

## Political economy of welfare state in Turkey: Regressive taxes pay for progressive welfare spending

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### Abstract:

We employ Household Budget Surveys from 2003, 2007, 2011, 2015 and estimate market (pre-income tax), disposable, consumable (disposable minus consumption taxes) and final income (consumable income plus health and education spending accruing to all eligible households) according to Lustig and Higgins (2013) framework. Our estimates for income taxes are 78-115 percent of official records, and 79-95 percent of social security premiums depending on the year. Our estimates for consumptions taxes (Value Added, Communication, and Special Consumption Taxes) are 57-72 percent of official records. Retirement pensions are by far the largest item of transfers and they reduce Gini coefficient by 5.6-7.4 percentage points. Many scholars argue that pensions should be regarded as deferred employment income and not counted as social transfers. We alternatively classify pensions as part of market income (deferred wage) and disposable income (transfers) and report the result of both versions. As expected, income taxes are progressive and reduce Gini coefficient by roughly 2.2 percentage point. Consumption taxes are much larger in size compared to income taxes. They are mildly regressive relative to their size and increase the Gini coefficient by 0.6-1.5 percentage points. Health services and public education reduce Gini coefficient by 1.3-2.3 and 1.4-1.9 percentage points, respectively. Over the years, overall redistributive effect of taxes, transfers, and social spending increased by 1.3 percentage points and most of the change is due to expansion of healthcare system after 2008. Unlike healthcare, rapid expansion of public tertiary education after 2009 did not affect the final income inequality.

**Keywords:** fiscal incidence, social spending, taxes, transfers, income inequality, Turkey

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