



How 'social' is Turkey?

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Kerem Gabriel Öktem

Exploring Path Departure:

The Transformation of Unemployment Insurance in Turkey (1999-2019)

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Abstract

It is well-known that path dependence is crucial for understanding welfare state development. Policymakers often face insurmountable obstacles that prevent policy change. Yet, in some cases change – even transformative – does happen. In this paper, we explore such a case of transformative change: Turkey's unemployment insurance. At first glance, the changes are invisible. Since its inception in 1999, the core statutes, which define who gets what benefits for how long and under what conditions, have been virtually untouched. Therefore, the rules regulating coverage, conditions of access, benefit duration, financing and benefit levels stay intact. However, in a gradual process of layering a number of mostly temporary instruments have been attached to the programme. Collectively, these instruments transformed the logic of the policy: from a tool to protect employees against unemployment, it became a tool to pursue active labour market policies and support employers in order to facilitate employment generation.

Bringing together insights from the literatures on gradual institutional change and on the fiscal politics of welfare state development, this paper explores the transformation of Turkey's unemployment insurance. It argues that the policy design of unemployment insurance created a structural surplus that, over time, led to pressures (most prominently from business groups) for policy change. The economic crisis of 2008 proved to be a critical juncture, in which the government launched a major reform. Among a limited menu of options, it chose business-friendly policies that would also help it win elections. This reform paved the way for subsequent changes from 2009 onwards. In the resulting policy mix, employer subsidies and discretionary active labour market policies dominate. Yet, it remains to be seen whether this policy mix is sustainable or leads to new transformations.

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1. Introduction

It is well-known that path dependence is crucial for understanding welfare state development (Pierson 1996). Policymakers often face insurmountable obstacles that prevent policy change. Yet, in some cases change – even transformative – does happen. In this paper, we explore such a case of transformative change: Turkey’s unemployment insurance. At first glance, the changes are invisible. Since its inception in 1999, the core statutes, which define who gets what benefits for how long and under what conditions, have been virtually untouched. Therefore, the rules regulating coverage, conditions of access, benefit duration, financing and benefit levels basically stay intact. However, in a gradual process of ‘layering’ (Mahoney and Thelen 2010) a number of new and mostly temporary instruments have been attached to the programme. Layering describes a process through which new rules or instruments are introduced alongside existing rules. Collectively, these instruments transformed the logic of the policy: devised as a tool to protect employees against unemployment, it became a tool to pursue active labour market policies and support employers to facilitate employment generation.

Bringing together insights from the literatures on gradual institutional change and on the fiscal politics of welfare state development (Koreh 2017a and 2017b), this paper explores the transformation of Turkey’s unemployment insurance programme from its inception in 1999 to the start of the Covid pandemic in early 2020. It does not focus on the changes made during 2020, as these are still very much on-going. Yet, in the conclusion we touch upon key changes made in response to the labour market shock brought about by the COVID 19 pandemic.

There is a dearth of non-Turkish language studies on the development of Turkey’s unemployment insurance programme. The most important study on the subject has been conducted by Özkan. Yet, his work concentrates on the introduction of the programme and does not focus on changes made to the programme afterwards (Özkan 2011, 2013 and 2016). Our working paper on the political history of unemployment insurance introduction complements Özkan’s research, but also keeps quiet on the development of the programme in the past two decades (Öktem 2020). In addition to these English-language studies, there are some Turkish-language articles that trace the development of the programme (Uğur 2011; Gün 2015; Çolak 2017). Still, these do not approach the case from a comparative angle. In this paper, we aim to fill this gap and study the development of the programme from a comparative perspective. This comparative approach is reflected in the paper in two ways. First, we compare Turkey’s unemployment insurance programme to similar programmes in other countries. For this purpose, we make use of original data on the programme that we have generated for two social rights databases, the Social Insurance Entitlements Dataset (SIED, formerly Social Citizenship Indicator Programme, SCIP) and the Comparative Welfare Entitlements Dataset (CWED 2). Second, we draw on theories devised by comparativists that seek to explain the development of social policies in general. More precisely, we draw on the comparative literature on gradual institutional change and the fiscal politics of welfare state development to understand the development of Turkey’s unemployment insurance programme over the past two decades.

Tracing the changes witnessed over two decades, we argue that the policy design of unemployment insurance created a structural surplus that, over time, led to pressures for policy change. These pressures

mostly came from business groups. The economic crisis of 2008 proved to be a critical juncture, in which the government launched a major reform. Among a limited menu of options, it chose business-friendly policies that would also help it win elections. This reform paved the way for subsequent changes from 2009 onwards. In the resulting policy mix, employer subsidies and discretionary active labour market policies dominate. Yet, it remains to be seen whether this policy mix is sustainable or lead to new transformations.

The paper is structured as follows. In section 2, we discuss the main institutional characteristics of Turkey's unemployment insurance programme, as measured through comparative welfare state databases such as CWED and SCIP. In section 3, we explore the new active and passive labour market instruments introduced as part of the unemployment insurance programme. In section 4, we show through an analysis of expenditure patterns that these new policy instruments gradually transformed the structure of the unemployment insurance programme. In section 5, we take a closer look at how the process of institutional change unfolded. We identify three distinct periods, with the 2008 economic crisis as a critical juncture. In section 6, we conclude with discussing implications of the Turkish case for comparative research.

2. Institutional Features of Turkey's Unemployment Insurance Programme

The institutional features of Turkey's unemployment insurance program can be explored through comparative indicators on unemployment insurance found in state-of-the-art welfare state datasets, such as the Social Insurance Entitlements Dataset (SIED, formerly SCIP; Korpi and Palme 2008) and the Comparative Welfare Entitlements Dataset (CWED 2; Scruggs et al. 2014). These datasets aim to measure what they perceive as 'the core of the modern welfare state – the extent and quality of the social rights that constitute social citizenship' (Korpi, 1989: 310). They measure both, output and outcome variables related to the programme. In particular, they focus on understanding who gets what benefits for how long and under what conditions (Bolukbasi and Öktem 2018). Thus, indicators relate to conditions of access, benefit duration, coverage and financing. Table 1 below shows Turkey's scores for selected SIED indicators on unemployment insurance.¹

Table 1. Selected SIED Indicators for Turkey's Unemployment Insurance Programme

Year	Waiting Days	Benefit Duration	Reference Period	Contribution Period	Income Ceiling	Means-test	Financing (share of all contributions)		
							Insured	State	Employer
2015	0	43 weeks	156 weeks	86 weeks	No	No	25%	25%	50%
2010	0	43 weeks	156 weeks	86 weeks	No	No	25%	25%	50%
2005	0	43 weeks	156 weeks	86 weeks	No	No	25%	25%	50%

¹ This data has been generated together with Tolga Bölükbaşı and Efe Savaş.

2000	NA	NA	NA	NA	NA	NA	29%	29%	43%
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Source: Own coding based on SIED coding rules and national legislation. Note that SIED contains data for 5 year intervals. NA = Not Available.

The table shows that key institutional features of Turkey's unemployment insurance programme have remained intact. Benefits are provided to those formal sector workers, who contributed for at least 86 weeks of the last 156 weeks. The average for all countries included in SIED was 39 weeks in 2015. In comparative perspective, qualification period is thus long. For those insured, who contributed continuously throughout the last three years, benefit duration is 43 weeks. The average for all countries included in SIED was 92 weeks in 2015.² In comparative perspective, benefit duration is thus short. Benefits are paid without waiting days. This was the case also in 16 of 34 countries included in SIED in 2015. There is no income ceiling and no means-test to exclude high income workers. The financing structure of the program is tripartite. Initially, employers contributed three per cent of the gross wage of the employee, while employee and state both contributed two per cent of the gross wage. This was changed in 2002, before the programme started to pay out benefits, to two per cent for employers and one per cent for each, employee and state.³ These contributions are made to the Unemployment Insurance Fund (*İşsizlik Sigortası Fonu, UIF*). The programme is managed by the Public Employment Service (formerly: *İş ve İşçi Bulma Kurumu*, now: *Türkiye İş Kurumu, İŞKUR*).

The program covers all regular employees insured under the social security agency (*Sosyal Güvenlik Kurumu, SGK*)⁴, as well as those insured under special funds.⁵ In 2011, part-time workers and voluntarily insured were also made eligible for unemployment insurance coverage. However, these groups constitute less than one per cent of the labour force and their coverage is not mandatory, thus the effect of this change on coverage rates was minor.⁶

This lack of change in the rules governing access to unemployment insurance masks a significant change in the effective access of employees to the programme. Over the last decades, the share of the labour force with access to social security, including unemployment insurance, has steadily increased. This increase is mainly the result of decreases in agricultural and informal employment. Therefore, an ever larger share of the workforce is protected against unemployment. In line with this development the take-up rate for unemployment benefits, i.e. the proportion of unemployed who received benefits, has also steadily increased, albeit from an extremely low basis. In recent years, around half a million unemployed receive unemployment benefits each month. Still, the overwhelming majority of the unemployed do not receive benefits, which is at least partly due to the strict eligibility conditions. The

² Note that the average includes countries with unlimited benefit duration, which are coded as 520 weeks in SIED.

³ Data on unemployment insurance financing is no longer updated in SIED. The last data available is from 2005. For that year, data is available for 17 classic welfare states. The average value for these countries is relatively similar to the financing shares for Turkey in Table 1 above.

⁴ Until 2008, this applied to insured under the social insurance agency for employees (*Sosyal Sigorta Kurumu, SSK*).

⁵ Special funds designate funds created under temporary article 20 of Law No. 506. These funds are mainly retirement funds from the banking sector and have around 100.000 active contributors.

⁶ A more important change was legislated in 2017 with the creation of a special insurance fund for self-employed. However, the implementation of this fund was postponed to 2021 and is therefore not discussed in this paper.

secular increase in coverage only stopped with the severe economic crisis grappling the country in recent years. Figure 1 below illustrates the development of coverage, as measured by CWED, and of take-up rates.

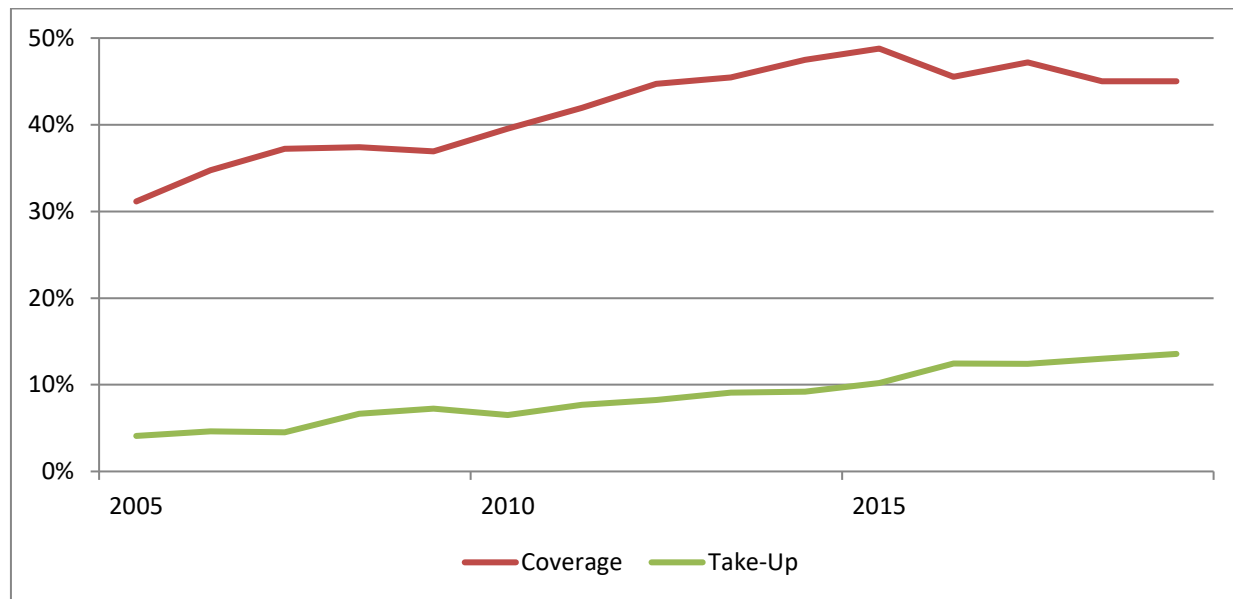


Figure 1. Development of Unemployment Insurance Coverage and Take-Up Rates

Sources: Coverage data is taken from yearly SGK reports. Take-up data is calculated on the basis of monthly reports on the UIF by İŞKUR (*İşsizlik Sigortası Bülteni*) and unemployment statistics by the Turkish Statistical Institute (Türkiye İstatistik Kurumu, TÜİK).

In comparative perspective, both coverage and take-up rates are low. On average, countries included in CWED cover around 80 per cent of their labour force against the risk of unemployment. Comparative data on take-up rates is not featured in CWED. Yet, based on ILO (2017) data, we calculate that on average countries included in CWED pay unemployment benefits to nearly half of all unemployed.

With regard to benefit levels, the programme has also not seen much change. When it was first started, the benefit level was set at 50 per cent of the average net wage. Moreover, there was a cap on the benefit level, so that unemployment benefits would not exceed the minimum wage. These rules were slightly changed in 2008. Benefit levels were changed to 40 per cent of the average gross wage. The benefit cap was also changed to 80 per cent of the gross minimum wage. The effect of this change was quite small, however. Thus, at first glance it appears that the rules defining benefit levels have largely been left intact.

To check whether this is really the case, we can look again at SIED and CWED indicators. In SIED and CWED, the generosity of benefit levels is captured through replacement rates. Both datasets contain different replacement rates that are built based on slightly different coding rules (see Wenzelburger et al. 2013, Scruggs 2013 and Ferrarini et al. 2013 for a discussion on the differences in replacement rates in SIED and CWED). The most widely used replacement rates indicators are net replacement rates for the average production worker for a 6 months spell of unemployment. Here, it is assumed that a fictitious model worker in the production sector ('average production worker', APW) becomes unemployed for 6

months. The net benefit he receives is then compared to the net wage he previously earned to capture what share of his income is replaced by unemployment benefits. Replacement rates are calculated for single persons and for a family with two children, in which the spouse does not work. Figure 2 shows the development of unemployment insurance replacement rates for both households based on the CWED coding protocols.

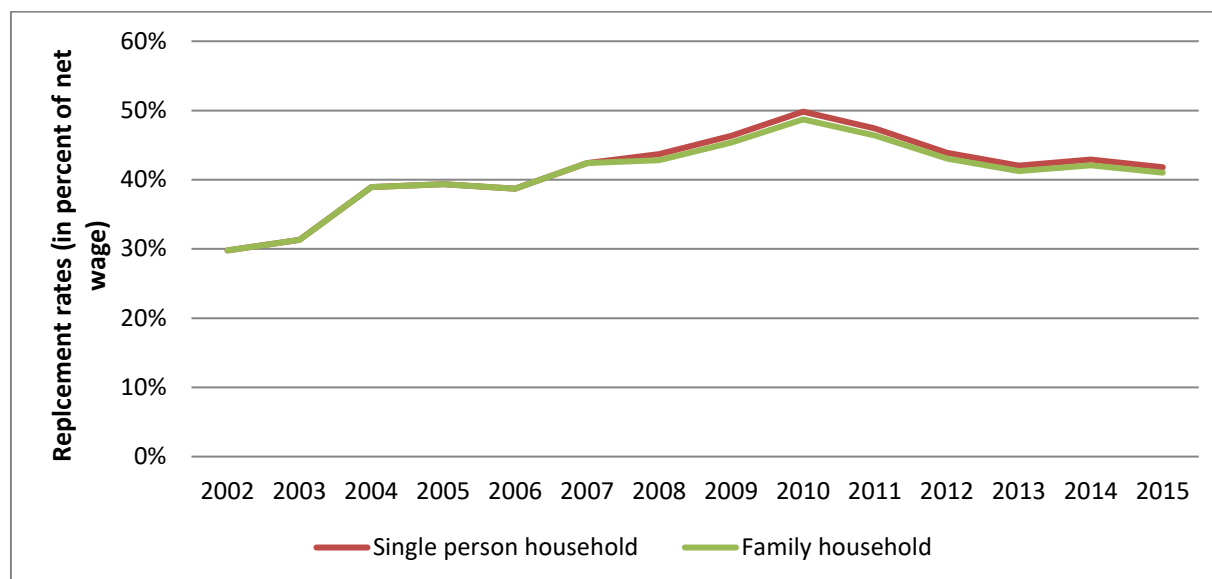


Figure 2. Development of Unemployment Insurance Replacement Rates (CWED)

Source: Own coding based on CWED coding rules and national legislation.

Figure 2 shows that net replacement rates increased from around 30 per cent in 2002 to close to 50 per cent in 2010. By 2015, they had decreased again to around 40 per cent. Differences between the household types are small and caused by differences in income taxes paid, not benefits received. As we have described above, benefit levels were only changed once in 2008. So, how can we explain the changes in replacement rates? There are two main causes for changes in the replacement rates. First, the income of the APW vis-à-vis the minimum wage changes over time. As the minimum wage defines a cap on benefit levels, a higher APW income translates into lower replacement rates. Second, the amount of taxes paid on gross income changes each year. These two factors appear to be more important than the legislative change in benefit levels in 2008, which is barely visible in the figure above.

To better visualize the effect of the legislative change in benefit levels, we created another replacement rate indicator, independent of SCIP and CWED coding rules. Here, a fictitious one-year spell of unemployment is assumed (without taking into account the fact that unemployment benefits are not paid for a full year). Net unemployment benefits are then compared to the net wage for the full year. We calculate this replacement rates for different types of employees in order to analyse ‘several income levels at the same time’ (Kvist et al. 2013: 327). This ‘profiling’ of replacement rates starts with a minimum wage earner and ends with a person ending ten times the minimum wage. Figure 3 below compares the replacement rates for these different workers in 2007 and 2008.

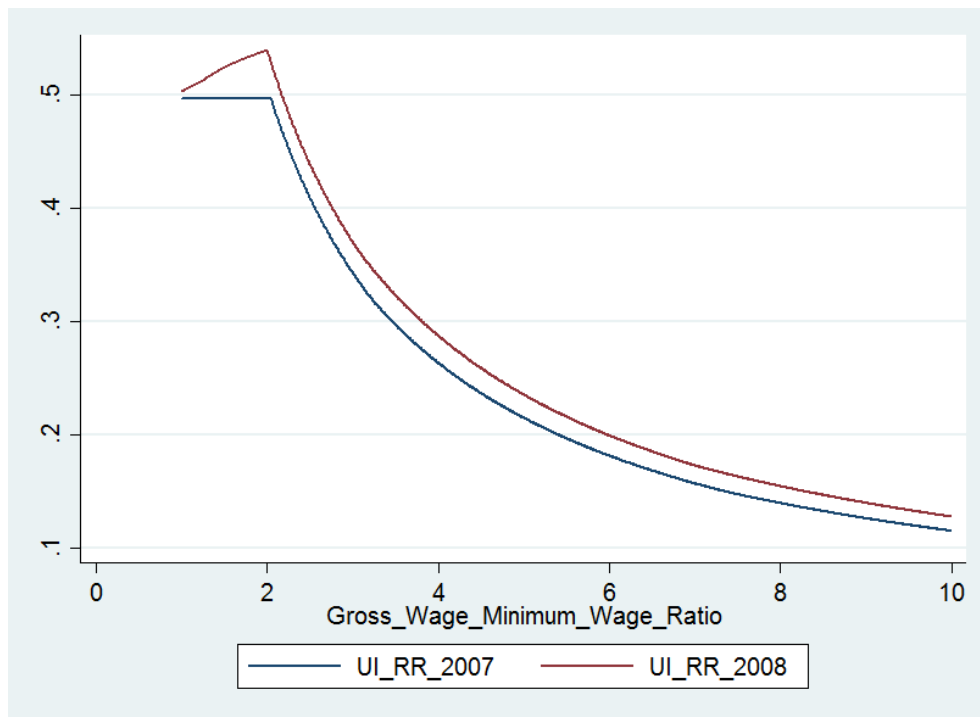


Figure 3. Profiling of Unemployment Insurance Replacement Rates 2007 and 2008

Source: Own coding based on national legislation.

Figure 3 above shows that the change in benefit rules led to a slight increase in replacement rates for all income groups.⁷ This increase was smallest for minimum wage earners, whose replacement rates increased only by 0.6 per cent and highest for employees earning two times the minimum wage, whose replacement rates increased by around 4 per cent. The Figure thus shows that the effect of the change in benefit rules was indeed minor. We conclude that the key institutional characteristics of Turkey's unemployment insurance programme remain intact.

3. Layering: Creating New Policy Instruments

While the core of Turkey's unemployment insurance program has not been changed much, the policy has been transformed through the creation of a host of new instruments. These instruments are part of the unemployment insurance programme, insofar as their legal foundation lies in the Law on Unemployment Insurance (Law No. 4447), they are financed through the Unemployment Insurance Fund and are managed by İŞKUR, the Public Employment Service (PES). Yet, they go beyond the core aim of the programme, which consisted of providing cash benefits to the unemployed. These new instruments are partly passive labour market policies and partly active labour market policy.

⁷ The figure also shows the distributive profile of unemployment benefit. Benefits are mediocre for low and middle income earners. As income increases, benefits become less and less significant for upper income groups.

3.1. New Passive Labour Market Policies

There are two new passive labour market policies. First, the Wage Guarantee Fund (*Ücret Garanti Fonu*) ensures the payment of wages to employees of firms that are unable to pay wages. Second, the Short-Time Work Compensation (*Kısa Çalışma Ödeneği*) ensures that employees of firms, which have stopped or reduced production due to an economic crisis, are given a compensatory payment. These instruments are legally grounded in the Unemployment Insurance Law, are administrated by the PES and financed through the UIF. Both instruments are very sensitive to changes in the business cycle. This means that their reach is very limited in normal times, but beneficiary numbers increase during recessions.

The Wage Guarantee Fund was created as early as 2003 through a comprehensive new labour law (Law No. 4857 *İş Kanunu*). In 2008, the Fund became an integral part of the legal framework of the unemployment insurance programme (through Law No. 5763). In administrative terms, the Wage Guarantee Fund is part of the UIF. It is financed by using 1 per cent of the employer's contributions to the UIF. The Fund ensures the payment of the last three months' wages to employees of firms that are unable to pay wages. The payments are capped at the level of the social security contribution ceiling, which is currently 7.5 times the minimum wage – a level that few employees achieve. On average, actual benefits tend to hover around 2 to 3 times the minimum wage.

Benefit payments through the Wage Guarantee Fund started in the beginning of 2005, after a by-law specifying rules and regulations of the Wage Guarantee Fund was published in late 2004.⁸ In terms of coverage, the instrument was off to a slow start, with, on average, about 100 beneficiaries per month in the first year. In the course of the global economic crisis, the instrument was more often used, with beneficiary numbers peaking in May 2010 at nearly 3500. As the economic climate improved beneficiaries decreased again. The protracted economic crisis since 2018 again led to an increase in the use of the Wage Guarantee Fund, reaching more than 7000 workers by January 2019. Overall, the beneficiary data for the Fund thus follows the business cycle. Yet, its reach has been limited, compared to other instruments and only few employees benefit from it. Figure 4 below shows the development of coverage of the Fund.

⁸ *Ücret Garanti Fonu Yönetmeliği, Resmi Gazete No. 25617.*

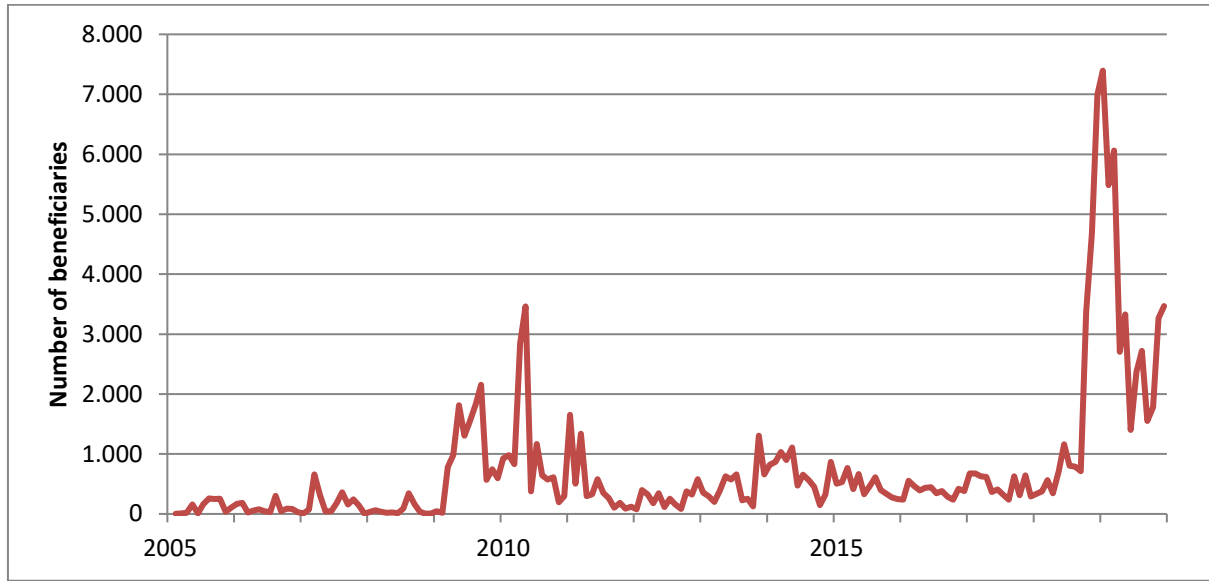


Figure 4. Number of Beneficiaries of the Wage Guarantee Fund

Source: Monthly reports on the UIF by İŞKUR (*İşsizlik Sigortası Bülteni*).

The Short-Time Work Compensation was also created in 2003 through the new labour law. It ensures that employees of firms, which have stopped production or reduced working hours due to an economic crisis, are given a compensatory payment. In this way, it is an instrument to avoid unemployment during an economic crisis. The payments are also made through the UIF. In 2008, the Compensation became an integral part of the legal framework of the unemployment insurance program (through Law No. 5763). Subsequently, the instrument was expanded in terms of scope and benefit level through several reforms. Short-Time Work Compensation can be seen as providing additional protection against unemployment by supporting companies to prevent layoffs. In this sense, it has dual role in supporting employees and employers alike. This is an important qualitative difference to regular unemployment benefits, which are mainly geared towards employees.

Benefits were first paid out in 2005, after a by-law specifying rules and regulations of the instrument was published in 2004.⁹ The reach of the policy was extremely limited in the first years, so that the PES did not even bother to publish monthly statistics. This changed with the global economic crisis, when the program was expanded and consequently beneficiary numbers peaked at 80.000 in June 2009. As the economic situation improved the instrument started to be less used. With the new economic crisis since 2018 beneficiary numbers climbed again.¹⁰ Overall, the Short-Time Work Compensation thus follows the business cycle, serving as an automatic stabilizer in times of economic crisis. Still, compared to regular

⁹ *Kısa Çalışma ve Kısa Çalışma Ödeneğine İlişkin Yönetmelik, Resmi Gazete No. 25419.*

¹⁰ Note, that the Compensation's regulations were changed in response to the COVID labour market shock in 2020. As a result beneficiary numbers massively climbed to around three million.

unemployment insurance benefits, its reach has been limited in most times. Figure 5 below shows how coverage of Short-Time Work Compensation developed.

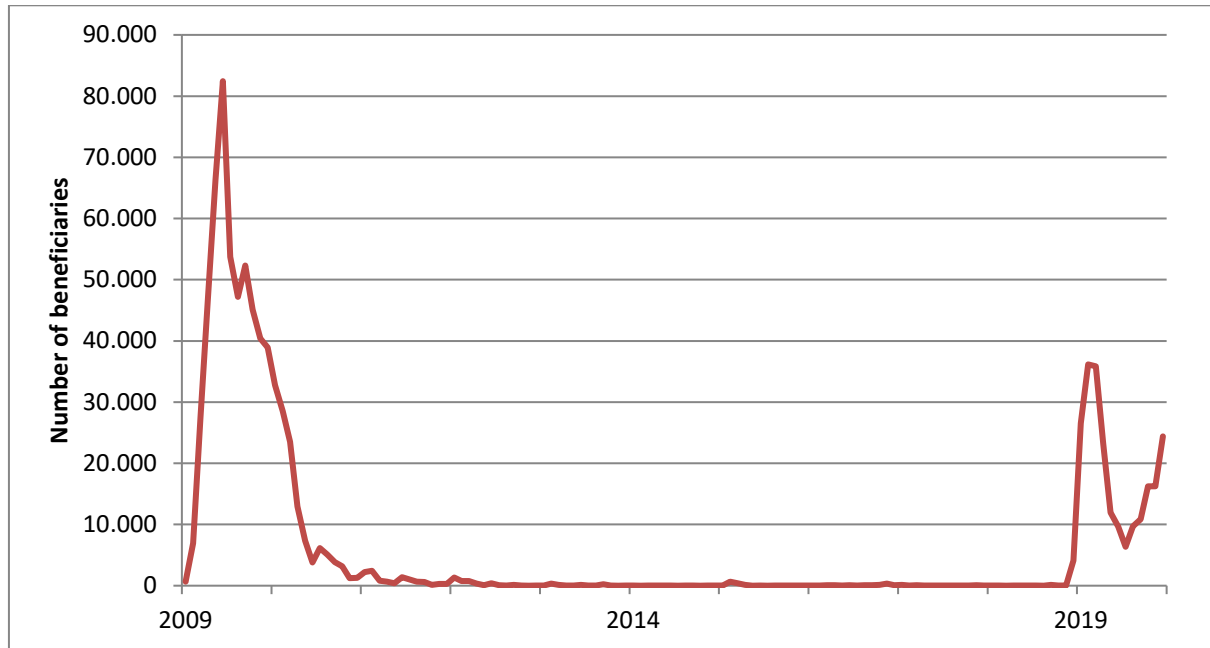


Figure 5. Number of Beneficiaries of Short-Time Work Compensation

Source: Monthly reports on the UIF by İŞKUR (*İşsizlik Sigortası Bülteni*).

Both Wage Guarantee Fund and Short-Term Work Compensation thus provide additional protection for employees in times of economic crisis. Yet, compared to unemployment benefits, their reach remained more limited. Far fewer people benefit from the new instruments than from unemployment insurance, as can be seen in Figure 6 below.

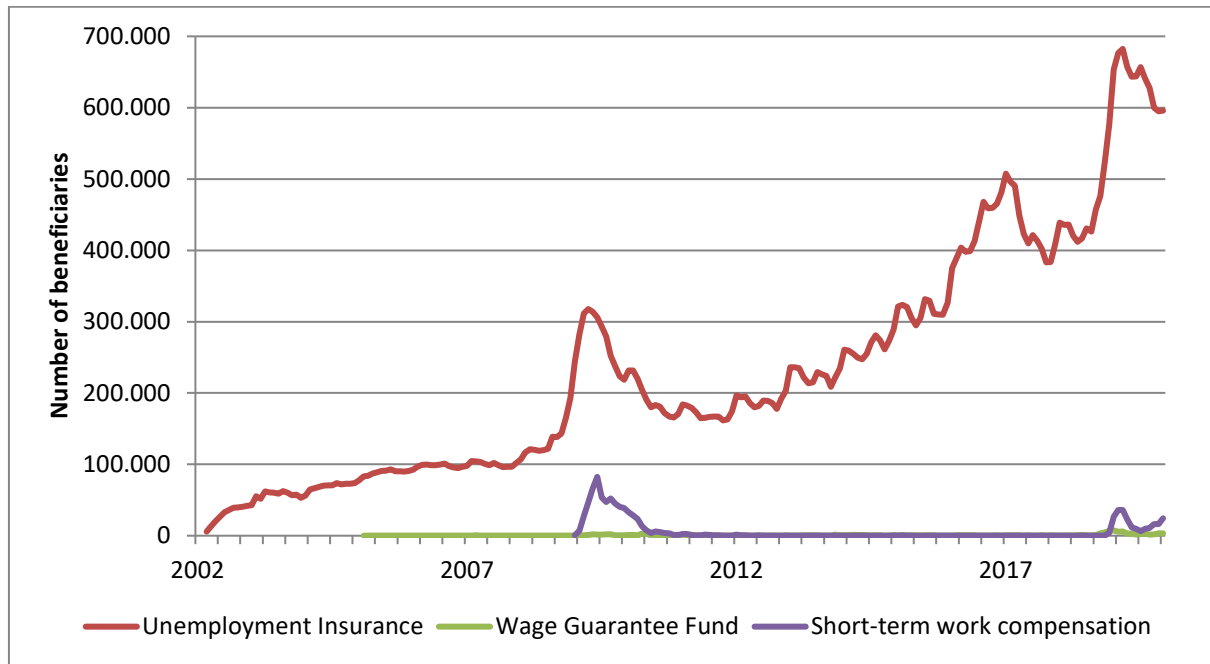


Figure 6. Number of Beneficiaries of Passive Labour Market Policies

Source: The number of beneficiaries is taken from monthly reports on the UIF by İŞKUR (*İşsizlik Sigortası Bülteni*).

Still, these new passive labour market policies should not be underestimated. In terms of generosity, their benefits tend to be higher than unemployment benefits. This is particularly the case for benefits paid through the Wage Guarantee Fund, as can be seen in Figure 7 below. Hence, we can conclude that all in all the new instruments have led to a broader protection against social risks.

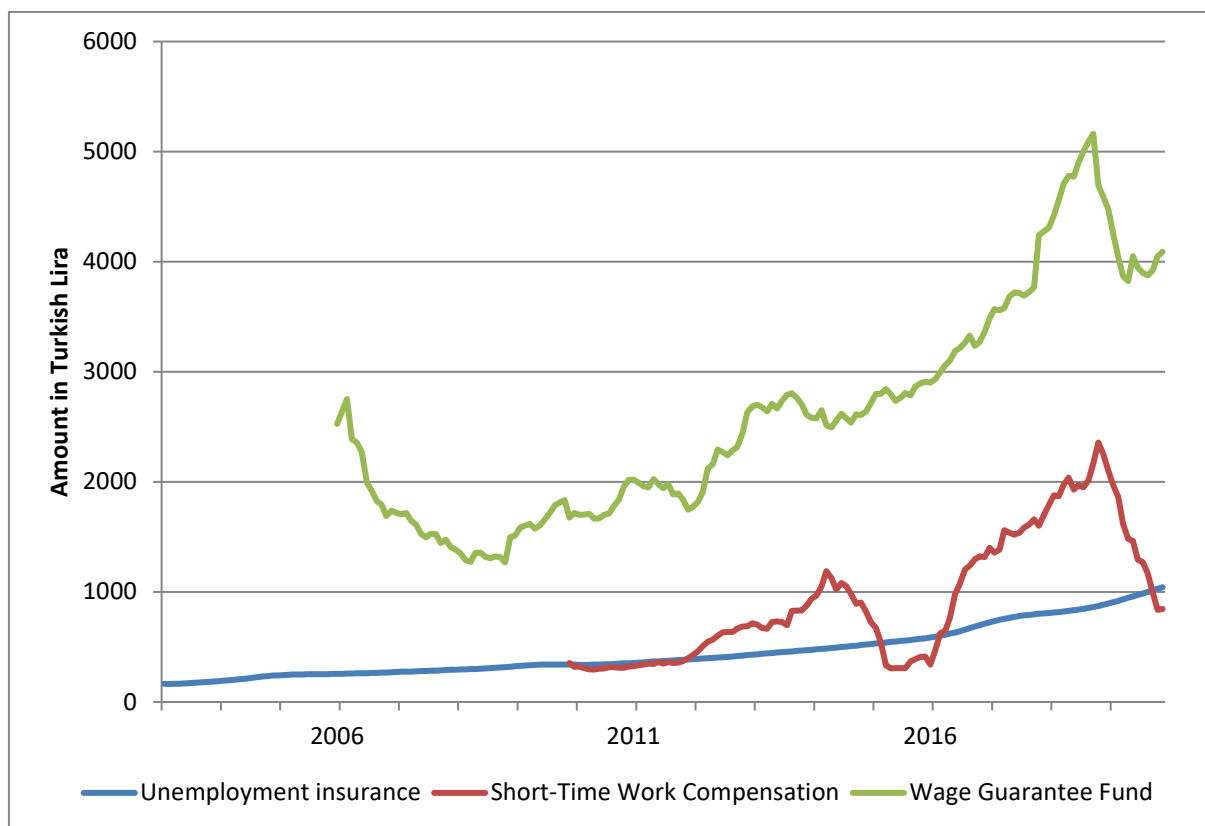


Figure 7. Average Transfer Amount of Passive Labour Market Policies

Source: Calculated based on monthly reports on the UIF by İŞKUR (*İşsizlik Sigortası Bülteni*). Note that we present averages of the last 12 months, so as to smooth the enormous fluctuations in average monthly transfer amounts that occur when Wage Guarantee Fund and Short-Time Work Compensation have only very few beneficiaries in a particular month.

3.2. New Active Labour Market Policies

In addition to these passive labour market policies, a number of active labour market policies (ALMP) have been developed under the umbrella of the unemployment insurance programme. While ALMP had been part of the programme from the beginning, it used to be restricted to recipients of unemployment benefits. Through successive reforms made over the last decade, the scope of ALMP has been broadened. Today, the PES is allowed to spend 50 per cent of the financial contributions to the UIF made in the previous year on ALMP.¹¹ Thus, a significant share of the UIF can be devoted to ALMP.

In the first major reform in 2008, the instruments to be used under ALMP were outlined as job placement, consultancy services, vocational training, labour force integration and temporary employment. With the second reform in 2011, the wording of the legislation was changed from a focus of instruments to a focus on policy goals. ALMP would now aim to increase the 'employability of the

¹¹ This amount does not include ALMP measures for unemployment benefit recipients.

labour force’, on ‘decreasing the risk of unemployment for employees by increasing their skills’, on helping to ‘re-orient employees at risk of unemployment due to technological change’ and on ‘taking steps to protect and increase employment’. The choice of instruments to achieve these aims was left undetermined in the legislation. Looking at the reports of the PES it appears that, in practice, the state focused on providing vocational training courses, on-the-job-training, temporary employment (public works), entrepreneurship training and employment subsidies (ISKUR 2020). Participants in these programmes generally receive a small cash benefit. Let us take a closer look at these instruments.

Vocational training courses (*Mesleki Eğitim Kursları*) have been provided for a long time, but the scope of the courses strongly increased after the 2008 reform. Since then, over 100.000 people participated in such courses each year. Furthermore, the gender composition of beneficiaries transformed. Whereas in 2008 more than two thirds of participants were men, in recent years more than two thirds are women. Figure 8 below shows coverage and gender composition of vocational training courses.

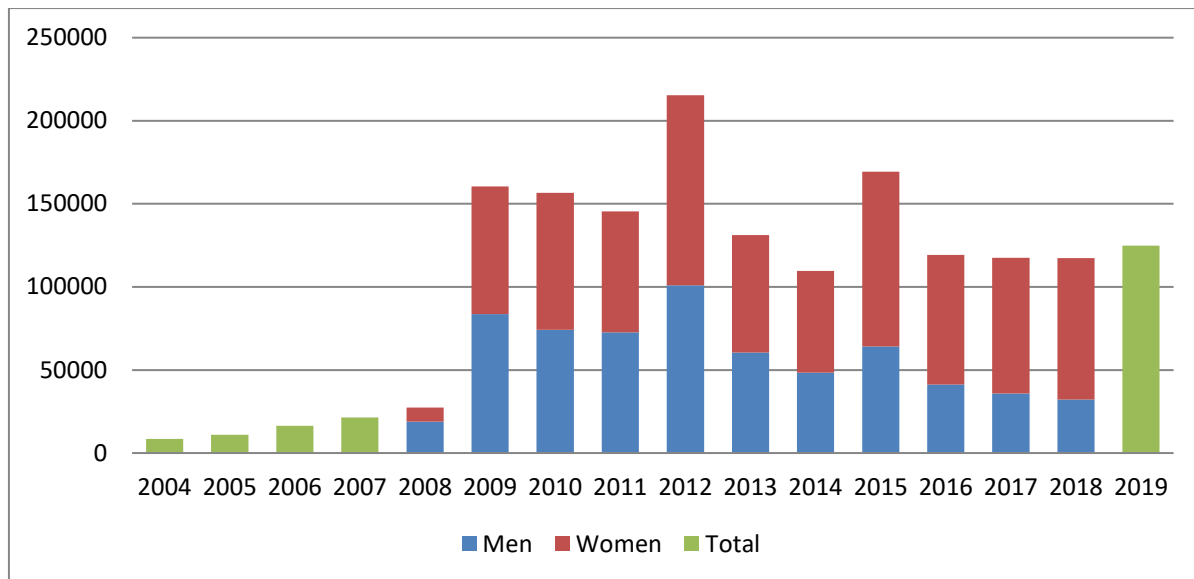


Figure 8. Number of Participants in Vocational Training Courses

Source: Data taken from monthly and yearly İŞKUR statistics.

On-the job-training (*İşbaşı Eğitim Programı*) started in 2009, but steadily expanded to become the single most comprehensive active labour market policy instrument. It reached 400.000 participants in 2019. The share of women in the training gradually increased over the years. Figure 9 below shows coverage and gender composition of on-the job-training.

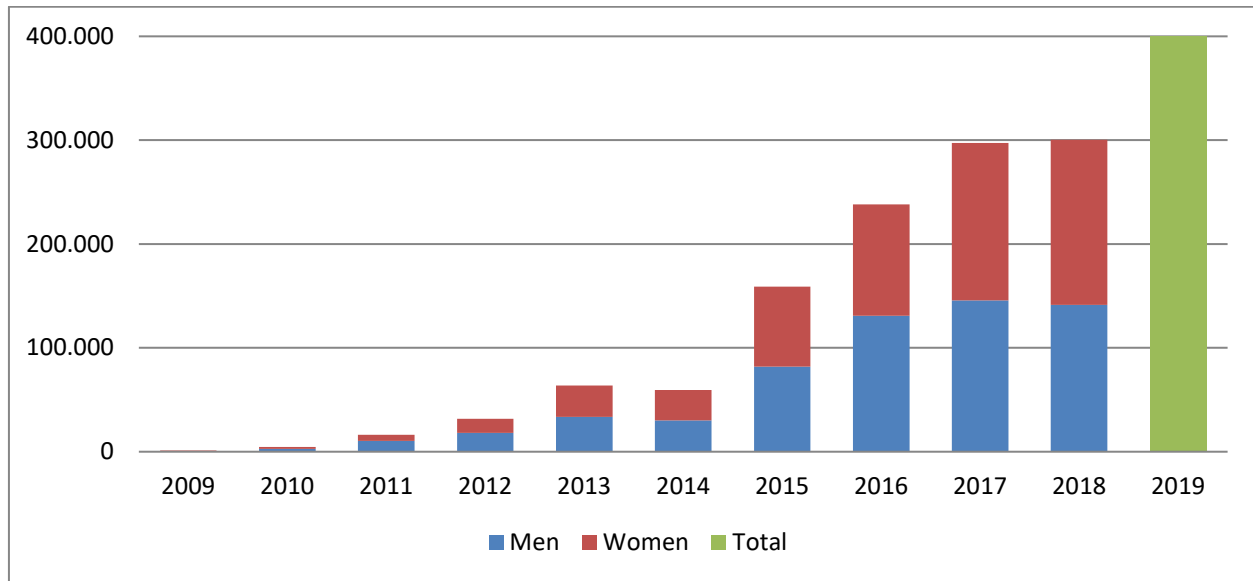


Figure 9. Number of Participants in On-the-job-trainings

Source: Data taken from monthly and yearly İŞKUR statistics.

Entrepreneurship training (*Girişimcilik Eğitim Programı*) started before the 2008 reform, but only expanded in scope in recent years. It still reaches less people than on-the-job training and vocational courses. The programme appears to be discontinued with no new trainings in 2020, so far. Figure 10 below shows coverage and gender composition of entrepreneurship training.

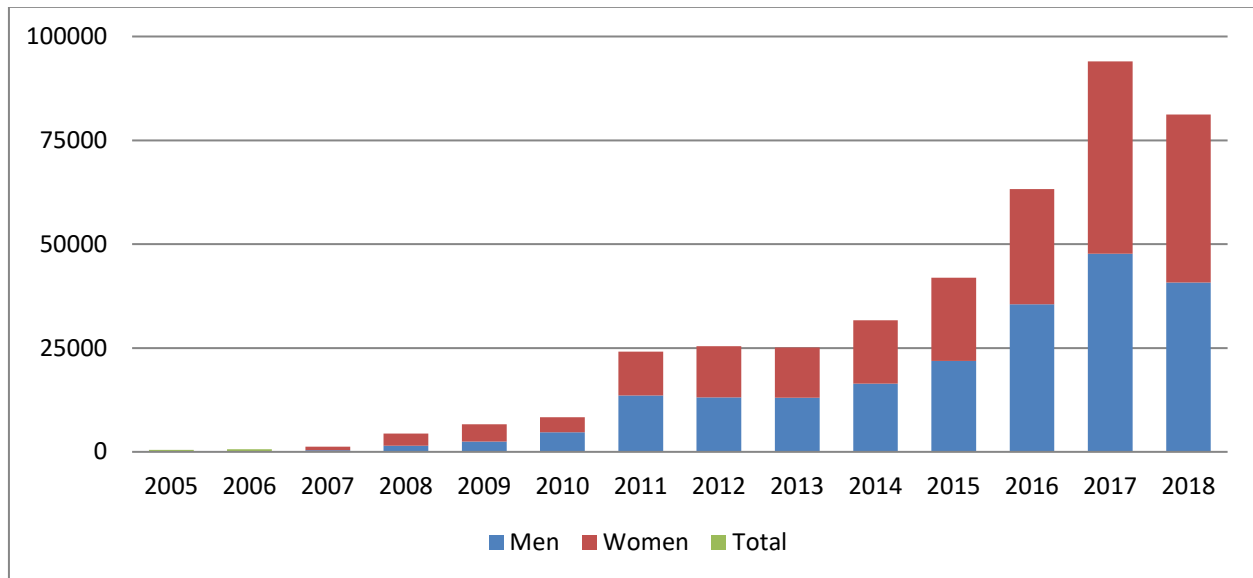


Figure 10. Number of Participants in Entrepreneurship Training

Source: Data taken from monthly and yearly İŞKUR statistics.

Finally, temporary employment in public works (*Toplum Yararına Çalışma Programı*, literally: Work for the benefit of society) started in 2009 and has massively expanded within a decade. However, its expansion has been less steady with peaks in 2015 and 2018. In terms of gender composition, women tend to participate more in the programme. For instance, in 2019 59 per cent of beneficiaries were women. Figure 11 below shows the number of participants in temporary employment in public works.

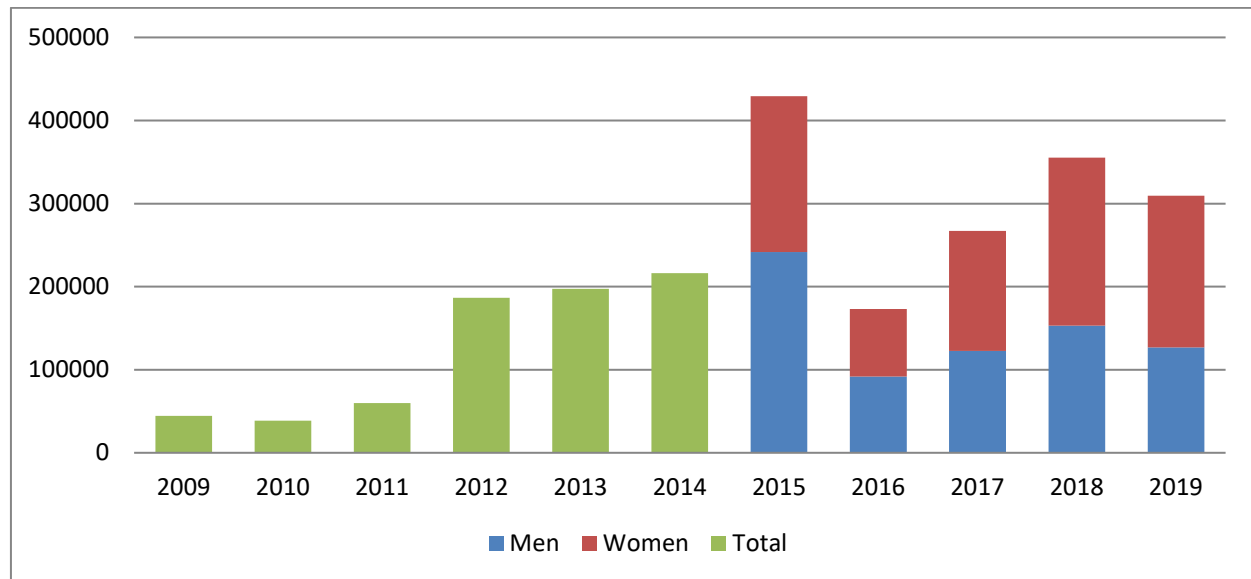


Figure 11. Number of Participants in Public Works

Source: Data taken from monthly and yearly İŞKUR statistics.

All these different instruments generally aim at increasing the employability of participants by enhancing their skill level (vocational training, entrepreneurship training), their work experience (on-the-job-training) and connect them to the labour market (public works). Moreover, what they have in common is that they provide a temporary monetary support to participants. In this sense, these active labour market policies all focus primarily on supporting the unemployed.¹²

This is different in the case of employment subsidies, which are much more geared towards employers. Employment subsidies have also been strongly expanded in recent years. Initially, these subsidies aimed at supporting the employment of young people and women. However, in recent years the scope of the policy has expanded. Now, subsidies are paid for all new employment generated on the condition that the employee has been previously registered as being unemployed with the PES. The amount of these subsidies is not uniform, but has generally tended to increase over time. It appears that the main aim of employment subsidies is to incentivise the generation of employment and thus to decrease unemployment, which remains stubbornly high in Turkey.

Over time, the establishment and subsequent expansion of new ALMP instruments has resulted in a gradual, but pervasive transformation of Turkey's unemployment insurance programme. In comparative

¹² Note that it is likely that many of these programmes primarily support those unemployed who would not be eligible for unemployment benefits.

perspective, this process can be best summed up as ‘layering’ (Mahoney and Thelen 2010). Old rules remain intact, they are not neglected and their enforcement has not changed. What has changed is simply that new rules were introduced – and these new rules gradually eclipsed the old rules. This process can be best understood by looking at the development of expenditures made under the programme.

4. Changing Spending Patterns of the Unemployment Insurance Fund

As we have seen above, the transformation of Turkey’s unemployment insurance programme is not visible in social rights datasets. As these datasets focus on the core of the programme – providing unemployment benefits – they miss the ever expanding new instruments that have been launched in the last years. To trace the transformation of the programme it is best to explore disaggregated program-level expenditure data.

In the first years after unemployment insurance was legislated in 1999 nearly all expenditures were devoted to paying unemployment benefits. In recent years, expenditure patterns have become far more diverse. By 2015, employee-centered ALMP in the form of vocational training courses, public works and on-the-job training became the primary spending item. By 2018, the situation had transformed again, with employer-centred ALMP in the form of employment subsidies becoming the central spending item. Figure 12 below illustrates these changes in expenditure patterns.

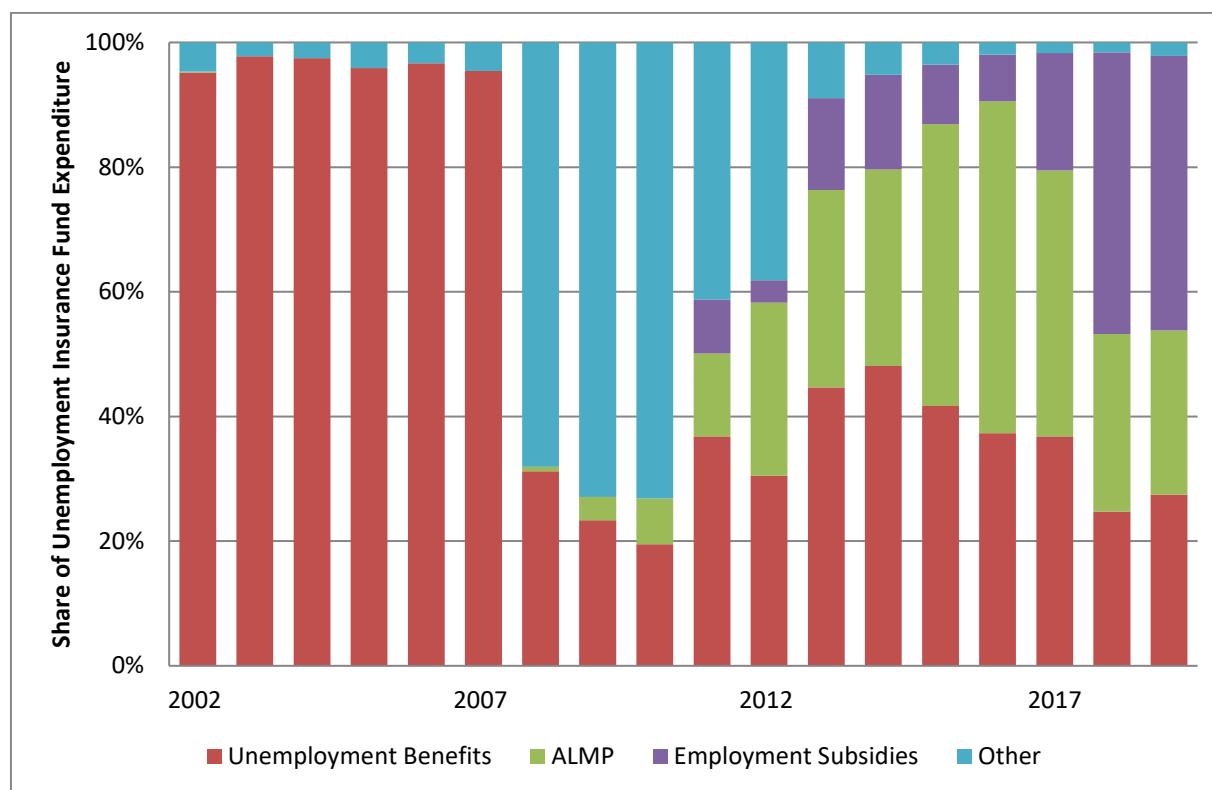


Figure 12. Share of Unemployment Insurance Fund Expenditure by Category

Sources: Monthly reports on the UIF by İŞKUR (*İşsizlik Sigortası Bülteni*), various auditing reports (*Bağımsız Denetim Raporu*) and actuarial reports on the UIF (*Aktüeryal Değerlendirme Raporu*). Note that the exact expenditure figures can vary according to source. Yet, the overall patterns are similar in all sources.

The Figure only features the main categories of spending. The smaller programmes that we described above also post smaller spending. For instance, at its peak in 2009 expenditures on Short-Term Work Compensation constituted 3 per cent of overall expenditures of the Fund. Spending for the Wage Guarantee Fund never exceeded half a percentage point of overall spending. Among active labour market policies, on-the-job-training stands out, as having relatively high expenditures. In 2017, 14 per cent of all UIF expenditures were devoted to this instrument.

These transformations in the spending patterns occurred against a general backdrop of rising expenditures of Turkey's Unemployment Insurance Fund from close to 0 in the early 2000s to 0.9 per cent of GDP by 2019. These rising expenditures do not primarily occur in unemployment benefits. This is not surprising, given that (as we have shown above) the institutional characteristics of this programme did not change much. Yet, unemployment insurance coverage did increase somewhat, as a result of the increase in the size of the formal labour market. This development is reflected in a moderate increase in unemployment benefit expenditures from close to 0 to 0.2 per cent of GDP. Thus, most of the increasing expenditures is due to increases in ALMP and especially employment subsidies. This is shown in Figure 13 below.

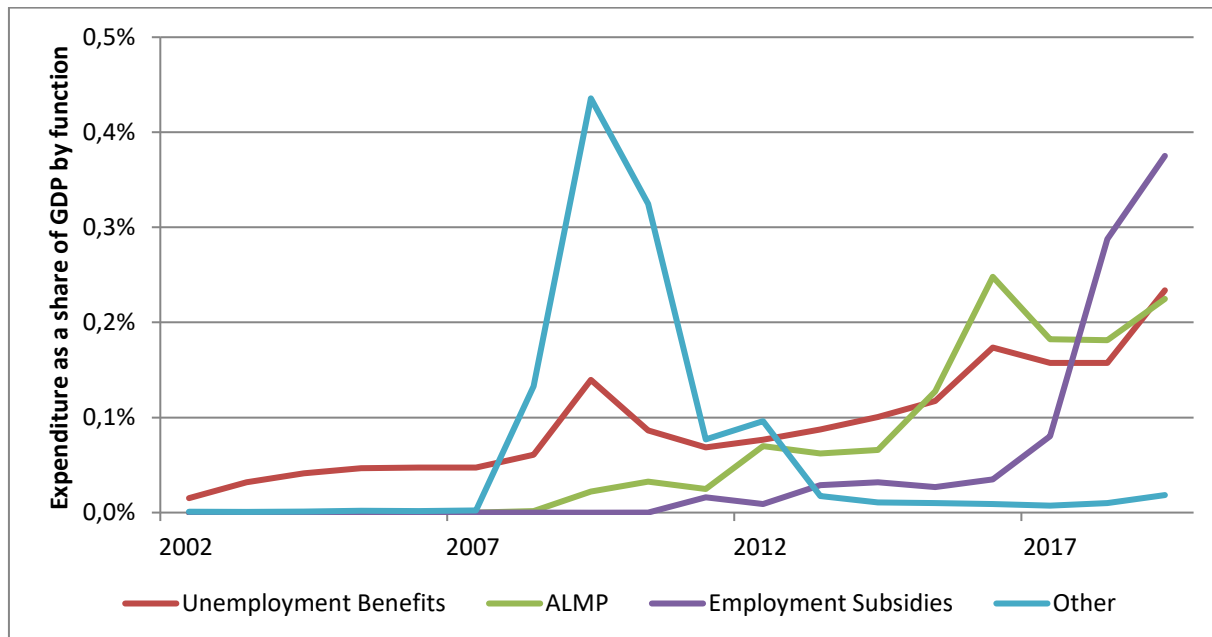


Figure 13. Unemployment Insurance Fund Expenditure by Function

Sources: Calculated based on monthly reports on the UIF by İÄKUR (*İşsizlik Sigortası Bülteni*), various auditing reports (*Bağımsız Denetim Raporu*) and actuarial reports on the UIF (*Aktüeryal Değerlendirme Raporu*) and GDP data from the Turkish Statistical Institute (TÜİK).

Overall, the emphasis of the unemployment insurance programme has thus clearly shifted: from paying unemployment insurance benefits, which provide – albeit to a modest degree – social rights to employees, to a host of new policies, among which active labour market policies stand out. These new policies often not simply protected employees from job loss, but also support employers and shape the

broader labour market. In the following section, we aim to take a closer look at the process through which the programme has been transformed.

5. Tracing the Transformation of Turkey's Unemployment Insurance Programme

So, how can we make sense of the transformation of Turkey's unemployment insurance programme? How did the transformation unfold? And why did policymakers change the logic of the programme in a process of layering? In this section, we explore the process through which the programme was changed. We show that the policy design of unemployment insurance slowly produced a fiscal dynamic, in which policy change was becoming ever more likely. The direction and nature of this change, however, were not predetermined. We argue that policymakers chose to expand the programme in a way that conformed to the interests of business, as they assumed that changes that would benefit business would also benefit employees.

5.1. Phase I (1999-2007): The Accumulation of a Surplus

Unemployment insurance was legislated in 1999 and started to pay out benefits in 2002. The Public Employment Service (PES) was put in charge of administering the programme. Yet, it was feared that the PES was not up to this task. To, strengthen the PES' capacity, it was reformed in 2003 (through Law No. 4904). In these years, policymakers were most concerned about properly implementing the programme. Policy change was not much on the agenda.¹³

In these years, the Unemployment Insurance Fund (UIF) generated an increasing surplus. The policy had been created as part of a comprehensive social security reform that was intended to plug the ever – increasing deficit of the social security system. Thus, it is no surprise that the policy was designed in a way so as to ensure that benefit payments would in practice never exceed payroll contributions. This design was likely a response to deep-seated concerns of bureaucrats and business groups alike that the creation of unemployment insurance would constitute a new 'black hole' in the government budget (Öktem 2020). Policymakers ensured that the UIF would first accumulate money for nearly two years before starting to pay benefits. Thus, when benefits were first paid out in March 2002, the Fund had already reached a size of 1 per cent of GDP.

It appears that policymakers were very much aware that the Fund would generate a structural surplus, even in times of high unemployment. Benefit levels were kept low and qualification conditions were quite demanding, so benefit payments would not surpass contributions. As early as late 2001, the centrist coalition government that had created unemployment insurance decided to decrease contribution rates for the Fund. Despite lower contributions, the Fund still continued to generate a surplus. At its peak in 2003, the annual surplus was close to 1 per cent of GDP. Hence, the accumulated value of the Fund continued to increase, exceeding 3 per cent of GDP by the end of the AKP's first term in 2007. Figure 14 below shows the development of surplus and total fund value of the UIF over time.

¹³ Interview with a former Minister of Labour and Social Security (Ankara, January 10, 2020).

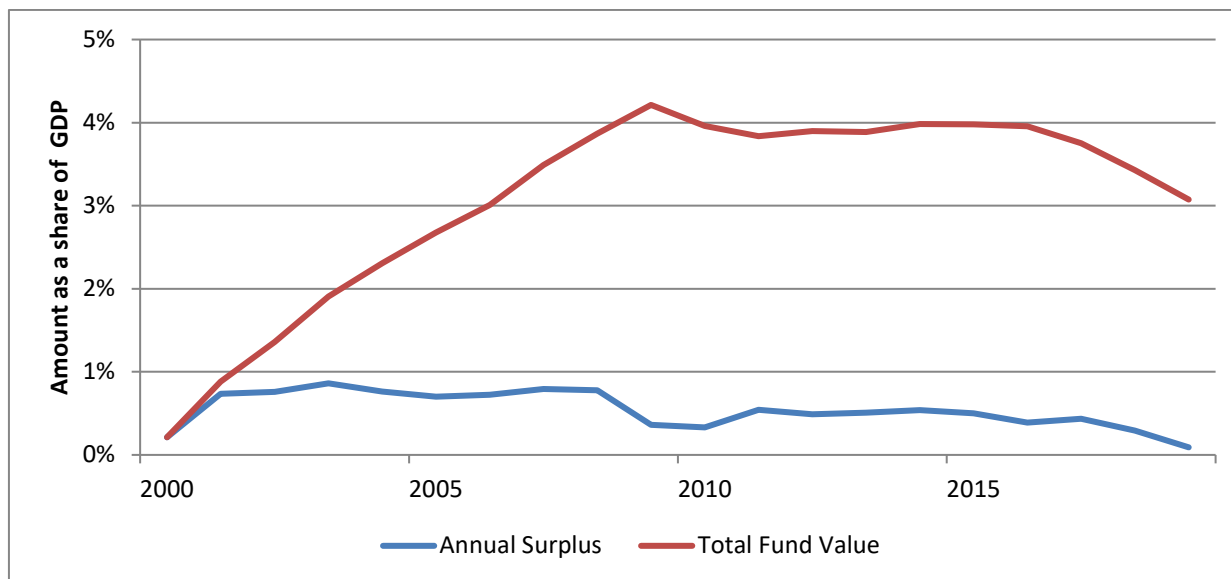


Figure 14. Fund Value and Annual Surplus of the Unemployment Insurance Fund

Sources: Calculated based on monthly reports on the UIF by İŞKUR (*İşsizlik Sigortası Bülteni*), various auditing reports (*Bağımsız Denetim Raporu*) and actuarial reports on the UIF (*Aktüeryal Değerlendirme Raporu*) and GDP data from TÜİK.

The size of the surplus and the Fund value makes it worthwhile to ask how the money was used. While it is difficult to trace the specific investment decisions made by the Fund, it seems that the surplus was mostly used to buy bonds issued by the central government. This means that the Fund bought public debt. The accumulation of an ever-larger amount of money thus clearly served a political function for policymakers. The ‘fiscal concerns’ (Koreh 2017) behind the policy design of unemployment insurance thus matter. Comparing the surplus of the Fund to the size of the budget deficit would give a rough approximation of the importance of the Fund for the financing of public debt. Figure 15 below visualizes this comparison by showing the size of the surplus as a share of the budget deficit.

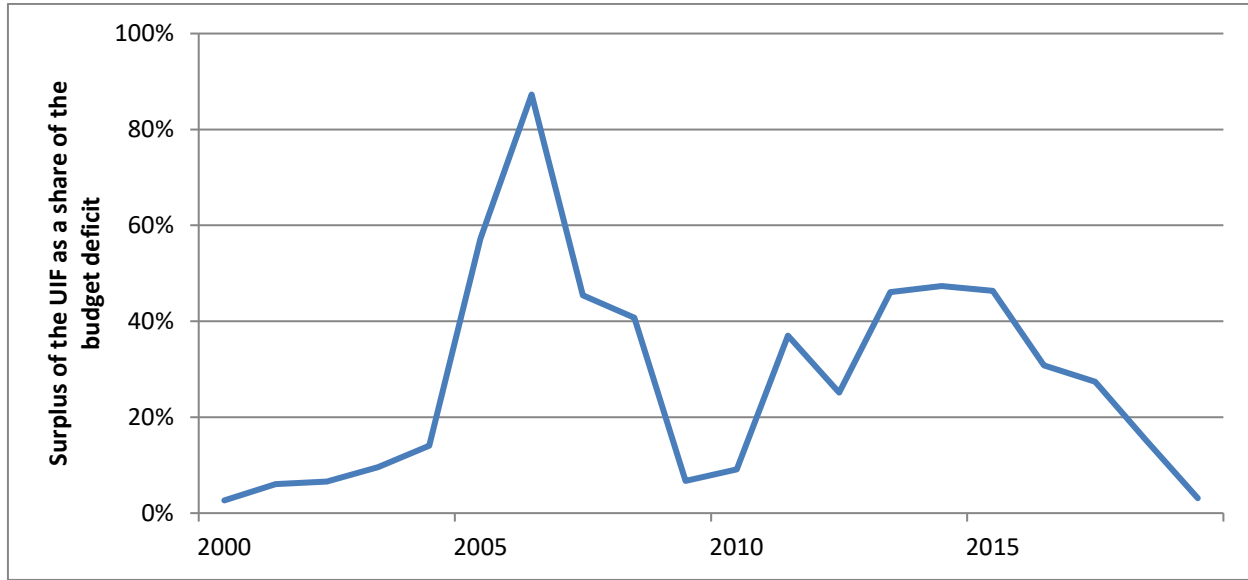


Figure 15. Surplus of the Unemployment Insurance Fund as a Share of the Budget Deficit

Sources: Calculated based on monthly reports on the UIF by İŞKUR (*İşsizlik Sigortası Bülteni*), various auditing reports (*Bağımsız Denetim Raporu*) and actuarial reports on the UIF (*Aktüeryal Değerlendirme Raporu*). Budget deficit data from the Ministry of Treasury and Finance (*Genel Bütçe gelir, gider ve dengesi*).

In the AKP's first term, the Fund thus generated an ever bigger surplus that was used to buy public debt. At the same time, the size of the budget deficit decreased, as Turkey's economic situation improved. By 2006, the annual surplus of the Fund was even close in size to the overall budget deficit of the central government. In a sense, the Fund generated a bigger surplus than the fiscal concerns of policymakers warranted. Therefore, we conclude that as the surplus accumulated in the Fund, policy change became ever more likely.

5.2. Phase II (2008): Economic Crisis as Critical Juncture

This situation changed when economic growth slowed in 2007 and the global economic crisis hit the country. Prominent business representatives demanded that the money accumulated in the Fund should be used to support the economy.¹⁴ This, in turn, would lead to an increase in employment and thus indirectly also benefit employees, they argued. As unemployment increased during the recession, government responded by presenting a major reform of the unemployment insurance legislation.

In principle, the government had several options. First, it could have continued the status quo of accumulating funds to buy public debt. However, from the perspective of business, this would have meant excessive costs without getting tangible benefits. Furthermore, the surplus had reached a size above what appeared to be needed for financing the budget deficit. Thus, the likelihood of policy change continually increased.

A second option was to further cut contribution rates. This 'neoliberal' option would have shrunk the annual surplus of the UIF and thus decreased the capacity of the state to finance its budget deficit. It

¹⁴ Cumhuriyet 20 March 2007, *İşsizlik büyük sorun*.

would have also meant less room for the expansion of the unemployment insurance programme. From the perspective of business, however, lower contribution rates would have meant lower labour costs, which, they believed, would translate into higher capacity to generate employment. Thus, it is not too surprising that business groups still demand a reduction in contribution rates (TISK 2016: 62).

A third option was to spend a higher share of the money collected in the UIF. Here, again, several alternatives were possible. First, the most straightforward option was to make unemployment insurance more generous, either through providing easier access to benefits or by increasing the benefit level and/or duration. This 'social democratic' option would have meant that social rights of workers increase. At the same time, this would have increased the bargaining power of workers vis-à-vis business as they could rely on unemployment benefits in times of need. A second option was to use the Fund to pay for new instruments in the realm of labour market policy. A third option was to use the Fund for other kinds of policies, unrelated to labour market policy.

The reform of the unemployment insurance legislation proposed in 2008 squarely pursued the third option of spending a higher share of the money collected in the UIF. And the plan included provisions for all three policy options for higher spending. The draft bill presented to parliament included provisions to make unemployment insurance more generous, expand ALMP (including the creation of employment subsidies for women and young employees) and divert a huge amount of money from the Fund to a development project in southeast Turkey. Of these three proposals only the latter two were legislated. Still, the failed plan to make unemployment insurance benefits more generous deserves attention. Understanding why the plan failed provides hints as to why the government chose to reform the programme the way it did.

The government initially planned to increase benefit levels for unemployment insurance in the 2008 reform. While this would not have solved other issues with the policy, such as the demanding eligibility conditions, it would have made unemployment benefits at least more substantial for those among the unemployed, who did qualify for benefits. Figure 16 below shows what effect the reform would have had on unemployment insurance replacement rates for single households in 2008.

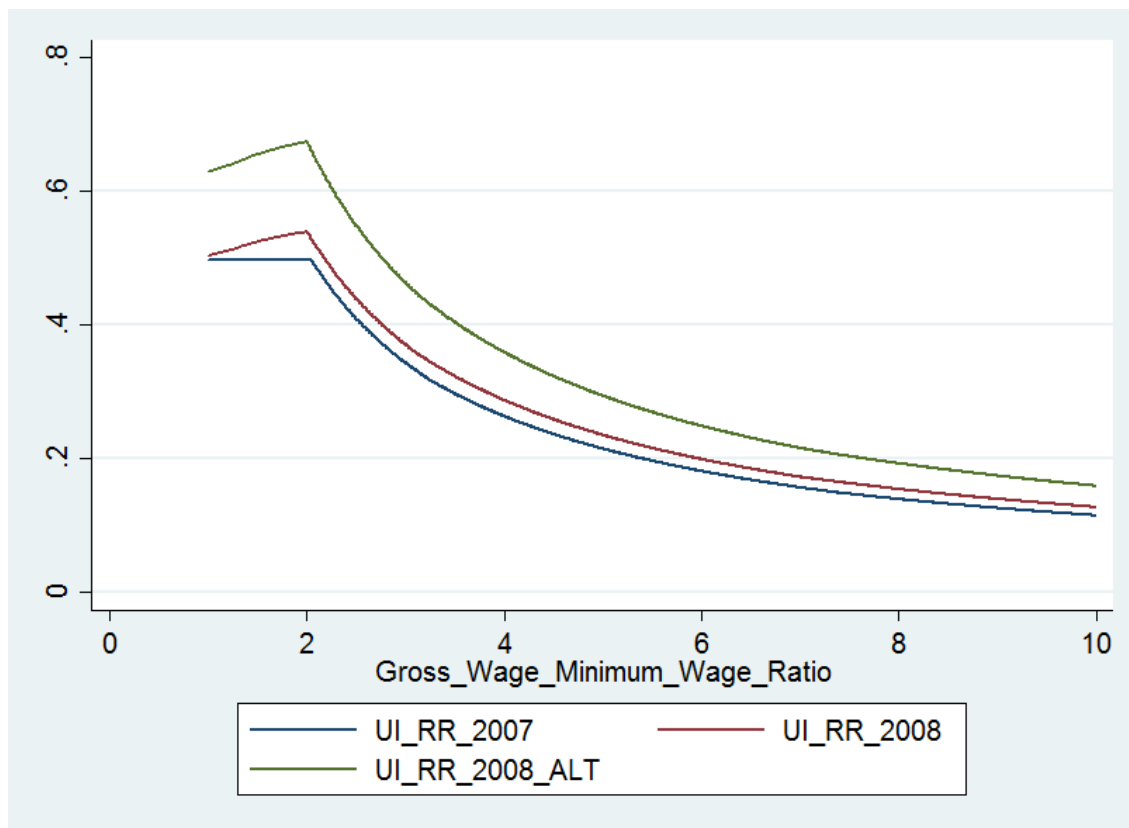


Figure 16. Effects of the 2008 Reform Plan on Unemployment Replacement Rates

Source: Own coding based on national legislation and T.B.M.M. (2008).

The blue line shows replacement rates for 2007, before the reform. The red line shows replacement rates for 2008, after the reform. The green line (UI_RR_2008_ALT) shows how replacement rates would have looked like in 2008, if the draft bill had been passed by parliament as planned. Figure 15 clearly shows that benefits would have been substantially higher across the board. In particular lower income earners, who constitute a substantial share of those in formal employment, would have benefited much. Employees earning around twice the minimum wage would have received two thirds of their net wage as benefits.

The draft bill had been submitted to parliament by the prime minister and thus it was no surprise that the respective parliamentary commissions accepted the draft. However, government lawmakers decided to veto the proposal for higher benefits in parliament. In its place they passed a watered down version of the respective article of the legislation that produced only a small increase in benefits (as described in Figure 3 above). Government lawmakers justified this decision by stating that the draft bill foresaw a benefit increase that was simply too high. Instead, the benefit increase should be more “reasonable”, they argued, to ensure that “unemployment benefits were not made attractive” for workers.¹⁵ In other

¹⁵ T.B.M.M. Tutanak Dergisi, 14.5.2008: 945.

words, benefits should be kept low to ensure that they do not have a de-commodifying effect on workers.

The AKP government thus shied away from pursuing the ‘social-democratic option’ when it reformed the unemployment insurance legislation. Instead it massively expanded ALMP. This was broadly in line with the demands of business and also conformed to the policy ideas promoted as part of the Europeanisation of labour market policy (Bolukbasi and Ertugal 2012). Therefore, it is no surprise that these policies were expanded even further in recent years.

In addition to strengthening ALMP, the reform also diverted money from the Fund to a development project. In fact, these expenditures (listed under “other” in Figures 12 and 13) surpassed the Fund’s regular expenditures for passive and active labour market policies from 2008 to 2010. Yet, this move was opposed by some section of business, which feared that this would mean a return to the era of ‘populist’ policies when dedicated public funds were spent for unrelated policies.¹⁶ This might explain why government was more cautious in using the UIF for totally unrelated policies afterwards.

To conclude, the 2008 reform triggered by the economic crisis constituted a significant change in the structure of Turkey’s unemployment insurance programme. Before the reform, the focus of the programme was nearly fully on providing unemployment benefits. Through the reform, new instruments were layered on top of the classic unemployment insurance programme. Moreover, the reform lay out the path for the following years, in which ever new instruments were added to the programme. These new instruments were often to the benefit of employers, as much as they helped employees. This led to opposition criticism that worker’s funds would be used for employers. However, the government was unimpressed by this criticism. In a parliamentary debate on the reform the Minister of Labour and Social Protection Faruk Çelik outlined the underlying argument for the new policy direction:

“The argument has been made that “with this reform you [i.e. the government] give resource to the employers. Respected friends, there is no longer any difference between employers and employees in this world. Employees and employers are seen as inseparable. This is the point reached in industrial relations. This is the point reached today after the antagonistic perspective of the nineteenth and early twentieth century.”¹⁷

5.3. Phase III (2009-2019): Frequent Policy Change

Following the 2008 reform, the unemployment insurance programme saw a decade of frequent policy changes. These changes mostly focussed on expanding active labour market policies and employment subsidies. Furthermore, new policies were increasingly devised as temporary changes. They were introduced through ‘temporary articles’ (*geçici madde*) in the legislation and applied to a specific time

¹⁶ Cumhuriyet, 28.5.2008 *Kaşıkla verip kepçeyle alma*.

¹⁷ T.B.M.M. Tutanak Dergisi, 14.5.2008: 877. The original reads: "Efendim, işverenlere bu düzenlemeyle kaynak aktarıyorsunuz." iddiasında bulunuldu. Değerli arkadaşlar, artık dünyada işçi-işveren ayrımı yok. İşçi-işveren ayrılmaz bir ikili olarak değerlendiriliyor. Endüstriyel ilişkilerde geline nokta budur. 20'nci yüzyılın başında olduğu gibi, 19'uncu yüzyılda olduğu gibi çatışmacı bir anlayıştan artık geline nokta budur."

period. Yet, these changes often became permanent, as subsequent reforms extended the time period in which the policies were to be applied. Table 2 below summarizes key policy changes made between 2009 and 2019. Let us look at the changes in the realm of employment subsidies and active labour market policies in more detail.

Table 2. Significant Policy Changes (2009-2019)

Legislation Number	Date of reform	Articles affected by reform	Substantive policy changes made
5838	February 2009	Temporary articles 7 and 8	Temporary extension of employment subsidies for women and young employees Expansion of Short-Time Work Compensation
2009/15112	July 2009	48	Temporary expansion of ALMP
2009/15129	July 2009	Temporary article 8	Extension of short-term work compensation
5921	August 2009	Article 50 and temporary articles 6 and 9	Employment subsidies for unemployment insurance beneficiaries Temporary expansion of support for development project Temporary employment subsidies for unemployed
5951	January 2010	Temporary articles 8 and 9	Temporary extension of Short-Time Work Compensation Temporary extension of employment subsidies
2010/180	January 2010	Temporary article 8	Temporary extension of Short-Time Work Compensation
6111	February 2011	46, 48, 49, 52, additional article 2 and temporary articles 7, 9 and 10	Unemployment insurance coverage for part-time workers and voluntarily insured Expansion of Short-Time Work Compensation Expansion of ALMP Temporary employment subsidies for unemployed
6545	June 2014	Temporary article 12	Payments to employees working in mines in Manisa (Soma) (temporary)
6645	April 2015	48, additional article 3 and 4 and Temporary article 13, 14 and 15	Payment of exam fees for those successful in examinations for certain dangerous professions (temporary) Reduced contribution rates for employers active in certain dangerous professions that have not experienced work accidents Payments to employees working in mines in Karaman

			(Ermenek) (temporary) Employment subsidies for participants of on-the-job-training
2015/7437	April 2015	48	Temporary expansion of ALMP
2015/8112	October 2015	48	Temporary expansion of ALMP
2015/8321	December 2015	Temporary article 10	Temporary extension of employment subsidies for unemployed
6663	January 2016	53, additional article 5	Creation of part-time employment support
2016/9643	December 2016	Temporary article 15	Temporary extension of employment subsidies for participants of on-the-job-training
6764	December 2016	Not mentioned in UI legislation	Support payments for internships (temporary)
KHK/687	January 2017	Temporary articles 17 and 18	Temporary employment subsidies for unemployed
6824	February 2017	Additional article 6	Creation of unemployment insurance scheme for self-employed (scheduled for 2018)
2017/9920	February 2017	48	Temporary expansion of ALMP
7061	November 2017	50, additional article 3	Temporary extension of payment of exam fees for those successful in examinations for certain dangerous professions Postponement of unemployment insurance scheme for self-employed to 2020
2017/11174	December 2017	Temporary article 15	Temporary extension of employment subsidies for participants of on-the-job-training
7103	March 2018	Temporary article 19, 20 and 21	Temporary employment subsidies for unemployed
382 (CB)	November 2018	48	Temporary expansion of ALMP
7166	February 2019	Temporary article 19	Temporary extension of employment subsidies for unemployed

Active labour market policies, such as vocational training and on-the-job-training were massively expanded following the 2008 reform. This was done through frequent and often temporal policy changes. In mid-2009, the amount that the UIF could devote to ALMP (expenditure limit) was

temporarily increased for 2009 and 2010. In 2011, a comprehensive reform broadened the aim of ALMPs and increased the expenditure limit permanently. In 2015, the expenditure limit was increased twice, first applying to only to 2015 and then also to 2016. In early 2017, this expenditure limit increase was extended to 2017 and 2018 and in late 2018 it was applied also to 2019 and 2020. Thus, although temporary in nature, the expenditure increases for ALMP in practice became permanent. As a result, by 2015 expenditures devoted to ALMP had eclipsed spending for unemployment benefits.

In addition to classic active labour market policies, employment subsidies were also massively expanded. This expansion also occurred through frequent and mostly temporal policy changes. Employment subsidies had been introduced in 2008 and consisted of reduced contribution rates for employers hiring women and young employees within the following one year. This instrument was extended for one more year in early 2009. In late 2009, new employment subsidies were launched that applied to beneficiaries of unemployment insurance permanently and to unemployed until the end of 2009. The latter were temporarily extended in early 2010. In early 2011, new (temporary) employment subsidies for unemployed were created, which were temporarily extended in 2015. In early 2015, special employment subsidies for participants of on-the-job-trainings conducted by the PES until the end of 2016 were launched. These subsidies were first temporarily extended in late 2016 to cover trainings conducted in 2017 and then again extended in late 2017 to cover trainings conducted in 2018. In early 2017, new employment subsidies for unemployed were devised that were more generous than the previous subsidies but covered only hirings made in 2017. Finally, in early 2018, new employment subsidies were launched that were even more generous and applied to hirings made until the end of 2020. Thus, what started as a small, temporal crisis response in 2008 to encourage employers to hire women and young workers became an increasingly permanent policy that covered an ever bigger share of the labour costs for ever more new hirings. Tellingly, by 2018 employment subsidies had become spending item number one, as can be seen in Figure 12 above.

Beyond the expansion of ALMP and employment subsidies, the unemployment insurance programme was also reformed to include a number of new instruments, which were often beyond the scope of classic labour market policies. In 2014 and 2015, payments for mining workers affected by some high-profile mining accidents were made. In 2015, some supports for employees and employers active in dangerous professions were created. In 2016, support payments for certain types of internships were launched.

In addition to these mostly temporary measures, a kind of parental leave benefit was created, also in 2016, as a part of unemployment insurance. The Part-Time Compensation (*Yarım Çalışma Ödeneği*) provides benefits to parents of new-born children, who decide to work part time, for up to six months. This Compensation is grounded in the Unemployment Insurance Law and is financed through the UIF. The Compensation has had a very limited reach so far. In an average month, only close to 2000 people benefit from the programme. Furthermore, the average transfer amount was also low, as Figure 17 below shows.

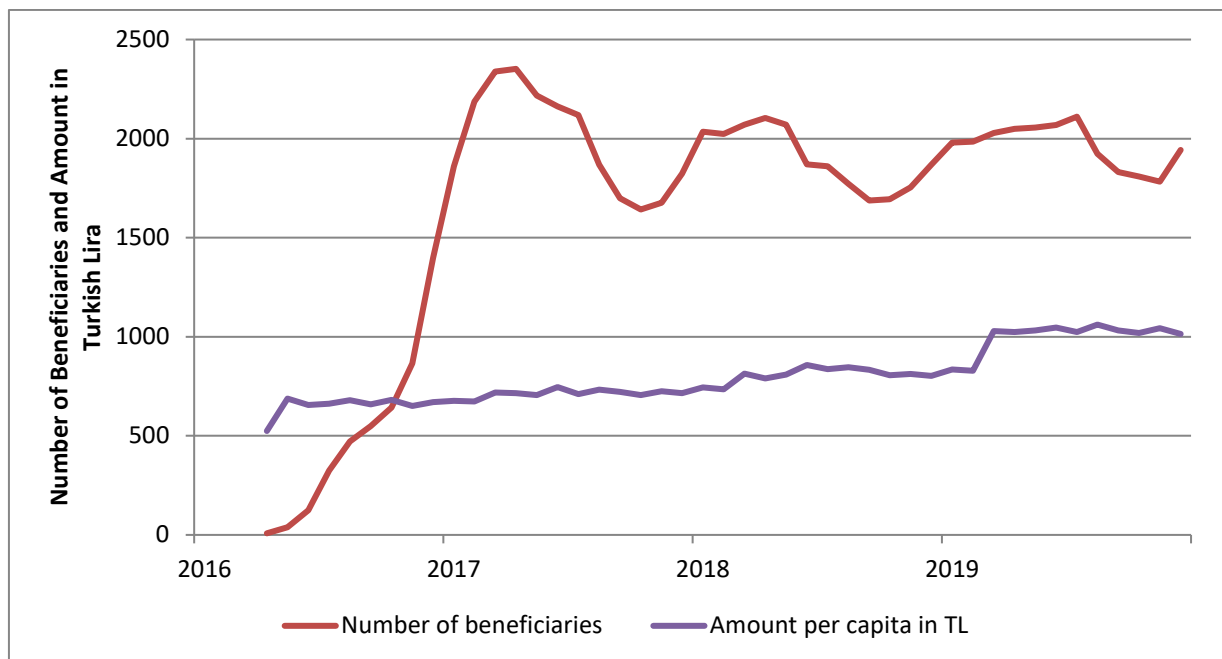


Figure 17. Coverage and Average Transfer Amount of Part-Time Compensation

Source: Monthly reports on the UIF by ISKUR (*İşsizlik Sigortası Bülteni*).

Collectively, the numerous policy changes in the unemployment insurance programme made between 2009 and 2019 have transformed the nature of the programme. Ever new instruments were layered on top of the core unemployment insurance provisions. While most of these instruments were devised as temporary interventions they have tended to become permanent and have massively grown in terms of expenditures.

6. Conclusion

In this paper, we explored the development of Turkey's unemployment insurance programme in the two decades since it was devised in 1999. We found that the core statutes of the programme remain virtually unchanged. The rules regulating coverage, conditions of access, benefit duration, financing and benefit levels basically stay intact. These rules paint the picture of a programme with strict eligibility criteria and relatively low benefits that provides benefits for a small share of the unemployed. Yet, while the core institutional features of unemployment insurance were not significantly changed, the programme itself has been transformed. In a gradual process of 'layering' (Mahoney and Thelen 2010) a number of often temporary instruments have been attached to the programme. Many of these instruments, such as Short-Time Work Compensation or Vocational Training Courses, are labour market policies. Other instruments go beyond the focus on the labour market. We have shown that collectively, these instruments transformed the logic of the policy: from a tool to protect employees against unemployment, it became a tool to pursue active labour market policies and support employers to facilitate employment generation.

Tracing the process of policy change, we have argued that the 2008 economic crisis proved to be a critical juncture. Until the crisis, the Unemployment Insurance Fund accumulated an ever increasing surplus because unemployment benefit payments could in practice never exceed contributions made to the Fund. This surplus came in handy for policymakers, as it was used to plug a sizeable budget deficit. Yet, as the Fund size increased and the budget deficit was stabilised, demands for policy change grew. In 2008, the government thus launched a major reform that set the path for the changes made in the next decade. Instead of making unemployment insurance more generous, the government decided to spend the money in the Fund for ALMP and other policies that were deemed to facilitate employment generation. Critics opposed these changes, claiming worker's funds would be used for employers. Yet, the government was unimpressed by this criticism, as in their view there was "no longer any difference between employers and employees". Hence, what benefitted employers would also benefit employees.

Subsequent policy changes made until 2019 followed the path laid out by the 2008 reform. ALMP was steadily expanded in scope and generosity, ever new subsidies were devised to facilitate employment generation and a number of new instruments on the fringes of labour market policy (and sometimes beyond) were launched. Curiously, these changes were mostly devised as temporal but subsequently became permanent. In recent years, policy changes also appear often as a kind of crisis response mechanism. In this respect, the payments to miners in response to major mining disasters, the massive expansion of employment subsidies in face of the 2018 economic crisis, and the policy changes made immediately prior to elections came to mind. It seems that whenever there is a crisis, the solution involves the Unemployment Insurance Fund.

By all accounts this process of policy change between 1999 and 2019 that we explored in this paper has not stopped. In response to the labour market shock brought about by the COVID 19 pandemic, the government launched a major reform of the unemployment insurance legislation. Again, this reform drew on temporary measures and involved the creation of new instruments. In how far these measures, again, become permanent remains to be seen. Through the reform, Short-Time Work Compensation was expanded. This resulted in an unprecedented increase in beneficiaries. In addition to this change, layoffs were temporarily prohibited and employers were allowed to put employees on unpaid leave. For these employees on unpaid leave, the government devised a new policy instrument. They receive a cash benefit (*Nakdi Ücret Desteği*) from the UIF that amounts to one half of the minimum wage. As a result of these changes, regular unemployment insurance benefits played a minor role in the response to the labour market upheaval witnessed in the last few months. The transformation of Turkey's unemployment insurance programme thus continues.

From a comparative perspective, the case of Turkey's unemployment insurance programme is thus an interesting example of how institutional change can come about through a process of layering. Furthermore, it shows the value of taking into account the fiscal dimension of social security programmes. Looking at the fiscal balance of the programme, it appears that the unemployment insurance programme has not only been devised as an expansion of social security, but also as a means to finance public debt. Accordingly, the process of policy change was very much influenced by the changing fiscal situation of the Fund in particular and of the central government in general.

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