

# TURKEY'S CHANGING SOCIAL POLICY LANDSCAPE

*This article reviews aspects of the Turkish social policy regime within the context of its transformation during the 2000s and discusses its strengths and weaknesses in providing adequate and equitable welfare. The article underlines the multifaceted nature and plural tendencies of this transformation, while demonstrating that spending across social policy programs is not sufficiently supporting the disadvantaged population. In the contemporary policy environment new dualisms based on individuals' education, skills, gender, and income are likely to emerge. Addressing these dualisms will require not only more public spending on existing programs but also increased formal employment rates for both men and women and social investment strategies ranging from affordable quality childcare and compulsory early childhood education to better school-to-work transitions, retraining programs, and improvements in skills.*

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**S**ocial policy is a contentious field in which citizens' protection from risks, access to means of skills development, and social mobility over the course of their lives is determined. Contemporary social policy reforms take place in response to various pressures associated with economic globalization, public debt, demographic shifts, population aging, changing gender relations and family structures, labor market restructuring, and shifts in skills demanded in the labor market. Reforms are shaped by socio-economic interests and demands as well as political aspirations of policymakers. The playing field is still primarily the nation-state, but is becoming increasingly transnational through nation states' commitments to supranational modes of governance (the EU, Open Method of Coordination, WTO), their degree of economic openness to global trade and finance, and their type of engagement with global non-state actors involved in development and policy transfer (World Bank, IMF, UN, OECD).<sup>1</sup>

Comparative welfare research demonstrates that past policy legacies affect the outcomes of reforms strongly, if not deterministically.<sup>2</sup> Despite the fact that most social policy reforms tend to be slow and incremental, a series of consecutive reforms generates an accumulated outcome, causing structural transformation.

The social policy landscape in Turkey has changed as a result of a series of minor and major reforms since 1999. Social policy transformation has been multifaceted and it exhibits both inclusive and exclusive trends at the same time. This article briefly reviews policy developments and public expenditures in social assistance, pensions and healthcare, and discusses their strengths and weaknesses in providing adequate and equitable welfare.

### ***How Much Does Turkey Spend for Social Policy and for Whom?***

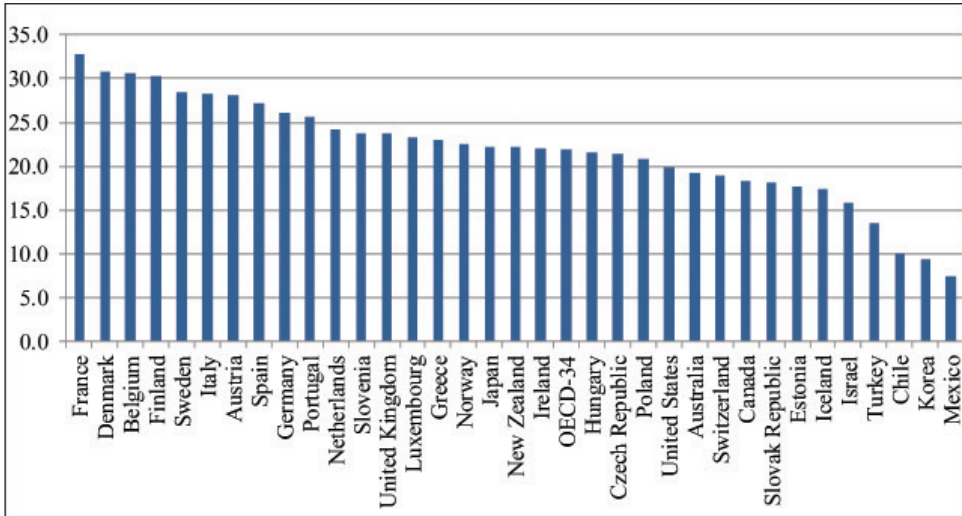
In 2012 and 2013, Turkey devoted around 13.5 percent of its GDP to public social spending, excluding education. Along with South Korea, Mexico, and Chile, Turkey ranks at the lowest end of the OECD spectrum and spends much below the OECD average of 22 percent (Figure 1). Nevertheless, it must be noted that public social policy expenditure increased from less than 8 percent in 2000s to current levels (Figure 2). The rise is notable, yet not satisfactory. The OECD notes that current social spending levels in Turkey, Korea, Chile, and Mexico are similar to those of European countries and Japan in the 1960s, and it has taken about a half-century for many welfare states to

1 Bob Deacon, *Global Social Policy and Governance* (London: Sage Publications, 2007); Rianne Mahon and Stephen McBride (eds.), *The OECD and Transnational Governance* (British Columbia: University of BC Press, 2008).

2 Bruno Palier and Claude Martin, "From a Frozen Landscape to Structural Reforms: The Sequential Transformation of Bismarckian Welfare Systems," *Social Policy and Administration*, Vol. 41, No. 6 (2007), p. 535-54; Bruno Palier, *A Long Goodbye to Bismarck: The Politics of Welfare Reforms in Continental Europe* (Amsterdam: University of Amsterdam Press, 2010).

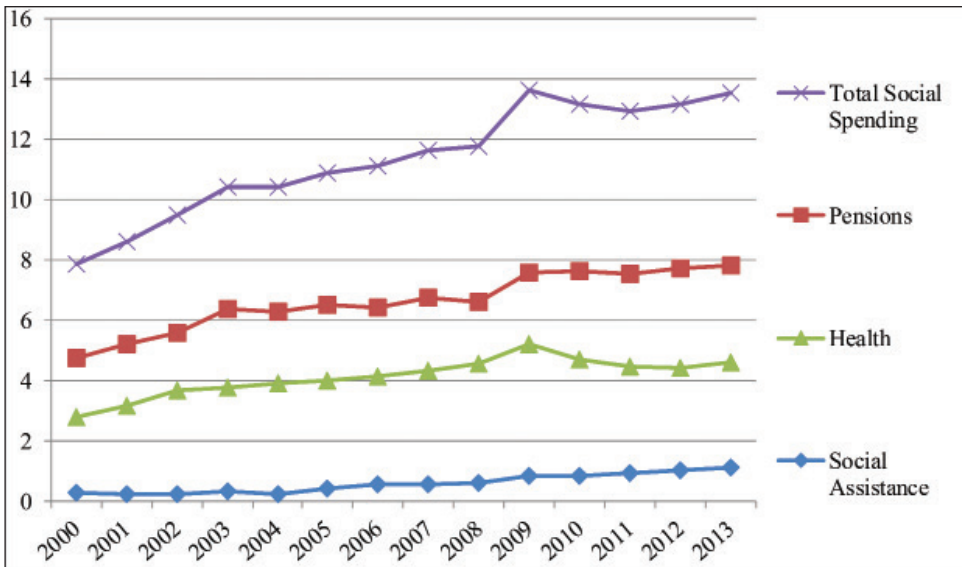
mature.<sup>3</sup> However, Turkey cannot and should not wait that long if the country wishes to realize its aspirations of economic growth and shared prosperity.

**Figure 1: Public Social Expenditures, 2012/2013, (% of GDP)**



Source: OECD Social Expenditure Database; and TURKSTAT Social Protection Statistics; Turkish Social Security Institution Annual Statistics

**Figure 2: Public Social Expenditures in Turkey from 2000 to 2013 (% of GDP)**



Source: OECD Social Expenditure Database; TURKSTAT Social Protection Statistics, Turkish Social Security Institution Annual Statistics

3 "Social Expenditure Update," *OECD* (November 2014), p.1-8, <http://www.oecd.org/els/soc/OECD2014-Social-Expenditure-Update-Nov2014-8pages.pdf>

*“In Turkey, most social spending is related to pension payments and healthcare expenditure, whereas income support for the working-age population, especially social assistance, is low.”*

especially social assistance, is low (Figure 3). Compared to the OECD average for income support, which amounts to five percent of GDP, Turkey spends only 1.1 percent of its GDP to support the disadvantaged population via social assistance and social services. (The amount was an even lower 0.30 percent of the GDP in the early 2000s).<sup>4</sup>

The Public Expenditures Monitoring Platform based in Istanbul reminds us that even when the recently expanded national health insurance support program (formerly known as *Green Card*, a means-tested form of health insurance) is added to the social assistance budget, the total spending for the disadvantaged population remains at 1.67 percent of the GDP.<sup>5</sup>

Overall, support provided by the Turkish social policy regime is unevenly distributed towards the higher income population than the lower income. Comparing the relative share of lowest and highest quintiles of the population in cash benefits, the OECD notes that in 2011, “the share of cash benefits paid to household in the bottom income exceeds 25 percent of all cash benefits in the United Kingdom, Canada, and the Netherlands, and is highest in Norway at 40 percent, compared to around 10 percent in Mediterranean countries, and five percent in Turkey” (Figure 4).<sup>6</sup> Similarly, in 2013 more than 90 percent of social spending in Turkey was devoted to cash-benefits while more than 90 percent of all cash benefits were for pension payments, compared to 2.5 percent for family/children benefits and 1.6 percent for unemployment support.<sup>7</sup>

4 During the 2000s, a number of important steps in the field of social assistance was taken. The Ministry of Family and Social Policy was founded as the administrator of various programs for families and children. Conditional cash transfers to the poorest families in return for children’s continuous attendance in school and involvement in vaccinations programs was introduced. Green Card coverage was first expanded to provide improved access to health services, and was then replaced with the National Health Insurance Program’s means-tested support scheme. Currently around 9 million individuals’ premiums are paid by the state. This amounted to 0.5 percent of GDP in 2013.

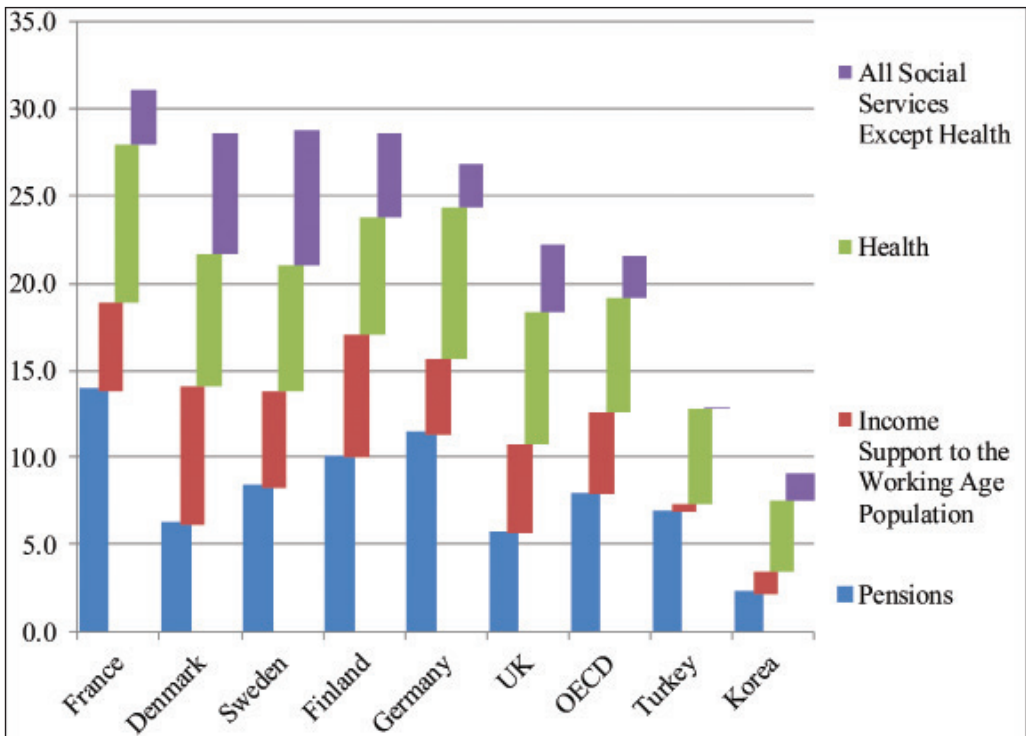
5 *Kamu Harcamalarını İzleme Platformu* [Public Expenditures Monitoring Platform], <http://www.kamuharcamalariniizlemeplatformu.org>

6 “Social Expenditure Update” (2014), pp.1-8.

7 “Social Protection Statistics 2012-2013,” *TURKSTAT*, [http://www.tuik.gov.tr/PreTablo.do?alt\\_id=1040](http://www.tuik.gov.tr/PreTablo.do?alt_id=1040)

Contemporary Turkey has the third-highest level of income inequality and the third-highest level of relative poverty of all OECD countries. Whereas the top 20 percent of the population earns more than 23,000 dollars per year, the bottom 20 percent earns around 7,000 dollars per year.<sup>8</sup> The top 20 percent income group of the country accounts for approximately half of the national income, yet the bottom 20 percent accounts for a mere seven percentage points. In regard to poverty, 22.3 percent of the country's population – 17 million people – lives with less than 60 percent of the median income.<sup>9</sup> Against such a background of poverty and inequality, Turkey needs to devote a larger share of its social spending to social assistance, income support, and social services programs. It is evident that forms of social insurance have become the way in which much of social policy has been framed in Turkey, but it needs to be augmented with social assistance and social services programs.

**Figure 3: Public Social Spending by Area, 2012, (% of GDP)**

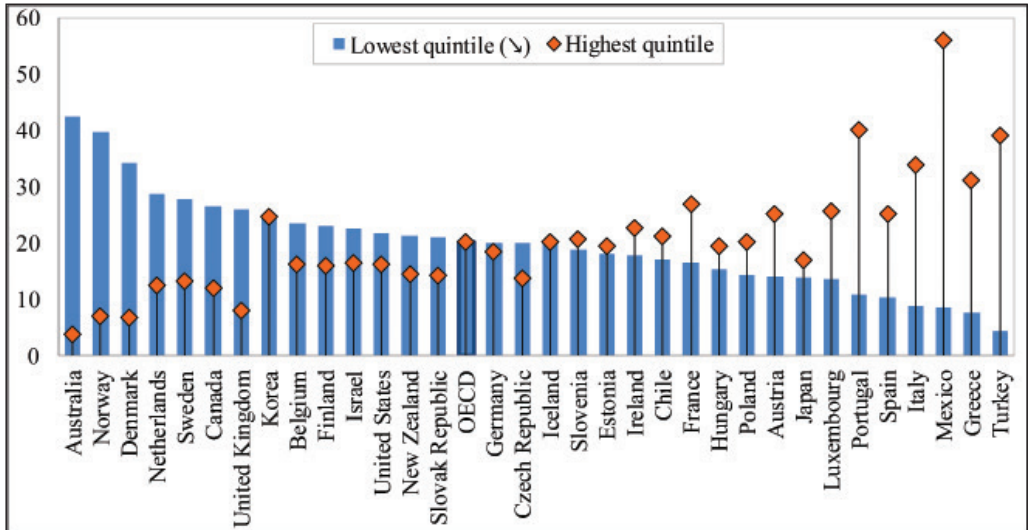


Source: TURKSTAT Social Protection Statistics; OECD Social Expenditure Database

<sup>8</sup> "Better Life Index," *OECD* (2014), <http://www.oecdbetterlifeindex.org/countries/turkey/>

<sup>9</sup> "Income and Living Conditions Survey," *TURKSTAT* (2006-2013), [http://www.tuik.gov.tr/PreTablo.do?alt\\_id=1013](http://www.tuik.gov.tr/PreTablo.do?alt_id=1013)

**Figure 4:** Percentage of All Public Cash Benefits Paid to the Lowest and Highest Quintiles, 2011



Source: Reprinted from *Social Expenditure Update*, (OECD, November 2014)

***Pensions: Not Only a Question of How Much the State Spends but Also Who Pays, How Much, and How Long***

In 2013 public pensions constituted around seven percent of the GDP in Turkey, which is slightly lower than the OECD average of eight percent. In several OECD countries, pensions constitute the largest spending field depending on their demographical profile, past policy commitments to public pensions, or relative share of public and private pensions. In the Turkish case, however, pension spending is less correlated with the aged and retired population than early retirement policies of the past, poor indexation between contributions and pension benefits, and high ratio of pension recipients to active pension contributors. The population aged 65 and above comprises 7.7 percent of Turkey’s population, compared to a 16 percent average across the OECD.<sup>10</sup>

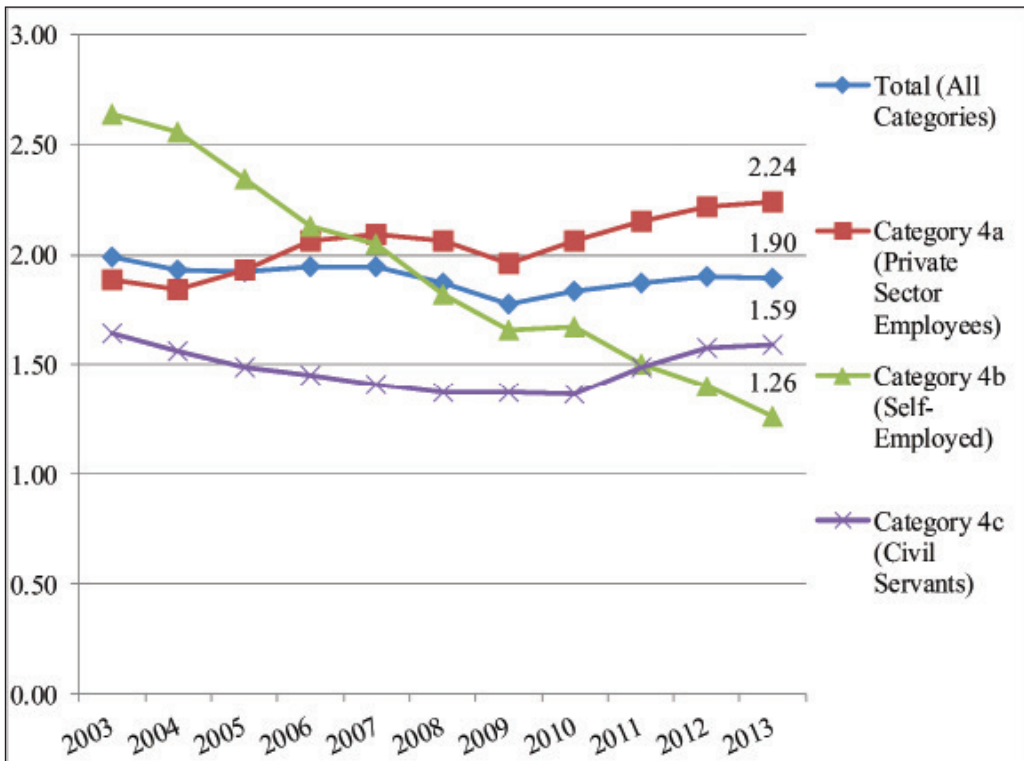
Plenty of countries underwent pension reforms during the 1990s and 2000s in order to increase the sustainability of their pension systems against the backdrop of population aging, as well as part of austerity measures. These reforms mainly included a mixture of less generous indexation formulas for benefit payments, greater reliance on private pensions or defined-contribution schemes, and higher retirement ages. In Turkey, legislative changes made in 1999 and during the 2000s increased the retirement age and minimum period of contribution, while decreasing the replacement

<sup>10</sup> “Labour Force Statistics: Population and Vital Statistics,” *OECD*, <http://data.oecd.org/pop/elderly-population.htm>



ratios. Many of the current retirees' benefit payments are still to be calculated according to pre-1999 legislation with a gradual phasing towards the new parameters. New parametric rules are applied to people who enter the labor force after 2008. The minimum number of contribution days for full pensions is to increase by 100 every year, reaching 9,000 by 2028. The retirement age will be 58 for females and 60 for males until 2036, and afterwards it will gradually increase to 65 for both men and women. Changes in pensions would offset some of the upward pressure on pensions in later decades. However, these changes can do only so much for the pivotal problem of social security in Turkey: the low ratio of active pension contributors to pension recipients (Figure 5 and Figure 6).

**Figure 5:** Ratio of (Active) Pension Contributors to (Passive) Pension Recipients



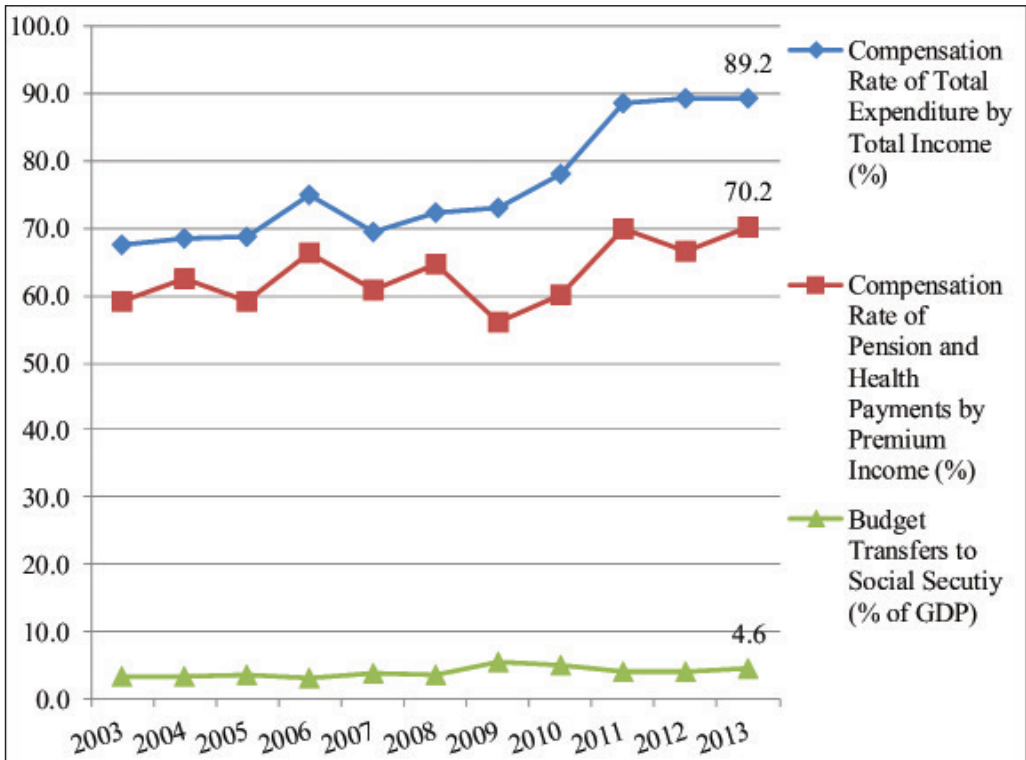
Source: Turkish Social Security Institution, Social Insurance Statistics, 2013 and 2014

In 2012, while there were about four people of working age for every older person across the OECD, there were eight in Turkey.<sup>11</sup> With such a young population, a significantly higher ratio of pension contributors to passive recipients is expected and needed. However, Turkey's very low labor market participation rate of men and women makes it very difficult to deal with this problem.

<sup>11</sup> OECD, *Society at a Glance 2014: OECD Social Indicators* (Paris: OECD Publishing, 2014), p. 96-7.

For both political and social reasons, Turkey is unlikely to undergo further pension reform. Taxation of pensions that are above certain levels does not seem likely either. Nor is spending more on pensions by making drastic cuts in other programs an option. For Turkey there is not much room to cut in the already-low social assistance budgets. The space of action for health expenditures is also minimal, given the current commitments to and public expectations from the national health insurance program.

**Figure 6:** Compensation Rates of Total Expenditure and Pension and Health Payments by Premium Income of the Social Security Institution, and Budget Transfers to Social Security



Source: Turkish Social Security Institution, Social Insurance Statistics and Fiscal Statistics

Therefore, if Turkey is to spend more on pensions in coming years, there seem to be two main public policy avenues. One, budget transfers to social security would have to be increased beyond current levels (Figure 6). Two, Turkey would have to increase the labor market participation and employment rates of male and female citizens in the formal economy, so that both the number of people in the social security system and the compensation rate of pension payments by premium income would increase.<sup>12</sup>

<sup>12</sup> Turkey’s employment rate is 49.5 percent, giving it the second lowest employment rate in the OECD. With 29.8 percent, female employment rate in Turkey is the lowest in the OECD, despite the 7 percent increase from 2007.



Finally, from the perspective of individuals and households that are facing less generous pensions, three main strategies to secure their retirement welfare would be emerging: First, people would have to work longer. Second, people's contribution rates would have to reflect their actual pay level instead of a minimum base. Third, people would have to enroll in private pension schemes. Private pension strategy, since it also has the potential of boosting the domestic saving rate of the country, has been endorsed and financially supported by the government via various incentives such as tax deductions and contribution-matching. The current size of the private pension market is still smaller than intended. The 10th Development Plan projects to increase the number of people enrolled in private pensions from the current five million to nearly nine million persons by 2018.<sup>13</sup>

*“Turkey spends only 1.1 percent of its GDP to support the disadvantaged population via social assistance and social services.”*

### ***Healthcare Spending***

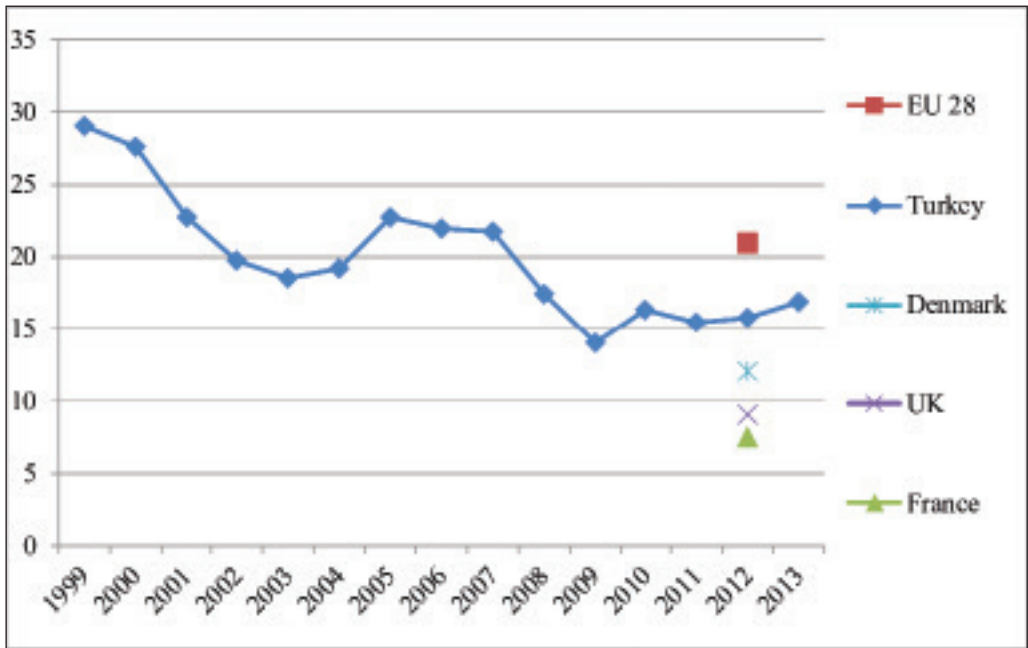
Both total health spending and private health spending have increased during the 2000s in Turkey. Public health expenditure increased from less than three percent of the GDP in 2000 to about 4.5 percent in 2013 (Figure 2). The share of households' out-of-pocket health spending within total health expenditure decreased from around 25 percent in the early 2000s to 17 percent in 2013 (Figure 7). In GDP terms, out-of-pocket health expenditure decreased from 1.1 percent of the GDP in 2002 to 0.9 percent in 2013.

Health insurance coverage for the poorest population groups in Turkey increased from 2.4 million people (25 percent of the poorest decile of the population) in 2003 to around 10 million (85 percent of the poorest decile) in 2011. For the richest decile, health insurance coverage has also increased from 90 percent in 2003 to 96 percent in 2011.<sup>14</sup> Obviously, the National Health Insurance (NHI) program has been instrumental in expanding health coverage. Further, the unification of formerly separate health insurance schemes created a more manageable risk pool to share the risks associated with healthcare expenditures across all income groups of the country.

<sup>13</sup> *The 10th 5-Year Development Plan: 2014-2018* (Ankara: Ministry of Development, 2014), p. 48.

<sup>14</sup> Rfat Atun et al., “Universal Health Coverage in Turkey,” *The Lancet*, Volume 382, No. 9886 (2013), p. 65–99.

**Figure 7: Out-of-Pocket Health Expenditures as Percentage of Total Health Expenditure**



Source: OECD Health: Key Tables; 10.1787/20758480; TURKSTAT Health Expenditure Statistics

The number of health staff has increased over the last decade. The number of doctors changed from one doctor per 1,000 population in 2000 to 1.8 in 2012. The number of nurses increased from 1.3 nurses per 1,000 population to 1.7 in 2012. Yet, the figures for doctors and nurses are still low by OECD standards. The OECD average for doctors is 3.2, and it is 8.8 for nurses. This puts Turkey at the end of the OECD ranking. Similarly, despite the increase in the number of beds per 1,000 population from two to 2.7, Turkey’s comparative rank within the OECD is 31st out of 34 countries.

Analyzing the changes in the components of the public health spending, presented in Figure 8, two trends are notable: First, the share of expenditures on medicine in public health spending shrunk during the 2000s. This can be explained by the strong bargaining power of the NHI as the oligopsonic buyer – as one of a small number of buyers in a market with many sellers – that gainfully implements cost-containment strategies, and enforces lowest prices and mandatory discounts. Second, the share of private hospitals in public health spending has grown considerably. This change is related to one central aspect of the NHI: the state can make contracts with private health facilities allowing citizens to receive healthcare services from the private sector.

The number of private hospitals in Turkey has increased from 271 in 2002 to 550 in 2013. The number of beds in private hospitals has increased from 12,387 in 2002 to 37,983. It is calculated that, whereas the 2006-10 compound annual growth rate of hospital visits is 5.6 percent for public hospitals, the same figure for private hospitals is 32.4 percent.<sup>15</sup>

Understandably, private sector contracts effectively contributed to increasing citizens' access to healthcare. Yet, at the same time, the increasing size and share of private hospitals and Social Security Institution's emerging experimentation with the size and scope of contributory fees and co-payments for health services led observers of Turkey to inquire whether Turkish health policy is on the path towards marketization and commodification.<sup>16</sup> It seems it is not yet possible to give a definitive answer to this question, since trends towards universalism and marketization (commodification) exist concurrently in the present landscape. On the one hand, the NHI has reached around 95 percent of the country's population with unprecedented coverage for the poor. On the other, the increasing share of the private sector, against the backdrop of official plans to cut (if only slightly) the GDP share of public spending on health,<sup>17</sup> suggests that Turkish citizens may have to devote a larger share of their household budgets to health in coming years.

The driver of a potential marketization trend at the moment is not private health insurance, since only around five percent of the Turkish population is enrolled in private health insurance.<sup>18</sup> Most private health insurance schemes are of a primary character for their users, i.e., not combined with the NHI scheme at the point of service. However, in addition to increasing experimentation with co-payments and the widening share of private hospitals in Turkey, insurance companies have started rolling out complementary and supplementary packages that can be purchased by those already covered by the NHI for top-up purposes. An expansion of complementary health insurance schemes may add to a potential marketization trend.<sup>19</sup>

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15 Interational Investors Association, *Health Sector Report* (Istanbul: Deloitte and Interational Investors Association, 2012), p. 31.

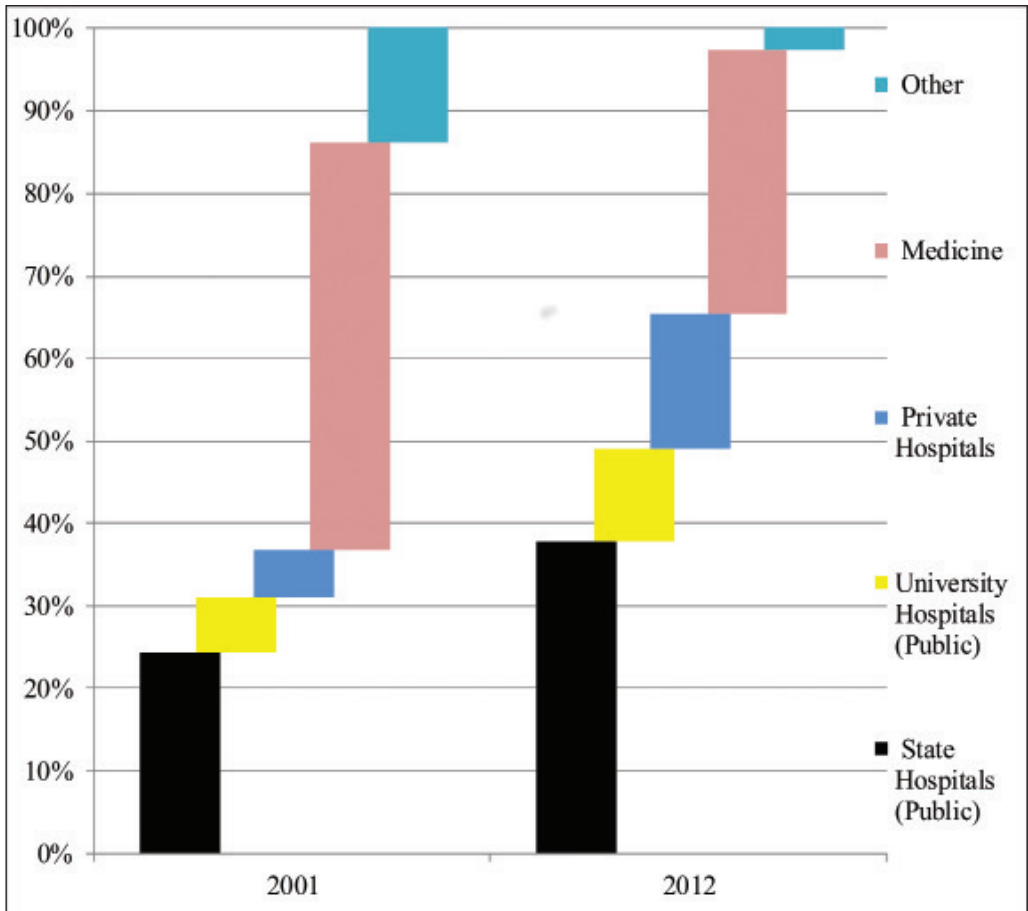
16 For analytical discussions of this topic, see: Tuba Ağartan, "Marketization and Universalism: Crafting the right Balance in the Turkish healthcare System," *Current Sociology*, Vol. 60, No. 4 (2012), p. 456-71; Volkan Yılmaz, "Changing Origins of Inequalities in Access to Health Care Services in Turkey: From Occupational Status to Income," *New Perspectives on Turkey*, No:48, (2013), p. 55-77.

17 *The 10th 5-Year Development Plan: 2014-2018* (2014), p. 77.

18 OECD, *Health At a Glance: Europe 2014* (Paris: OECD Publishing, 2014), p. 109.

19 At the same time, it must be added that a potential impact of private health insurance could be more compound than straightforward since, for example, comprehensive use of private health insurance schemes may help reducing the out-of-pocket amount that households would have to pay for health services. (This is one of the intended outcomes of healthcare reform in the US).

**Figure 8:** Public Health Spending of Social Security Institutions by Expenditure Type



Source: TURKSTAT Health Expenditure Statistics; Turkish Social Security Institution, Fiscal Statistics

*A Few Concluding Words*

The bottom line of this brief article is that the transformation of social policy in Turkey is multilayered. Reforms of the 2000s helped to abolish some aspects of the traditional dualistic and exclusionary social policy based on separate and status-distinct insurance schemes. Turkey has expanded public healthcare coverage by introducing national health insurance, and increased the public social expenditure budgets. Nevertheless, there are both remaining and newly emerging challenges. This article concludes by reminding policymakers that improving the welfare of Turkey’s population would require more public social spending, a more equitable distribution of social spending and the expansion of formal economy. The OECD’s public social spending average of 22 percent of the GDP may not be attainable overnight, but it should be set as a policy target. The budget and

resources devoted to social assistance and social services need to be substantially increased beyond their current levels. The social gains brought about by national health insurance should not be lost against marketization trends. In addition, Turkey needs to supplement existing social spending programs with extensive social investment strategies varying from affordable quality child-care, compulsory early childhood education to better school-to-work transitions, retraining programs, and improvements in skills.

*“Contemporary Turkey has the third-highest level of income inequality and the third-highest level of relative poverty of all OECD countries.”*

For several decades, the idea of a “social state” has been the way in which the social policy debate has been framed in Turkey, although its meaning and content have never been elucidated. It is long overdue for Turkey to draw on the notions of “social citizenship” and the “welfare state” to discuss and implement its social policies.