>

During the 1990s and 2000s, the Turkish social protection regime has experienced many changes and has been subject to different kinds of pressure. This article analyses how the Turkish regime has evolved and what could be its possible transformations in a near future, given structural changes of the economy and especially given the labour market characteristics and its 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 recent years. Our theoretical reference is 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 arrangement through which people seek livelihood security both for their own lives and for those of their children and descendants”<sup>2</sup>. Welfare regimes have three main components related to one another: 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 (decommodification and defamilialization, respectively); 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).

Regimes correspond to general categories or ideal-types, built out of the systems’ common characteristics that cannot reflect the specificities and detailed differences found from one country to another. 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 regimes has also gained interest in developing countries, where these characteristics are not always found. In some cases, social protection is inexistent and informal mechanisms prevail. The advantage of the welfare modelling literature to study this context is that it is not limited to state intervention, but is also concerned with the combined role of households and public and private spheres (Gough, 2004).

Given its corporatist and fragmented structure added to the central role played by the family, the Turkish welfare regime is often associated to the Southern European welfare regimes. But some characteristics are also specific to developing countries. In both cases there is a lot of heterogeneity and different trajectories of social protection systems can be found (between Italy and Spain or between Brazil and Tunisia, for instance). However, comparison and contrast are useful to reveal some traits and general characteristics, at the risk of some simplification.

In the first section of the article we characterize the Turkish welfare regime according to existing typologies. The latter seems ill-adapted to the dominant employment forms, a feature which is common in economies with large shares of informal employment. Consequently, we

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<sup>1</sup> The author will like to thank Amir Azabdaftari and Luisa Florez for editing.

<sup>2</sup> Gough (2004a, p. 5).

figure whether the social protection reforms adopted during the 2000s lead to a better articulation with the labour market, and to a larger number of contributors and beneficiaries. In the second section, we look at specific factors affecting employment creation, to understand its articulation with the social protection sphere. Three factors will be considered: demographic pressures, the ongoing structural changes of the economy and the effects of recent labour reforms. The third section explores the possible evolution of the Turkish regime that could be envisaged, given current trends in the labour market. First, we analyse the effect that increased labour market flexibility and labour costs reduction could have in terms of employment generation and affiliation rate. A second issue to be examined is the inclusion of a non-contributive component into the system that modifies the links between insurance and individual employment status. These options do not exclude one another and the final combination will depend on political choice and socio-economic evolution that will determine the shape of the *welfare mix*.

## 1. THE TURKISH WELFARE REGIME

### 1.1. Welfare regime typologies

In order to classify the Turkish welfare regime we start by analysing the existing typologies. Esping-Andersen (1990; 1999) explains how and why welfare is organized differently from one country to another. As he points: “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”<sup>3</sup>. His “World of welfare capitalism” is composed by three ideal-types that vary along the degree of both de commodification and stratification. He considers the existence of a Liberal regime, mostly in Anglo-Saxons countries, a Socio-democratic regime, found in Nordic countries, and a Conservative-corporatist regime, mostly in continental Europe<sup>4</sup>. 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, 1997)<sup>5</sup>. In this regime employment status is the main mechanism of insurance but it is highly fragmented as different degrees of protection coexist: the generous protection given to core workers contrasts with the low benefits received by the rest. As a consequence, family is central as welfare producing unit for the protection of household members. Despite the degree of fragmentation the health system is supposed to be universal, based on citizen’s rights. The state is permeated by particular interests and patronage, but public intervention in the realm of social assistance remains low.

Given the low penetration of the state and the large informal sector in developing countries, it seems more appropriate to refer to welfare regimes instead of welfare state regimes. The state

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<sup>3</sup> Esping-Andersen (1990, p. 80).

<sup>4</sup> This typology received many criticisms in different grounds. See for instance Bambra (2007), Kautto (2002), Arts and Gelissen (2002), Scruggs and Allan (2006), Powell and Barrientos (2008).

<sup>5</sup> 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.



is not a central component and rather appears as one among other constitutive elements of the *welfare mix*, together with the market, the family and other informal and formal institutions and mechanisms<sup>6</sup>. In their typology of developing countries, Gough *et alii* (2004) refer to an “informal-security regime” characterised by the fundamental role played by the family and the community in the provision of welfare. Only formal employees manage to have some social protection guarantees extended to their families and tend to defend their privileges. The remaining labour is subject to patronage and clientele relations<sup>7</sup>. Similarly, Barrientos (2004) considers that in Latin America prevails an “informal-conservative regime”, where some workers benefit from “occupationally stratified social insurance funds” and from large and generous employment protection legislation. The parallel with conservative-corporatist regimes lies in the role of occupational status: employment is highly protected and there are extended rights to the family. The informal appellation 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. By analysing its social protection system, we will see next how Turkey suits these typologies.

## 1.2. The social protection system: the central role of employment

In this section four characteristics of the Turkish welfare regime are given. What stands out is how access to formal employment plays a central role. We will focus on the social protection system, one element of the *welfare mix*, understood as the formal institutions established by the state in order to protect individuals against risks related to poverty, sickness, maternity, invalidity, old age, unemployment and work injuries. These can be organized as insurance or assistance mechanisms. The role of the family and of other informal mechanisms will not be considered thoroughly.

Table 1 shows the main characteristics of the system's insurance component in Turkey. Before the 2006 reform, three funds coexisted for different types of workers. 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; later, in 1977, to contractual workers in agriculture and housework. Through the creation of a third fund in 1971, *Bağkur*, artists and self-employed were also incorporated. 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<sup>8</sup>. 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 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

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<sup>6</sup> « 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).

<sup>7</sup> Informal-insecurity regimes constitute another type where there is no stable pattern of welfare producing mechanisms given the degree of instability prevailing in the society (Gough, 2004).

<sup>8</sup> Expenses of active civil servants were not paid by *Emekli Sandigi* but directly by the Ministry of Finance.

the less to the system. According to Social Security Institution statistics, coverage reached 80% of the total population in 2008 (82% in 2006).

**Table 1.**  
**The Turkish social security system**

Social security institutions			
Funds	SSK	Emekli Sandigi	Bağ-Kur
Target	Private sector employees	Public employees	Craftsmen, self-employed,
Risks	Pensions (invalidity, old-age, survivors)	Pensions (invalidity, old-age, survivors)	Pensions (invalidity, old-age, survivors)
	Health insurance (sickness, maternity and medical benefits)	Health insurance (sickness, maternity and medical benefits)	Health insurance (sickness, maternity and medical benefits)
	Work accidents	Work accidents	N.D
	Unemployment*	N.D	N.D
<b>Social contributions</b>			
Employers	21.5% - 27%**	20%	-
Employees	15%	15%	-
Self-employed	-	-	20% (pension) + 20% (health)
<b>Coverage (2008)</b>	82% (all regimes)		

\* Unemployment insurance is managed by the National employment agency (IsKur). The state contributes 1%, employees 1% and employers 2% (this amount is included in the calculation of social contributions).

\*\* Contribution varies according to the degree of risk.

Sources: www.ssk.gov.tr; www.socialsecurityextension.org; www.ssaonline.us

The assistance component has several institutions with different targets. The most important programme is the *Green card*, whose total budget in 2008 was YTL4 billion and benefits more than nine 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 assists 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 eleven million people receive some type of aid in Turkey and the budget assigned to assistance was about 0.94% of gross domestic product (GDP) in 2008<sup>9</sup>.

Given this framework of assistance and insurance mechanisms and considering the existing typologies in developed and developing countries, we would like to characterise the Turkish welfare regime. Firstly, employment is the main determinant for accessing the social protection system. 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<sup>10</sup>. However, fragmentation comes from a broader division arising from the real possibility of contributing to the system given the large size of the informal sector that represents 48% of total employment (35% of non-agricultural employment) in 2006. Thus there are differences in the degree of protection, as formal

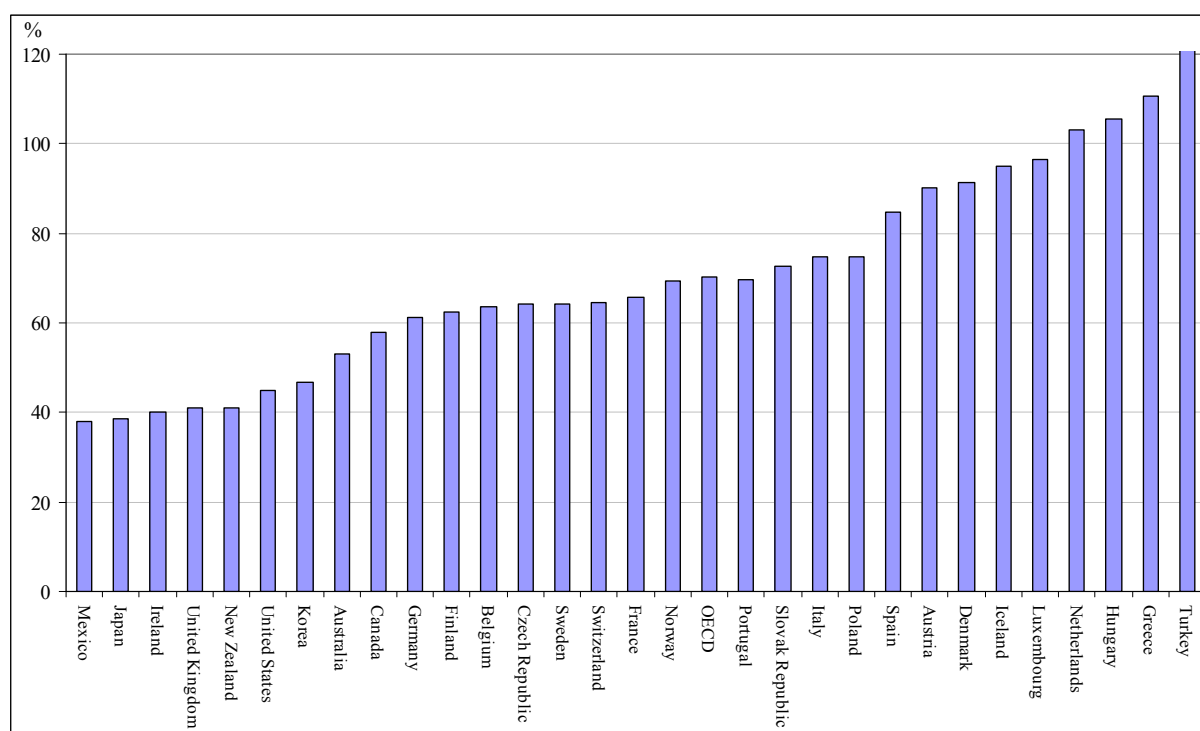
<sup>9</sup> These figures are taken from the State Planning Organization (SPO). Beneficiaries at the local level or aid from private institutions are not included.

<sup>10</sup> 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).

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)<sup>11</sup>.

Differences also exist in the health sector: *Emekli Sandigi* members had an extensive coverage and could choose among both private and public facilities. SSK members could only attend the institution own hospitals and *Bağkur*'s affiliates had more restricted rights and required 90 days of previous affiliation.

**Figure 1.**  
Net pension replacement rates in OECD countries (2009)\*



Source: OECD.

\* Net replacement rates of average earners.

Secondly, while some people benefit from large protection, the rest of the population is given little security by formal welfare institutions. According to the State Planning Organization-SPO (2010), total social expenditure in Turkey for 2008 reached 15.1% of GDP of which health represented 4.5% and pensions 6.5%<sup>12</sup>. Hence, these expenses attached to insurance mechanisms (health and pensions) represent more than 2/3 of total expenditures, while social aids and direct income support payments add up to only 0.7%<sup>13</sup>. Social assistance

<sup>11</sup> According to the OECD, the net replacement rate is defined as the individual net pension entitlement divided by net preretirement earnings, taking account of personal income taxes and social security contributions paid by workers and pensioners. In the case of Turkey replacement rates higher than 100% result from the fact that pensions are not taxed (Karayel et Math, 2007).

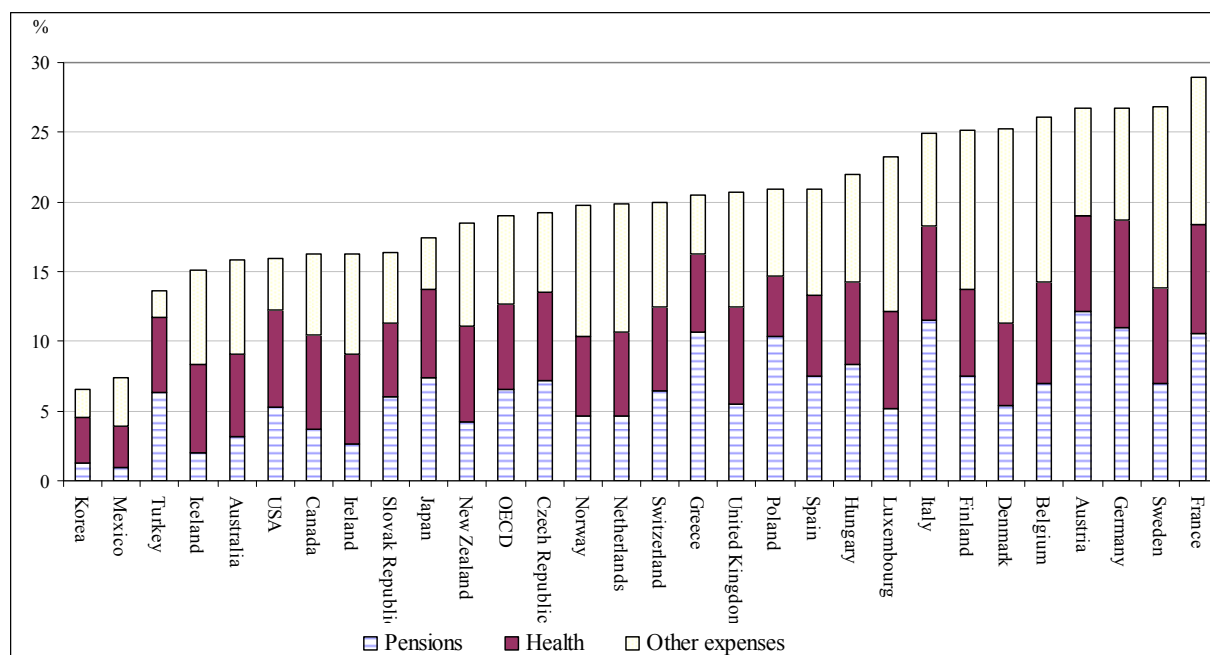
<sup>12</sup> The *Green card* expenses are included in the health component and represent 0.4% of GDP.

<sup>13</sup> The remaining 3.4% is invested in education, considered by SPO as social expenditure.

expenditures are thus very limited compared to OECD countries. Turkey appears lagged behind, even against countries like Korea and Mexico (Figure 2)<sup>14</sup>.

Thirdly, despite the corporatist character of the system, there has been an aspiration of universalization, restrained to the health system. The *Green card* was introduced as an intermediary step in 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 that must go in hand with the improvement of services' quality.

**Figure 2.**  
Public social spending as a percentage of GDP in OECD countries



Source: OECD.

Fourthly, 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”<sup>15</sup>. 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 (World Bank, 2005)<sup>16</sup>. Families are thus affiliated in an extensive and indirect manner as they receive health benefits and survivor pensions through the head of household affiliation.

<sup>14</sup> For a detailed analysis based on ESSPROS from Eurostat, SOCX from OECD and ILO statistics, see Buğra and Adar (2007).

<sup>15</sup> Erman (2003, p. 42).

<sup>16</sup> This condition is legally established by the Law 2022 of 1977. More than one million people benefit from this allowance that is inferior to the absolute poverty level.

The role of the male bread-winner is thus central, but women also accomplish important tasks within household which contribute to welfare protection. This activity can hardly be combined with employment since there are not many part-time jobs opportunities and limited care facilities available. Thus 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<sup>17</sup>.

Besides family, 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 substituted 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).

From what we just said, we can argue that the Turkish regime belongs to a conservative typology, given its corporatist and familialistic character. It is closer 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 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, given the low intervention in this field.

The same characteristics allow classifying Turkey as an informal-security regime or more precisely as an informal-conservative regime, given informal employment rates. 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"<sup>18</sup>. This 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 some areas of social protection. 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, especially when we consider the extent of informal employment.

To sum up, the Turkish welfare regime is characterized by the role of employment as a central determinant of welfare provision. Besides, while some individuals receive large levels of protection other receive little insurance or assistance. However, in the case of health a few steps have been given to provide some minimum level of protection. Finally, family and other informal arrangements also intervene as welfare production mechanisms. For the purpose of this paper, we will like to emphasis the fact that employment insurance is at the basis of the welfare regime. In practice, this mechanism fails due to insufficient employment creation and a large informal sector. There is an incompatibility of employment forms and

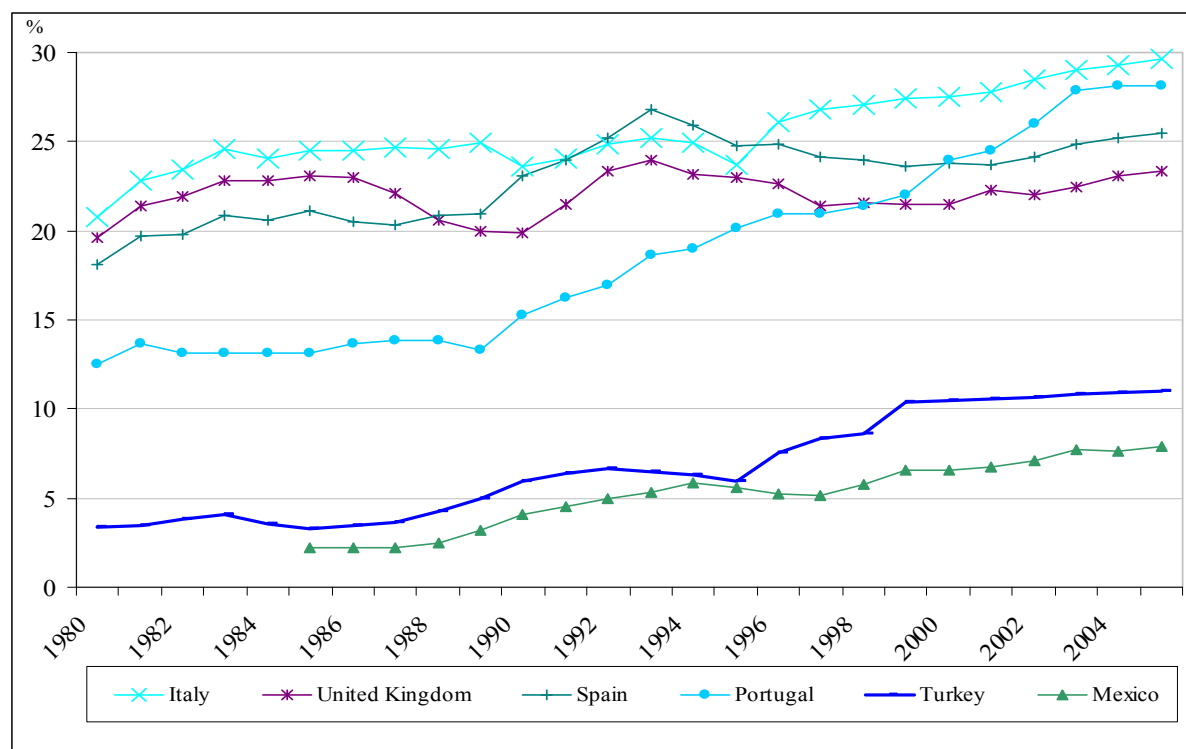
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<sup>17</sup> In Southern European countries, where the family also plays a prominent role in the welfare regime, Moreno (2006) refers to the emergence of a super-woman, as female activity grows without a decrease in their responsibilities within households.

<sup>18</sup> Ferrara (1996, p. 29).

the organisation of social protection, compelling individuals to look for alternative means of welfare provision. How this panorama changes with the current transformations of the social protection system? Will the latest reforms enable further coverage through wage insurance or by other means? These questions are explored in the next section.

**Figure 3.**  
Public social spending 1980-2005 (% of national net income)



Source: OECD.

### 1.3. Social protection reforms

We present in this section the main reforms of the social protection system. We only consider the two main risks (health and pensions) where the most important changes were introduced. We consider whether these changes increase the possibilities of wage insurance or introduce new forms of affiliation.

In recent years the pension system has undergone significant financial deficits explained in particular by previous laws that established generous rules in favour of pensioners and by shortage of revenues linked to the poor labour market performance<sup>19</sup>. 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 (20) years of affiliation for men (for women) and 5,000 days of contribution were needed. Early retirees manage to receive their pensions and access the health system without paying contribution

<sup>19</sup> Karayel and Math (2007) mention as an additional factor the investments made by the social security funds in public firms and private and public bonds, yielding low and negative returns between 1974 and 1996.

and additionally, they can continue to work informally avoiding taxes. This is problematic since early pension eligibility combined to current life expectancy translates in long retirement periods (OECD, 2006; World Bank, 2006)<sup>20</sup>. The 1999 reform that aimed at increasing revenues while reducing expenses by changing some parameters proved to be insufficient. As a consequence, in 2006, another reform was adopted with stricter rules. Retirement age will progressively attain 65 years in 2043 for men and 2048 for women (60 and 58 years respectively will be reached by 2030). Besides, twenty-five years of affiliation are required both for men and for women and the contribution period is raised to 9,000 days. Inflation rate and wage growth are used for the valorisation of past salaries for calculating the reference salary (real GDP was used before). Pensions are indexed to consumer price growth as before. Finally, the accrual rate is diminished to 2% per year, against 3.5% for the first 3,600 days before (Karayel and Math, 2007). These reforms suffer from the long transition periods allowed before their full implementation that retard the expected effects on financial terms. For instance, the new retirement age will not be effective until 2043 for men, so young retirees will continue to exist. Hence, there are different pension rules engendering intergenerational inequalities (OECD, 2006). The World Bank and the OECD call for accelerating the transition periods and especially reducing incentives for workers retiring at early ages. As we will see in the last part, they recommend 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 1980s, 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-1980s or the consultation of the “National Health Congress” in the mid-1990s have been blocked by Constitutional Court decisions, political instability, or opposition from non-governmental organizations (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 aimed 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 of provider. The Social Security Institution is in charge of insurance and should affiliate all citizens, even those without contribution capacity. Provision is in the hand of hospitals and medical facilities that should gain financial autonomy and offer quality services. Other measures aimed at rationalizing the use of care services are being implemented like family medicine or human resources training programs (OECD, 2008a).

To what extent these reforms transform the Turkish welfare regime allowing higher insurance 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. The pension system reforms were only parametric as they mainly change qualifying rules. The main motivations are openly recognized and aim at ensuring the system's financial stability, reducing financial constraints imposed on public finances. The health reform was more ambitious than the previous one with a universal coverage objective that supposes major transformations. Indeed, this reform introduces important changes in the Turkish welfare regime as it reduces its corporatist character and moves towards a universalistic-type

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<sup>20</sup> Average retirement period is the longest in OECD countries: 28 (32) years for men (women) given pension eligibility age of 47 (44) and life expectancy of 75 (76) (OECD, 2006). According to the World Bank (2006), 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.

regime. In this way, the centrality of employment is diminished as insurance and wage income are delinked. Thus, even informal workers should be insured under the new system as the criteria for accessing the system will be henceforth attached to citizenship.

However, some observations must be raised. These changes are limited to the health system and can be considered as a first change, whose evolution must be evaluated. It does not concern, at least for the moment, other type of risks or the system as a whole. On the other hand, there are doubts about the system's capacity to cover the non-working population and, in particular, working poor in informal employment. Toksöz (2008) and the OECD (2008a) express serious doubts in this respect. As a consequence, 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 households still play an active role in individuals' protection. For this reason, the next section explores labour market performance to assess the possibilities of securing livelihood through employment. We focus on labour supply and demand evolution and the changes in labour market regulations and their effect on wage insurance and the financial account of the social protection system.

## **2. THE TURKISH LABOUR MARKET EVOLUTION AND ITS EFFECTS ON THE SOCIAL PROTECTION SYSTEM**

### **2.1. Labour supply, labour demand and the institutional framework**

Current demographic trends affect labour supply as Turkey still has an important population growth rate (average annual growth was 1.3% between 2002 and 2008). The absorption of the young labour force is a major challenge but is not actually happening. Indeed, there is a gap between employment and labour force growth. While employed population has an average annual growth of 0.5% between 2000 and 2008, the labour force grew on average 1.1%. Compared to OECD countries, employment rate in Turkey goes up to 44% against 64%. Given the lack of employment opportunities, a large fringe of workers does not find employment alternatives as a means of support, with effects on poverty, child labour, poor public health, low productivity and other undesired effects (Auer and Popova, 2003)<sup>21</sup>.

Another important issue is the decreasing labour force participation rate that fell from 58% in 1990 to 48% in 2008, which is way below OECD average (60% in 2008). This rate varies according to gender, age, location, education level and civil status<sup>22</sup>. In particular, women have really low participation rates (73% in the case of men and only 27% for women) explained by rural migration, incentives to early retirement, the increase of education coverage and the lack of part-time jobs and low-skill employment opportunities (World Bank, 2006)<sup>23</sup>.

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<sup>21</sup> 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 million jobs to reach the Lisbon target employment rate (70%)" (p. iii).

<sup>22</sup> Participation rates are higher in rural areas and for men (more than 80% until 50 years). For women they are higher in rural areas (50% until 50 years against 10% in the city). Higher educated labour force also has higher participation rates (70% for women with tertiary education. 38% for those with less than secondary) (ERF, 2005).

<sup>23</sup> The effect of education is temporary as individuals enter eventually the labour market, increasing participation rates.



Structural transformation of the economy also increases pressure on the need of labour absorption. There is a continuous transfer of labour to services and in a lesser extent to industry from agriculture, as this last sector is lowering its contribution to GDP (18% in 1990 against 8% in 2006) and to total employment (48% in 1990 against 27% in 2006). Migration from rural areas to the city increases labour supply, but many migrants, especially women, migrate from a rural employment to inactivity.

Demand side evolution also increases the pressure in the labour market. After the 2001 financial crisis unemployment exceeded 10% and reached 13% in 2009 (16% in the case of non-agricultural unemployment)<sup>24</sup>. In 2008, this was more than twice compared to OECD average. Adding unemployment to underemployment rate reveals that the underutilized labour raises from 11% to 17% in 2008 (Toksöz, 2008)<sup>25</sup>. Employment performance has been insufficient and recently Turkey has suffered from jobless growth. For the 1991-1999 period, the annual average growth rate of GDP was 3.6% against 1.6% for employment; for the 1999-2008 period, the difference was even higher, 5.6% against 0.5% respectively. Between 2003 and 2006, two million jobs were created. However, this partial increase of employment was not enough to solve employment deficit<sup>26</sup>.

Factors behind the weak employment creation are various and direct causalities are difficult to establish. Investment performance seems to have been insufficient to promote employment; exports and production growth relied on installed capacity and not on additional capital formation (ERF, 2005). Investment was affected by the high economic volatility, but in particular high interest rates led to the eviction of productive investment in favour of financial investment (Boratav *et alii*, 2000). Auer and Popova (2003) mention the size and the low productivity of agriculture. Besides, low human capital makes more difficult the transition from agriculture to industry and services. For Ercan (2007) jobless growth might be explained by the recent increase in productivity (61% in average between 1997 and 2006), which did not translate in employment growth as there is an intensification of employment through longer working hours.

If supply and demand factors affect labour market performance, the institutional framework has also some influence. 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. However, its scope is restricted as it only applies to workers with over six months of seniority, in firms with more than ten employees. On the other hand, the Law 4857 of 2003 reforms the previous labour Code (Law 1475 of 1971). It allows short-term contracts (if the employer gives a founded reason), outsourcing and part-time job. Transfers of workers from one firm to another are introduced creating “temporary labour relations”<sup>27</sup>. The new Law restrains the scope of the previous one in regard to dismissals, as only employees working in firms of more than thirty persons are concerned. In fact, this excludes more than 50% of salaried workers employed in small and medium

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<sup>24</sup> Female unemployment rate was 13.5% against 12.9% for men in 2009 (20.8% and 14.9 % respectively in the case of non-agricultural unemployment).

<sup>25</sup> 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).

<sup>26</sup> In 2003, the economy benefited from high investment rates that contributed to increase the employment rate (Gürsel, 2007).

<sup>27</sup> Employees 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.

enterprises<sup>28</sup>. Besides, dismissals' restrictions are eased in the sense that firms can justify layoffs according to their needs (reasons qualified as "business requirements"). Finally, the trial period is raised from 2 to 4 month, increasing the time for unjustified dismissals.

Regarding labour costs, different measures affect workers' remuneration. The authorisation of working-days up to eleven hours (limited to two months with working weeks up to forty-five 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 undone working time when production is stopped 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 twenty hours maximum and four hours as a minimum. Workers are only paid according to the hours agreed.

In spite of recent reforms that introduce both quantitative and within-firms flexibility, we will see that the Turkish labour legislation is still considered as being one of the most rigid and protective of workers "within firms". According to some international organizations, the low employment performance is associated to the institutional framework that sets high employment protection levels and high labour costs and social protection contributions. In the next section we analyse how the current trends of the labour market affects the social protection system.

## 2.2. Employment and social protection

The trends mentioned before affect the social protection system. A sluggish labour market, unable to generate enough formal employment, translates in restricted opportunities to contribute to social security. This puts at stake the employment-based Turkish welfare regime. Regarding demographic pressures, population increase opens a "demographic window" in the sense of a decrease in child and old age dependency rate. This can be an asset for promoting growth, but it can also be a challenge in terms of education and employment generation given the extent of productive population (Ercan, 2007). Age dependency ratio has decreased since 1990 from 67% to 48%, a trend explained by the increase of the working age population<sup>29</sup>. However, if this ratio is calculated dividing by the number of those in employment, the ratio is higher than 100%, meaning that the number of dependents exceed the number of employed individuals. Employment creation has not been enough and represents a challenge for the coming years. There are both supply and demand side pressures in the labour market that hampers the possibilities of finding employment and, in particular, a formal one. Besides, the institutional framework increases internal and external flexibility for firms and thus contributes to create atypical and unstable employment forms. As a result, the establishment and sustainability of social security funds is hindered. This can be measured by the evolution of the number of contributors to the system.

In 2006, the number of workers non-affiliated to any social security institution, due to main job, corresponded to more than ten million persons, *i.e.* 48% of the total employed

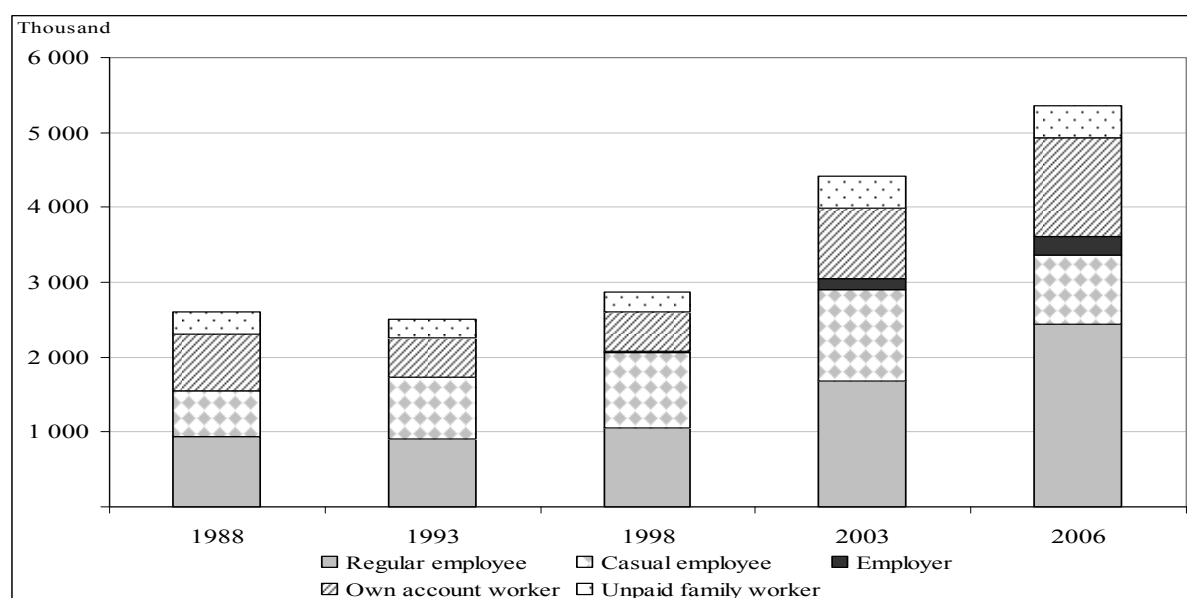
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<sup>28</sup> Öngün (2005) points at the paradox linked to the adoption of these two laws that adapt Turkish legislation to international convention, but at the same allow a restricted application. The employment protection Law permits the application of ILO's 158 convention previously ratified. However it is restricted to firms of a certain size.

<sup>29</sup> According to the World development indicators the age dependency ratio is "the ratio of dependents (people younger than 15 and/or older than 64) to the working age population (those aged 15-64 years).

population. In the case of non-agricultural employment a rising trend is observed from 2.6 million workers in 1988 to 5.3 million in 2006 (Figure 4). This means that the size of informality has risen from 25% in the 1990s to 35% in 2006<sup>30</sup>. Between those years, for all the categories there has been an increase 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. Compared to other categories, regular employees are the most concerned by the increase of non-registration to social security. The annual average growth of unregistered workers among this category was equal to 13.8% between 2000 and 2006, against 7.8% for all workers in non-agricultural employment (this figures correspond to 6.2% and 4.2% respectively between 1990 and 2006). We can therefore emphasize that 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's characteristics is under pressure.

**Figure 4.**  
Workers not registered to any social security institution due to main job  
(excluding agriculture) by employment status 1988-2006



Source: Turkstat.

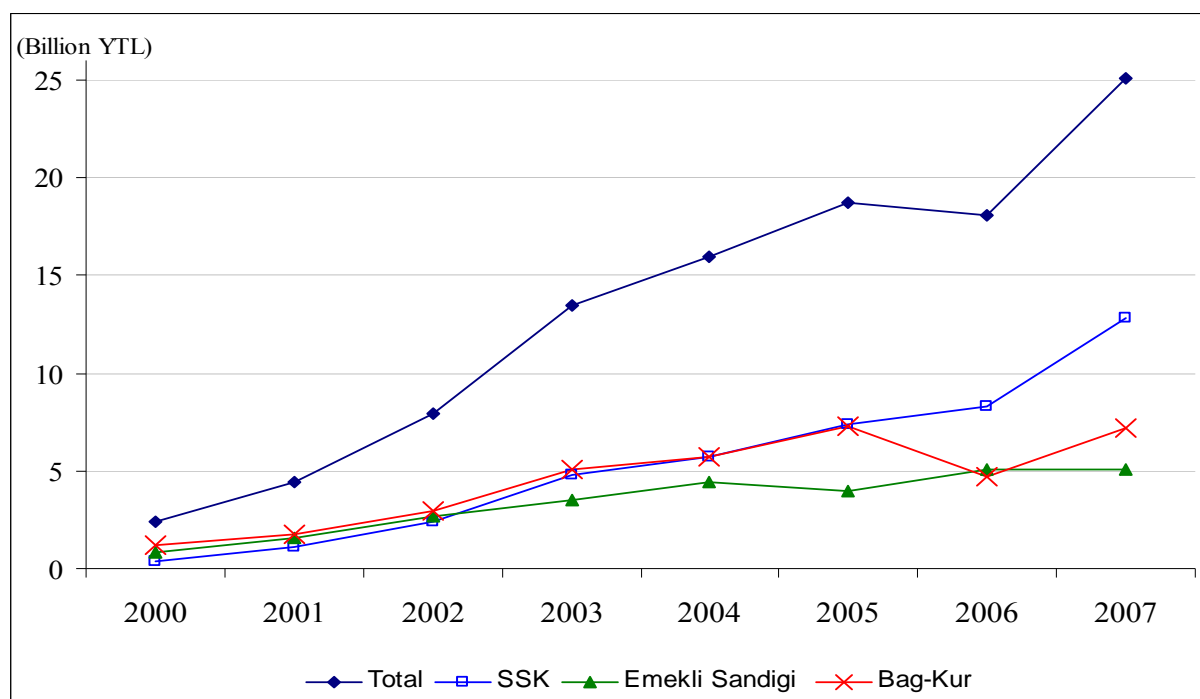
The consequences for the social protection system are twofold. Firstly, there are low contribution dependency ratios in each of social security funds. For the system as a whole, in the early 1980s, the active-passive insured ratio, that is the number of persons actively contributing to the system (active insured, voluntary active insured and active insured in agriculture) divided by the number of pensioners (retired people or receiving an invalidity or survivor pension), was relatively high: more than 3,5 active contributors per 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, due to the fact that

<sup>30</sup> The opposite trend is observed if we refer to total employment. Ben Salem *et alii* (this volume) show that informality, in percentage of total employment, fell from 51% to 48%, between 2000 and 2006. This is explained by the lower share of agriculture in total employment, a sector where 90% of jobs are informal.

pensioners have increased at an annual average rate of 9.9%, while the number of people contributing has only increased at a rate of 6.6% between 1990 and 2008. As long as this figure continues to deteriorate, dependency ratios will not recover. The restrictions to an insurance system based on wage income hampered and requires alternative forms of affiliation and funding, which leads us to the second consequence.

The relative decline of the number of contributors affects the financial basis of the system<sup>31</sup>. Figure 5 shows the recent trends of social security funds deficits, which reached YTL2.4 billion in 2000 and exceeded YTL25 billion in 2007. SSK fund had the most important increase between these years and represents half of current deficits. In the recent years, revenues have risen at a slower pace than expenses, generating the imbalances mentioned above. If wage insurance continues to be a central insurance mechanism, deficits will tend to endure in the coming years<sup>32</sup>. To cover the deficits that accounted for 3% of GDP in 2007, there has been increasing financial transfers from government budget.

**Figure 5.**  
**Social security funds deficits (2000-2007)**



Source: Sosyal Sigortalar Kurumu (SSK).

SSK: private sector employees fund

Emekli Sandigi: public employees fund

Bag-kur: craftsmen, self-employed, unemployed.

<sup>31</sup> According to the ILO, in 2006, there are 30% of active contributors to a pension regime among the working age population. Similarly, the share of the population above retirement age in receipt of a pension equals to 38%.

<sup>32</sup> 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, contribute to the system's financial balance.

In respect to the formal mechanisms of the welfare regime, we do not observe until today any significant change in the social protection system in a way that modifies the possibilities of insurance access or the design of welfare provision. On the other hand, there is a weak employment generation and increasing job insecurity, as the labour reform affects in particular the core segment of formal employment, that is, those in better position to actively contribute to the system. Furthermore, the informal mechanisms of the welfare regime seem also to be fading away. Indeed family is losing the capacity to play the central role assigned within the welfare system. Nuclear families are in a more difficult position to help their relatives. Besides government support to individuals has decreased. First, agriculture is losing its primary position within the productive structure, there are thus fewer resources available to assist population in rural areas. Secondly, the process of urbanization is more and more controlled and organized. The expansion of cities leaves today less land available for migrants that benefited before from authorities' tolerance (Buğra and Keyder, 2003; 2006).

The Turkish welfare regime is then under stress, experiencing a combination of different pressures and transformations. Will the system continue to function with its current constraints and costs or is it going to have to change? We discuss next two possible ways of adjustment, related to the labour market, through increased flexibility and/or the implementation of a non-contributive regime.

### **3. WELFARE REGIME: WHERE TO?**

#### **3.1. Towards more labour market flexibility?**

In the first part of the article we concluded that the Turkish welfare regime can be classified in the corporatist category with some characteristics of the Southern welfare regime and the informal-conservative ideal-type. This was confirmed next by the centrality of employment and the existence of high informality rates<sup>33</sup>. Despite recent reforms, insurance mechanisms remain unchanged until today. Given that employment still plays a central role, we consider whether the hypothesis about reducing labour market rigidities could be a way for triggering employment generation and, through this, social security contributions. However, if this option, recommended by some international organisations, is not likely to happen, other affiliation mechanisms could be implemented. Delinking social protection insurance from labour market status, through a non-contributive component, could be one possibility and, as we showed, a first step was made in this direction through the health system reform. In the last section, we analyse the kind of assistance actually being implemented.

If employment is going to keep its key role under the Turkish welfare regime, the challenge it is confronted to must be solved. Some argue that it is necessary to implement a flexible labour market legislation and reduce labour costs. 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. The OECD (2004) calculates an index of rigidity with a set of indicators about individual and collective dismissals, fixed term contracts and temporary employment

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<sup>33</sup> We also mentioned the role, and current difficulties, of the family and other informal mechanisms. In this context, it is essential having a member of the household in formal employment to obtain some kind of security. The figure of the male bread-winner is even more important given women's participation rate. According to the Household budget survey 2006, 50% of households have at least one of its members working in formal employment.

forms. Heckman and Pages (2004) estimate the total cost of an employment relation, considering the date of recruitment and the possible dismissal. According to both methods, Turkey is at the top of legislation strictness, which is explained by the restriction related to temporary employment, despite recent reforms (World Bank, 2006). 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 in Turkey. According to the World Bank (2000), there is a surplus of workers in informal activities in construction and distribution due to the high level 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 employees that manage to raise wages for their own benefit, 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 ten times the level in Romania. Minimum wage is 38% of formal average wage, compared to 30% in Spain and 29% in Romania (OECD, 2006).

Secondly, social contributions are also supposed to be excessively high, increasing also labour costs. A firm willing to hire formally must pay between 21.5% and 27% of monthly payroll<sup>34</sup>. The cost of financing fringe benefits would explain the emergence of a dual labour market with large informal employment. 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)"<sup>35</sup>. Turkey is supposed to have one of the largest tax wedges among European and OECD countries: 43% for a single worker earning the average wage against 35% in OECD<sup>36</sup>. As individuals receive in the end less than their gross income they are encouraged to work informally (OECD, 2006; 2008b; World Bank, 2006). Early retirees are one sound example used to illustrate the bad incentives. According to the World Bank, in 2008, due to early retirement age and the level of the tax wage, there are supposed to be around two million retired individuals that choose to continue to work informally<sup>37</sup>.

Policy recommendations according to international institutions in this case are the reduction of payroll taxes and a reduction of employment protection rules. As a result informal employment should decrease as there are more formal employment opportunities. For the OECD (2006), the fiscal cost of this type of measure should be compensated by an increase in affiliation, as individuals will find more incentives to contribute to the social protection system.

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<sup>34</sup> Employers pay 11% for old age, disability and survivors, 7% for sickness and maternity, 2% for unemployment insurance and between 1.5% and 7% for work injury, depending on the level of risk.

<sup>35</sup> World Bank (2006, p. 71).

<sup>36</sup> 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).

<sup>37</sup> However, the methodology used to calculate this figure is, according to Ben Salem *et alii* (2011), far from being robust. Consequently, it is difficult to point at the pension system as an incentive to work informally.

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 corporate taxes, working conditions, environment, 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 these 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 reactive to economic evolution. 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)<sup>38</sup>. 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<sup>39</sup>.

The same uncertainty prevails in the case of the effects of 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, a study shows that a 10% increase of social contribution diminishes employment by 1.7 point (BID, 2003). In the case of informality, Cardenas and Mercer (2005) find a positive but very slight effect of non labour costs in Colombia. However, the impact must be measured according to the persons that eventually pay for an increase of direct and/or indirect labour costs. If workers must pay for it, in terms of lower wages, the effect on employment is lower than if employers were to finance the burden. Therefore, whether 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 case of Turkey, the only empirical proof given by the World Bank (2006) is that long working days are supposed to be a consequence of severance pay level affecting employment creation. It seems that more empirical evidence is needed.

Labour market flexibility 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<sup>40</sup>. 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

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<sup>38</sup> 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).

<sup>39</sup> “Civic rights” correspond to workers association and trade union rights.

<sup>40</sup> <http://www.imf.org/external/np/loi/2008/tur/042808.pdf>

chances of contributing to social insurance mechanisms. This is especially true when labour reform undermines the stable or formal component of the labour market. If employment does not constitute the mechanism able to achieve a large coverage of the population, alternatives must be found. The next section explores one of them.

### 3.2. Assistance and non-contributive component

One possibility could be the development of a non-contributive regime. It corresponds to an alternative mechanism of insurance as it delinks access to the social protection system from labour market status. In this respect, many commentators mention 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 to consolidate a right-based approach, benefiting individuals as a result of their citizenship (Koral, 2008). Instead of considering the extension of social protection to most deprived people, unable to contribute financially to the system, the reform process was permeated by organized interests in the defence of acquired rights. Individuals in formal employment and especially civil servants lobbied to maintain their current status, reinforcing a regime based on employment status. The Constitutional Court decisions tried to preserve those rights (Adar, 2007; Buğra and Adar, 2008)<sup>41</sup>.

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. 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<sup>42</sup>. The challenge is not minor and raises the question about the capacity of integrating in particular the working-poor, especially informal workers. The share of young and seniors workers among non-agricultural informal employment is higher than the share among formal jobs. This is also the case for women (slight difference), for casual workers, self-employed and unpaid family workers. Unskilled labour has also more chances of being informal (Ben Salem *et alli*, 2011). These categories need special attention in the move towards health universalization. However what are the possibilities of reaching those that do not benefit of social insurance due to main job? They were 54% of total employment in 2006, according to the Household budget survey. Among them, 38% (4.8 million workers) do not have any kind of health insurance, 23% (2.9 million) benefit from the *Green card* and 37% (4.7 million) are not registered to the Social Security Institutions, due to main job, but still have access to the health system<sup>43</sup>. Universalization on an equal and sustainable basis then supposes finding

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<sup>41</sup> 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.

<sup>42</sup> 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... without endangering the future fiscal sustainability of the Turkish economy?” (p. 107).

<sup>43</sup> These figures are found by combining the variables “registration to social security institutions regarding the main job” and “affiliation to health insurance” of the 2006 Household budget survey. The last group appears as a surprising case as individuals are, at the same time, registered in one of the social security funds (in the case of health insurance), but not



enough resources to incorporate uninsured population giving *Green card* beneficiaries equal rights (a process under way) and compel every employer and employee to contribute<sup>44</sup>.

A second difficulty is that a means-tested mechanism requires institutional and technical capacities. It is necessary to identify potential beneficiaries and allocate subsidies, which means additional costs. In addition, financial support to deprived population might lead to political manipulation as it 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 do.

These potential problems are linked to 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 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 population and generally inactive 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<sup>45</sup>. 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, public-private partnerships are being established in replacement of direct interventions from public authorities. Initiatives like “Project Rainbow” that supports handicapped individuals, or “100% Support to Education”, that promotes education’s coverage and quality, illustrate this point. These partnerships call for private generosity in response to urgent needs together with public resources (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,

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affiliated to social security through their employment. Out of 4.7 million persons, 48% work in agriculture, 31% and 28% are, respectively, self-employed and unpaid family workers, 42% have more than 50 years old and 51% are men. It is possible that some of these individuals, while occupying an informal employment, benefit from the affiliation of one member of its household. Indeed, out the 4.7 million persons in this category, 42% live in a household where one member contributes to social security.

<sup>44</sup> Combining private insurance and/or a contributive regime with a means-tested and subsidized regime is one of the World Bank’s recommendations to developing countries. However its implementation and results have not been convincing enough. A category of worker might not be poor enough to qualify for a subsidy but still be unable to contribute to the system. Soto Iguarán (2009) gives an illustration in the case of Colombia.

<sup>45</sup> The Laws on Provincial Administration and Greater Municipalities accord larger responsibilities in this regard to local governments (Buğra and Adar, 2007).

currently managed by the World Bank, into a permanent program. Non-contributive insurance could be a way of guaranteeing social coverage and transforming the employment-based Turkish welfare regime.

## **CONCLUSION**

Between 2000 and 2006, the services and the industrial sectors managed to create more than 2.5 million jobs. However, as we showed here, this has been insufficient to absorb the growing labour force, besides, employments are increasingly unregistered to social security, especially in the case of regular employees. We figured whether current reforms of the social protection system and of the labour market could help to reduce existing informality and solve the need of universal coverage against social risks. It is not proven that higher labour market flexibility could be a way to increase workers affiliation, or that non-contributive mechanisms will be able to provide full coverage to all workers' category.

Despite the many pressures at play, it is not possible to foresee how the Turkish welfare regime will adapt its current configuration. Esping-Andersen's analysis contributed to the understanding of welfare regimes' framework and of the existing differences between these structures. It enabled 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.

Labour market flexibility will probably continue, availability of private insurance mechanisms might increase, while the public sector might change its intervention in social assistance. In any case, current pressures favour an adjustment of the existing regime that we qualified as informal-conservative. These options do not exclude one another. Market instruments could become pervasive, flexible employment prevail and social assistance limited to poor individuals<sup>46</sup>. 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 an objective of the European Union<sup>47</sup>. It is necessary to consider how Turkey's negotiation to join the EU, or its future membership, will influence the shape of the welfare regime. The accession of Southern European countries had certainly an effect on their social policy, both in the expenditure level and, more recently, in the implementation of income support programmes<sup>48</sup>. However, the impact on the new members from Eastern Europe might not be

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<sup>46</sup> Private insurance mechanisms are not fully established in Turkey yet. However in the case of pensions, 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). In the case of health, the private sector should certainly grow with the reforms being implemented since the early 2000. The increasing autonomy of public providers will necessarily introduce competition as public funding will tend to decrease and should finance themselves selling care services.

<sup>47</sup> Flexicurity was included in the Lisbon Strategy for growth and employment.

the same<sup>49</sup>. Hence, the influence of the European membership remains to be determined. The path the Turkish welfare regime will follow is above all dependent on the political choices to be made, together with the economy's capacity to absorb the majority of active workers.

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<sup>48</sup> 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.

<sup>49</sup> 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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