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# Pressures and transformations of the Turkish welfare regime

## Pressões e transformações no regime do bem-estar social turco

*Carlos SOTO IGUARÁN**

**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, 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. Wage insurance, as a way of accessing the social protection system, 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. Recent adjustments of this market take place in the context of structural changes in the regulation of labour relations and of the economic model. The second part of the article examines social protection reforms. We analyse first parametric adjustments in the case of pensions (retirement age, period of contribution and replacement rates), and secondly, measures adopted to ensure universal access to health care and services. We argue that other forms of insurance and/or assistance might be necessary to increase the scope and depth of coverage. The last section explore three possible transformations of the Turkish welfare regime: increased labour market flexibility, a more important role of private insurance and the scope of social assistance mechanisms.

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## Introduction

During the 1990s and 2000s, the Turkish social protection regime has experienced many changes and has been subject to different kind 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

[1] Gough (2004a), p. 5.

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 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*.

## 1 The Turkish welfare regime: characteristics of 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, *Bağkur*, 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[2]. 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.

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

**Table 1**

**Social security institutions**

| Funds | SSK | Emekli Sandigi | Bağ-Kur |
|---|---|---|---|
| **Target** | Private sector employees | Public employees | Craftsmen, self-employed, unemployed |
| **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 |
| **Social contributions** | | | |
| Employers | 15% | 20% | - |
| Employees | 21,5% - 27% | 15% | - |
| Self-employed | - | - | 20% (pension) + 20% (health) |
| State | 1%* | - | |
| **Coverage (2008)** | 82% (all regimes) | | |
| Working âge population covered by a pension regime (GESS- ILO) | 37,7 | | |
| Active contributors to a pension regime (% of working age population) (GESS-ILO) | 29.2 | | |

* Unemployment insurance organized by Is-Kur fund. The state contribues 1%, employees 1% and employers 2%,
Source: 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 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[1]. Starting from this institutional configuration and using the existing typologies in developed and developing countries, the next section characterises the Turkish welfare regime.

## Welfare regime 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"[2]. His "World of welfare capitalism" is composed by three ideal-types that vary along the degree of both, decommodification and stratification. In the Liberal regime, associated to Anglo-

[1] Source: SPO (2007). Beneficiaries at the local level or aid from private institutions are not included.

[2] Esping-Andersen (1990), p. 80.

Saxons countries, 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 (found in Nordic countries) and, as such, stratification is minimal as the system relies on citizenship and a rights-based approach. In the Conservative-corporatist regime (mostly continental Europe), decommodification is linked to employment status that also determines the level of stratification. Here family plays a central role[3]. 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 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 (Leibfrieb 1992, Ferrara 1996, Bonoli 997)[4]. 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 to 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 detriment of public actors. Fourthly, this regime is permeated by particular interests, and patronage. As a fifth characteristic, it is possible to add the low intervention in the area of social assistance. 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 characteristics of welfare regimes in developing countries can also be

[3] 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).

[4] 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.

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[5].

Gough *et alii*. (2004) typology's of developing countries includes an Informal-security regime[6]. 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-corporatist 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[7]. The patterns described are thus quite similar to those found in Southern European regimes. We will see next how Turkey suits these typologies.

**Where can the Turkish regime be classified?**

Is the Turkish welfare regime close to previous characteristics? First, occupational status is determinant for accessing the social protection system: employment is a central mechanism. 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[8]. However, fragmentation comes from a broader division arising from the real possibility

[5] « 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.

[6] 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).

[7] 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.

[8] 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).

of contributing to the system given the large size of the informal sector. Thus there are 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 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.

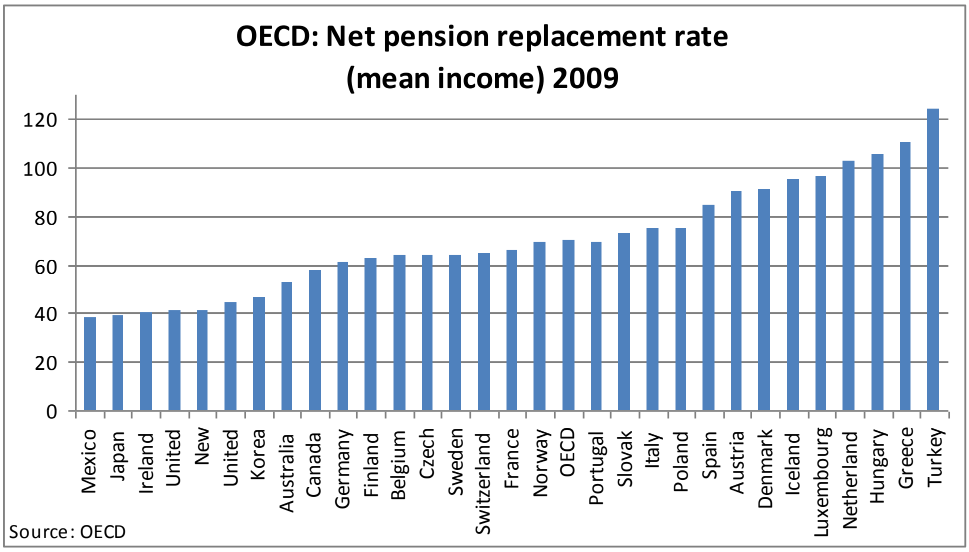


**Figure 1**

Secondly, 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%[1]. 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)[2]. Thirdly, 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

[1] Education expenditures represent 3%. Green card expenses are included in the health component.

[2] For a detailed analysis based on ESSPROS from Eurostat, SOCX from OECD and ILO statistics, see Buğra and Adar (2007).

coverage to the whole population. However, universality remains a major challenge that must go in hand with the improvement of services' quality.

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"[3]. 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)[4]. Families are thus affiliated in an extensive and indirect manner as they receive health benefits and survivor pensions through the head of household affiliation.

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[5].

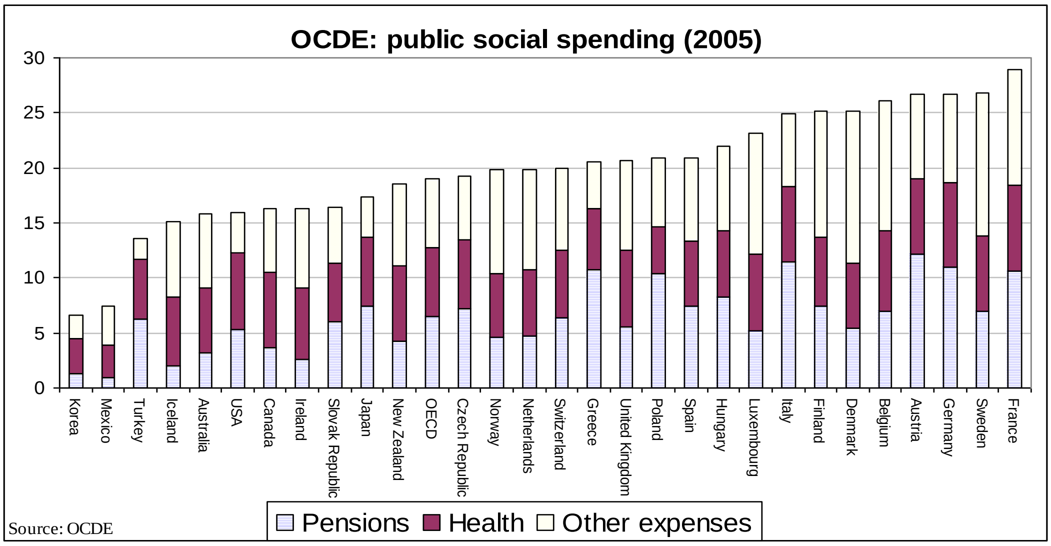


**Figure 2**

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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).

Arin (2002) considers that the Turkish welfare regime "was established according to the principles of a liberal social insurance model"[1]. 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 it self that explains the minimal recognition of 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"[2]. This description also applies to regimes found in developing countries.

[1] Arin (2002), p. 83.

[2] Ferrara (1996), p. 29.

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 possible 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. How this panorama changes with the current transformations of the social protection system? Will this enable further coverage through wage insurance or by other means?

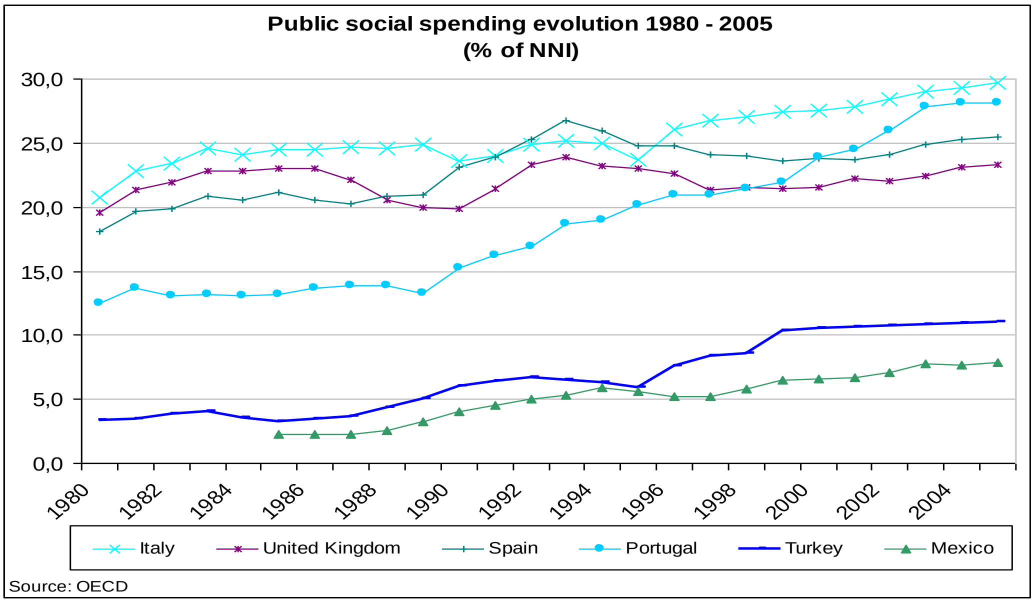


**Figure 3**

## Recent reforms of the social protection system

Current reforms cannot be analysed separately from the evolution of the country's macroeconomic stance. According to Boratav *et alli* (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 under which change 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. 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[1]. This target required public spending rigour and cuts. As a result, public investment expenditure diminished from 20%, in 1975, to 5% of total expenditure, in 2003. Under this scenario of fiscal consolidation, social security reform was promoted since government transfers to social security institutions increased from 3.6%, in 1988, to 11% in 2003. Compared to the debt's interest payments, these were close to 0% as a percentage of total expenditure in the mid-1970s, and rose to 40% in 2003 (Pamukcu and Yeldan, 2005; Elveren 2007). In this sense, the assertion that the social security deficits are the main factor of macroeconomic instability needs to be qualified. However it was the argument used to introduce recent changes into the system.

In the case of pensions, deficits were 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[2]. 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)[3].

As a solution, in 1999, a first reform was implemented that intended to increase

[1] In the 2003, Letter of Intent a target of 6.5% surplus was agreed: http://www.tcmb.gov.tr/yeni/duyuru/2003/4gg_nm_eng.pdf

[2] 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.

[3] 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.

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 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. 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 section, 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 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 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 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 family medicine or human resources training programs (OECD 2008a).

To what extent these reforms transform the Turkish welfare regime allowing higher insurance? 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 finance. The health reform was more ambitious than the previous one with a universal coverage objective that 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 households still play an active role in individuals' protection. The next section explores labour market performance to see the possibilities of securing livelihood through employment.

## 2 Pressures on the Turkish labour market

### 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. Turkey accomplished in half of a century a demographic transition, but still has an important population growth rate (average annual growth was 1.3% between 2002 and 2008). This opens a "demographic window" in the sense of the important size of the working age population. This 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 (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[4]. The lack of regular

[4] 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

employment results in 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). Participation rates are well below OECD average (51% in 20008 against 73% in OECD countries in 2008) and vary according to gender, age, location, education level and civil status[5]. In particular, women have really low participation rates (73% in the case of men and only 27% for women). This is due to 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).
Structural transformation of the economy also contributes to lower participation rates and increases pressure on the need of labour absorption. Indeed 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 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 also affected by the economic model contributing, together with supply side pressures, to a gloomy labour market.

reach the Lisbon target employment rate (70%)" (p. iii).

[5] 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).

**Economic model and employment generation**

Employment constitutes a major challenge in Turkey. After the 2001 crisis, unemployment returned to the mid-1980 levels (around 10%) and has decreased in the past few years. In 2009, it reached 13% (16% in the case of non-agricultural unemployment)[6]. In 2008, this was the highest level together with Spain in OECD countries and more than twice of OECD average. To see the broader picture one needs to go beyond unemployment and add underemployment rate (Toksöz 2008). Then, underutilized labour raises from 11% to 17% in 2008[7].

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[8]. 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 as shown by the level of employment creation.

Employment performance has been gloomy in the past years[9]. The number of people employed was superior to 22 millions and in 1999, it decrease in the following years and only 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 led to the eviction of productive investment in favour of

[6] 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).

[7] 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).

[8] 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).

[9] This performance is despite the reduction of labour force participation rates.

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 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.

**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)[10].
However, its scope is restricted as it only applies to workers with over 6 months of seniority, in a firm with more than 10 employees. The Law 4857 of 2003 reforms the previous labour Code adopted more than 20 years before (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"[11]. 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 fact, this excludes more than 50% of salaried

[10] 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.

[11] 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.

workers of small and medium enterprises[12]. Besides, dismissals' restriction are eased in the sense that firms can justify lay offs 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.

As for labour costs, different measures affect workers' remuneration. The authorisation of working-days up to 11 hours (limited to 2 months with working weeks up to 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 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 20 hours maximum and 4 hours as a minimum. Workers are paid according to the hours agreed.

These measures increase internal and external flexibility for firms. But they contribute to enhance precarious employment. As we will see next, contributive affiliation to the social protection system diminishes. 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?

**Effects on social security**

A sluggish labour market, unable to generate enough formal employment, translates in restricted opportunities to contribute to social security. Figure 4 shows the evolution of the number of persons non-affiliated to any social security institution. A peak was reached in 2000 and since then a slight reduction took place. In 2006, this corresponded to more than 10 million persons (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

[12] 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.

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. 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.

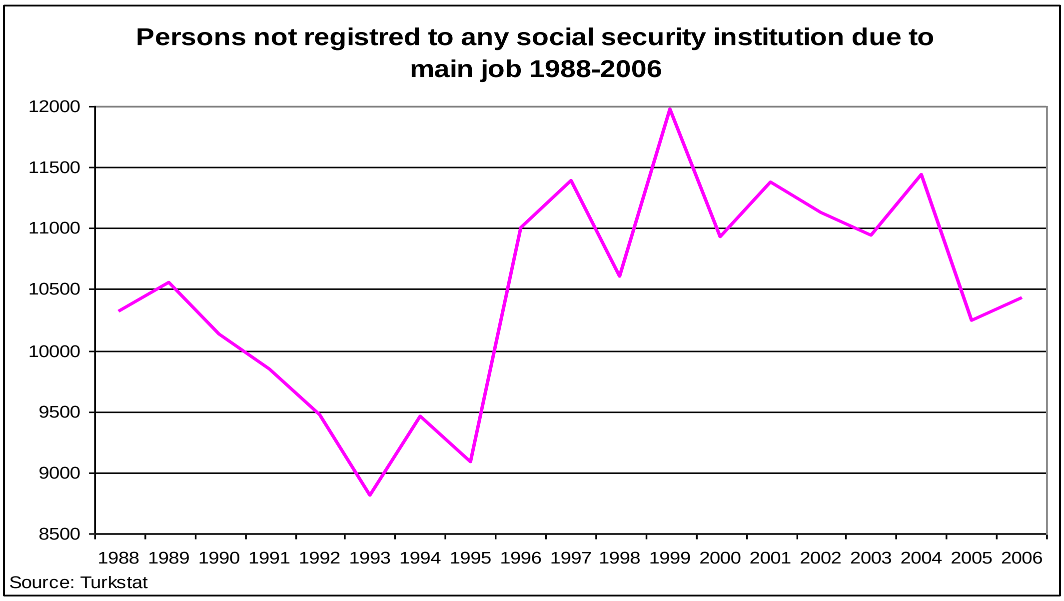


**Figure 4**

The consequences for the social protection system 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) divided by the number of pensioners (retired people or receiving an invalidity or survivor pension), was relatively high: more than 3,5 active contributor 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 pensioners have increased at an annual average rate of 9.9%, while the number of people contribution has only increased at a rate of 6.6% 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, dependency 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[1]. To cover the deficits that accounted for 3% of GDP in 2007, there has been increasing financial transfers from government budget.

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. Further the more, 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 decrease. 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, today the expansion of cities leaves 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? Is it going to be resilient or find ways to adapt? We discuss next three questions related to its possible evolution.

## 3 Three possible transformations of the Turkish welfare regime

### Increased 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-

[1] 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.

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 is 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 in Turkey. According to the World Bank (2000), there is a surplus of workers in informal activities in construction and trade 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 only 30% in Spain.

Secondly, social contributions are also supposed to be excessively high, increasing also labour costs. The cost of financing fringe benefits explains 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)"[2]. 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[3]. As individuals receive in the end

[2] World Bank (2006), p. 71.

[3] 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

less than their gross income they are encouraged to work informally (OECD 2006, 2008b; World Bank 2006).

Policy recommendations 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.

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 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)[4]. 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[5].

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).

[4] 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).

[5] "Civic rights" correspond to workers association and trade union 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, 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 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 employer 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 a 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[6]. 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.

**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[7]. A three-pillar system, with individual retirement

[6] http://www.imf.org/external/np/loi/2008/tur/042808.pdf

[7] 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 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 billon. 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.

Private health care and insurance is also poorly developed in Turkey. It was almost inexistent before the 1980s, and it started to develop following government subsidies. 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)[8]. 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. Those unable to cope with competing forces will be evicted from the market. Private sector development could also follow from the unification of different funds and universal access. If this process lowers benefits' quality or the degrees of coverage, due to costs and/or institutional problems, 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. There are three possible effects. 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

[8] There were also 11000 general physicians in private practice and around 60% of public sector doctors exercised privately, due to low wages.

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.

**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, 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 and build a right-based approach (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 in occupational status. The Constitutional Court decisions tried to preserve those rights (Adar 2007, Buğra and Adar 2008) [9].

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

[9] 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.

rights than the rest of the population? Budgetary restriction would not allow an open-ended mechanism that could aggravate current problems[10]. 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 afford 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 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 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 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

[10] 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).

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[11]. 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 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 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, while the public sector might diminish its intervention in social assistance. In any case, current pressures favour an adjustment of the current regime that we qualified as conservative-informal. The three possible evolutions and

[11] The Laws on Provincial Administration and Greater Municipalities accord larger responsibilities in this regard to local governments (Buğra and Adar 2007).

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 an objective of the European Union[12]. 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 in their social policy, both in the expenditure level and, more recently, in the implementation of income support programmes[13]. However, the impact on the new members from Eastern Europe might not be the same[14]. 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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12 Flexicurity was included in the Lisbon Strategy for growth and employment.

13 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.

14 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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