

A CRITICAL ANALYSIS OF THE TRANSFORMATION OF THE SOCIAL
SECURITY SYSTEM IN TURKEY IN THE CONTEXT OF NEW
CONSTITUTIONALISM AND EUROPEANIZATION

A THESIS SUBMITTED TO
THE GRADUATE SCHOOL OF SOCIAL SCIENCES
OF
THE MIDDLE EAST TECHNICAL UNIVERSITY

BY

DUYGU ÇAMPINARI

IN PARTIAL FULFILLMENT OF THE REQUIREMENTS
FOR
THE DEGREE OF MASTER OF SCIENCE
IN
THE DEPARTMENT OF POLITICAL SCIENCE AND PUBLIC ADMINISTRATION

SEPTEMBER 2012

Approval of the Graduate School of Social Sciences

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ABSTRACT

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September 2012, 166 pages

From the 1980s onwards, there has been a general transformation in social policy in line with the transformation of the welfare state worldwide. While the neoliberal restructuring of capital and the state has initiated this transformation in the 1980s, neoliberal globalization and competitiveness pressures upon the competition states have accelerated this process through necessitating the reordering of priorities around policies that pursue market ascendancy. As a result, the international governance framework has been reshaped in a way that aims to separate economic policy from the political influences of the governments and to provide capital a ‘protected domain’, which refers to “new constitutionalism”. On the other hand, the Europeanization process can be described as the extension of new constitutionalism in the EU level; therefore, it reshapes the social policy understanding through confining it with the boundaries of the EU economy.

The thesis attempts to explain the processes of neoliberal restructuring, new constitutionalism and Europeanization to provide a theoretical framework to the analysis of the social security reform in Turkey. It aims to examine the impact of the processes of new constitutionalism and Europeanization on the social security reform and to analyze the reform process taking into consideration class relations and, then, to make a critical analysis of the transformation.

Keywords: Neoliberal Restructuring, New Constitutionalism, Europeanization, the Lisbon Strategy, Social Security Reform in Turkey.

ÖZ

TÜRKİYE’DE SOSYAL GÜVENLİK SİSTEMİNİN DÖNÜŞÜMÜNÜN YENİ ANAYASACILIK VE AVRUPALILAŞMA BAĞLAMINDA ELEŞTİREL BİR ANALİZİ

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Eylül 2012, 166 sayfa

1980’lerden itibaren, sosyal politikada, refah devletinde dünya çapındaki dönüşüm ile uyumlu bir dönüşüm vardır. Sermaye ve devletin neoliberal yeniden yapılanması 1980’lerde bu dönüşümü başlatırken, rekabetçi devletler üzerindeki neoliberal küreselleşme ve rekabetçilik baskıları, önceliklerin piyasa üstünlüğünü gözetten politikalar etrafında yeniden sıralanması ile bu sürece ivme kazandırmıştır. Sonuç itibariyle, uluslararası yönetişimin çerçevesi, ekonomi politikasını hükümetlerin siyasi etkilerinden ayırmayı ve sermayeye ‘korunmuş alan’ sağlamayı ki bu “yeni anayasacılık” ı ima etmektedir, amaçlayan bir şekilde yeniden şekillendirilmiştir. Diğer taraftan, Avrupalılaşma süreci, yeni anayasacılık sürecinin AB düzeyinde uzantısı olarak tanımlanabilir; dolayısıyla, bu süreç sosyal politika anlayışını AB ekonomisinin sınırları ile kısıtlayarak yeniden şekillendirmektedir.

Bu tez, Türkiye’de sosyal güvenlik reformunun analizine teorik bir çerçeve sağlamak için neoliberal yeniden yapılanma, yeni anayasacılık ve Avrupalılaşma süreçlerini açıklamaya girişmektedir. Yeni anayasacılık ve Avrupalılaşma süreçlerinin sosyal güvenlik reformuna etkilerini incelemeyi ve reform sürecini sınıfsal ilişkileri göz önünde bulundurarak analiz etmeyi ve sonra, dönüşümün eleştirel bir analizini yapmayı amaçlamaktadır.

Anahtar Kelimeler: Neoliberal Yeniden Yapılanma, Yeni Anayasacılık, Avrupalılaşma, Lizbon Stratejisi, Türkiye’de Sosyal Güvenlik Reformu.

ACKNOWLEDGMENTS

I would like to thank my supervisor Assoc. Prof. Dr. Galip Yalman for, first of all, introducing me with the critical political economy discipline, which has given me a considerable insight for writing this thesis, then for his guidance and commentary throughout the research. I am thankful to Assist. Prof. Dr. İpek Eren Vural and Assist. Prof. Dr. Dimitris Tsarouhas for their critique and suggestions. Special thanks to Assist. Prof. Dr. Pınar Bedirhanoglu who has contributed to the formation of the thesis through teaching the course of IR 576 State and Global Capitalism, which I have benefited from the readings of the course a lot. I would like to thank my workmates for their concerns and positive motivations. I would also like to thank my family for their support and encouragements. And thanks to Tevfik for being more than my husband...

To my family, Tevfik and Fındık...

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CHAPTER 1

INTRODUCTION

It is not the consciousness of men that determines their being, but, on the contrary, their social being that determines their consciousness.

Karl MARX

Turkey enacted the social security reform since 2006 after a long process, which dates back to the 1990s. Although it is too early to reach a conclusion about its effects on the society as its results can appropriately be seen in the long run, it is possible to examine the different processes affecting the social security reform, to explain the reasons of the reform and to analyze the effects of it on social classes to unveil the underlying purposes of the reform. The transformation of social policy or the social security system in particular is not unique to Turkey. Indeed, there has been a general transformation throughout the world from the 1980s onwards towards neoliberal restructuring of social policy as a result of the transformation of the welfare state. In Europe, the transformation of social policy in line with the neoliberal principles has accelerated in the 2000s with the Lisbon Strategy, which aims to reconcile the goals of economic growth and social cohesion and to “modernize social protection” particularly (Council of European Union, 2000). However, as it will be elaborated in the thesis the real aim of the Lisbon Strategy was to confine social policy within the boundaries of policies compatible with the European Monetary Union (the EMU) or the EU economic policy in general. At the same time, international financial institutions (the IFIs) such as the IMF and the World Bank have been pressing for the privatization of the pension systems, especially for the Third World, on the grounds that this would enable a financially sustainable pension system, which would also raise the welfare of the beneficiaries and provide freedom of choice while at the same time contributing to the macroeconomic stability of the country. As it will be explained, the process of “new constitutionalism” serves to this aim through

limiting the content of social policy with alternatives compatible with the needs of neoliberal globalization.

The transformation of social policy has been going hand in hand with the process of new constitutionalism, which aims to insulate economic policy from political influences through adding certain pre-commitment mechanisms or binding rules to the national or supranational legislations, such as the Maastricht Criteria, in order to guarantee the market primacy and to consolidate the interests of the capitalist class implicitly. As the process of Europeanization has gained neoliberal character in the recent years further, some regulations have been made in line with neoliberal principles considering economic and fiscal policies in the EU, which have also constrained social policy with those policies on the plea of fulfilling alleged requirements of neoliberal globalization and has shifted the social policy formation in the EU towards individualist and market-based solutions leaving aside more collectivist and redistributionary options of the previous Keynesian era.

The neoliberal restructuring of social policy in the EU has affected the social policy understanding in Turkey during the accession process. The EU has endorsed the transformation of the social security system in Turkey in accordance with the principles and the goals of the Lisbon Strategy. On the other hand, the IMF and the World Bank have stipulated the social security reform for Turkey in order to benefit from the loans as a part of the stand-by agreements from the 1990s. Indeed, both the EU and the IFIs have been endorsing the transformation of the social security system in line with the standard bearers of the neoliberal agenda; in this regard they have not represented different alternatives for Turkey.

In the light of these, the thesis aims to argue that the transformation process of the social security system in Turkey has been a part of the general neoliberal transformation throughout the world from the 1980s onwards and the processes of new constitutionalism and Europeanization have facilitated this transformation in Turkey under the auspices of the IFIs and the EU.

This thesis is an attempt to analyze the transformation of the social security system in Turkey taking into consideration the impact of the processes of new constitutionalism and Europeanization as a part of neoliberal restructuring. “New constitutionalism” is an international governance framework that aims to shape the international policy-making

according to the neoliberal principles. It aims to make some neoliberal economic policy issues unchangeable through adding them to the national and supranational constitutions to provide a stable and foreseeable environment for international capital. In this way, it aims to separate economic policy from political accountability, in other words to depoliticize economic policy-making. This process also affects social policy through restricting it with the boundaries of neoliberal economic policy. It means that, social policy is bounded with neoliberal economic policy that is constitutionalized internationally; therefore, social policy is considered only if it is functional for neoliberal globalization. Therefore, examining the process of new constitutionalism is important to understand the current international governance framework that shapes economic and social policies. It is also important to reveal that both the EU and the IFIs, who have been significant external actors in the transformation process of the social security system in Turkey, have been acting appropriately to the process of new constitutionalism and promoting the interests of the transnational capital.

Europeanization, *prima facie*, can be identified as “the formation of policies and institutions at the European Union level” (Tsarouhas and Bölükbaşı, 2007: 1), as a result of which certain changes in the policies of the member as well as candidate states are needed. In this regard, the Europeanization process can be identified as a part of the process of new constitutionalism. As neoliberal economic policies have been constitutionalized world wide, a similar transformation has been realized in the EU under the process of Europeanization. Both member and candidate countries have been affected from this process through being obliged to make amendments in their constitutions regarding some neoliberal economic policy issues as a requirement of the EU membership. Turkey has been affected from this process as a candidate country and has been required to fulfill some membership criteria such as the Maastricht through making some economic policy issues bounded with these rules and acting according to these ‘priorities’.

As from the 2000s the Europeanization process has been shaped under the process of the Lisbon Strategy, the thesis will analyze the features of this process to display that the social policy understanding of the EU has been reshaped under this Strategy, which has aimed to confine social policy within the boundaries of the European Monetary Union (the EMU) or the EU economic policy in general. It is important to examine the transformation of social policy in the EU in this process because the EU has been an important actor in the transformation process of the social security system in Turkey. In

the accession process of Turkey to the EU, the EU has endorsed certain changes regarding social policy, which have been the reflection of the change in the social policy understanding of the EU under the Lisbon process, especially. Therefore, it is significant to explain the Europeanization process as a factor influencing the policies of the EU; as a result, the policies of the member as well as candidate countries. Also, examining the features of the Lisbon Strategy and its methodology, the Open Method of Coordination (the OMC), is crucial to display the subordination of social policy to the economy as the social policy understanding in Turkey has been reshaped under this environment.

The thesis, at the same time, aims to explore that class relations have been embedded to the transformation process. It is not only capital and labor contradiction that lies behind the transformation process; but the transformation process of social policy can also be read as the redefinition of state-society-market relations. In this process, it is legitimate to say that the interests of the capitalist class have dominated as if they are the general interest of the society. In other words, power relations have affected the direction of the transformation. Because of the hegemony of capital in the context of neoliberal globalization, there has been unequal representation of power relations between capital and labor in this process. In this context, TUSIAD came into prominence as the main representative of capital in Turkey. On the other hand, labor was not strong enough to encounter the launch of neoliberal policies because of the depoliticization process Turkey experienced in the 1980s.

The thesis, at the same time, aims to examine the dynamics that lie under the reform process through taking into consideration class character of the state and examining the autonomy of the state. The capitalist state acts as if it is neutral and treats equally of social classes to maintain its existence through guaranteeing the continuation of the capitalist relations. Examining the notion of the autonomy of the state is necessary to understand the role of the Turkish state throughout the social security reform process as the Turkish state is a capitalist state and acts according to the requirements of capitalist reproduction. Related with that, the thesis will also explain the notion of the rule of law to reveal its common usage in the current environment as a legitimizing mechanism to introduce harsh neoliberal economic policies.

As any law has deep social and economic roots, the new law on social security system comprises social relations. However, law and legal system appear neutral in capitalism. Indeed, they have a class character and they are constitutive factors for the power of

capital, the nature of the state and its separation from the society. Therefore, the thesis tries to examine the formation process of the social security reform to shed light on the class relations shaping this process.

The thesis acknowledges that social policy has many components and all of them have been affected from the neoliberal transformation. Even though, social policy mainly comprises social security system, labor market and poverty alleviation; the thesis concentrates on social security system and mostly one of its components, which is pension system. The reason of choosing the social security system is that it is one of the most concrete manifestations of neoliberal restructuring and its transformation has witnessed changing power relations.

The major problem to be investigated is “How a critical analysis of the transformation of the social security system in Turkey could be made in the context of the processes of new constitutionalism and Europeanization?” To do this, the thesis explains the neoliberal restructuring process from the end of the 1970s in Chapter Two to provide a historical point of view. The chapter examines the transition from Fordist regime of capital accumulation to post-Fordism and the shift in its accompanying mode of economic regulation from KWNS to competition or regulatory state to provide a basis for analyzing the reasons of change in the welfare state in the following chapter. An analysis of the change in the role of the state is necessary to correlate the transformation of the welfare state and the social security system with the change in the role of the state. As it will be explained, the role of the state has transformed in a way so as to deliver expected functions under the competitiveness and globalization pressures. The incoming competition state promotes competitiveness, prioritizes fiscal discipline and prefers rules-based policies to provide predictability for investors and to, at the same time, escape the political consequences of conducting anti-inflationary policies. As a result of the change in the role of the state, economic functions have acquired the dominant place, which has resulted with the subordination of social policy to the needs of the economy. Therefore, an analysis of the change in the role of the state will contribute to the thesis through examining the transformation of the social security system as a consequence of the changing priorities of the state towards neoliberal economic policy, which has been also the result of the change in the regime of capital accumulation. Therefore, such an analysis is necessary to apprehend the transformation process through taking into consideration state and economy together.

Chapter Three examines the notions of the autonomy of the state, the rule of law and new constitutionalism. The chapter discusses the autonomy of the state by referring to the arguments of state-centric and society-centric approaches to provide a theoretical framework and to touch upon the role of the state in the process of neoliberal restructuring and the transformation of social policy in general, the role of the Turkish state in the process of social security reform in particular. Also, this chapter discusses the notions of the rule of law, the role of law and the legal system in capitalism, and the relationship between the law and capitalism. In this regard, the chapter puts the arguments of liberal philosophers on the rule of law and the Marxist interpretation of law in capitalism together. Such an endeavor would enable to conceptualize the use of the rule of law in the current environment as a legitimizing mechanism for introducing neoliberal changes. Finally, the chapter introduces the notion of new constitutionalism to analyze the recent international governance framework and the effects of it on social policy. This will also help to understand the relationship between the rule of law and new constitutionalism. It will be stated that new constitutionalism separates economic from political; in this way, eliminates political challenges to neoliberal globalization through depoliticization mechanisms (Gill, 2002: 48). Under these circumstances, social policy remains constrained with the primacy of neoliberal economic policies. In this way, this process eases making changes in social policy in line with neoliberalism through resorting to the rule of law.

Chapter Four briefly analyzes the transformation of the welfare state to workfare state by touching upon the “globalization thesis” to display that globalization plays a legitimizing role in the process of the transformation of the welfare state, and criticizes this approach due to its conceptualization of globalization as a homogeneous process. Then, the chapter explains main characteristics of the workfare state with an emphasis on activation policies. This chapter is important to apprehend recent changes in the social policy as a reflection of the workfare state. Finally, the chapter examines Europeanization process and the Lisbon Strategy by touching upon the OMC and makes a critique of them.

As the Europeanization process has been shaped under the Lisbon Strategy from the 2000s, it is crucial to explain the features and the aims of the Lisbon Strategy and its methodology (the OMC). As it will be revealed, behind its ostensible goal of reconciling the targets of economic growth and social cohesion, the Lisbon Strategy aims to make social policy bound with the requirements of the EMU or the EU social policy in general (Savio and Palola, 2004: 14) The OMC serves to this aim through allowing asymmetrical

constitutionalization between economic and social policies in the EU level, in favor of the former. As a candidate country, the formation of economic and social policies has been affected from the process of Europeanization driven by the Lisbon Strategy in Turkey in the accession process to the EU. With such a social policy understanding, the EU has affected the transformation of social policy in Turkey, the social security reform process particularly, through endorsing these policies in the accession partnerships. Also, the effect of the process of Europeanization on Turkey has been concretized in the requirements of fulfilling certain membership criteria such as the Copenhagen and the Maastricht. Therefore, an examination of the process of Europeanization and the Lisbon Strategy will contribute to the thesis through revealing that the social policy formation in the EU has been reshaped under these processes, which at the same time has affected the transformation of social policy and the social security system in Turkey in the accession process.

The last chapter reviews the social security reform in Turkey in the 2000s with an emphasis on the role of external and internal actors throughout the reform process. In that sense, the chapter draws attention to the IFIs and the EU, which have shaped the reform process through endorsing the necessity of restructuring the social security system. The chapter will reveal that Turkey has been affected from new constitutionalism and Europeanization processes through the channels of the IFIs and the EU and argues that the social security reform has been put forward as a conditionality to benefit from the IMF loans, at the same time the EU has pressed indirectly to attain a financially sustainable social security system that would not endanger the macroeconomic indicators of the country. The chapter also gives place to the arguments of business associations, employer and union confederations as the representatives of capital and labor throughout the social security reform process to indicate the role of the social classes in the transformation process. It will be shown that while TUSIAD, as one of the representatives of capital in Turkey, made use of the language of ‘external commitment’ throughout the reform process through making references to the EU membership requirements, the Lisbon Strategy and the IMF conditionality; labor unions objected to the social security reform on the grounds that it will bring the marketization of social services.

As it will be touched upon, the Justice and Development Party (AKP with Turkish acronyms) has expressed its commitment to the EU accession process and necessary reforms; in this way, the government has frequently made use of the EU membership requirements as a legitimizing mechanism for introducing the social security reform

without being exposed too much opposition from the society. Therefore, the thesis will show that the impact of the processes of new constitutionalism and Europeanization are concretized in the policies and the discourses of the AKP government and the representatives of capital during the social security reform process. Finally, the chapter criticizes the recent changes in the social security system with an emphasis on pension system and argues that it has brought commodification and has consolidated the discipline of capital over greater aspects of life.

The thesis will conclude that these pressures towards the neoliberal restructuring of the social security system is a part of the general neoliberal transformation in the world. It has been realized under the neoliberal hegemony and the processes of new constitutionalism and Europeanization have facilitated this transformation. Through such an analysis, it is aimed to reveal that behind its neutral appearance (achieved through depoliticization mechanisms and resorting to the rule of law), the process comprises class relations and recent changes in the social security system signify the victory of capital.

The study will adopt critical political economy as its methodological position. Since political economy avoids fetishization through incorporating political and economic. Such kind of analysis enables us to comprehend the whole process by taking into consideration state and market relations together rather than treating them as separate or external. In other words, it assures avoiding the dichotomy between state and market as well as state and society, which is one of the main fallacies of the Liberal-individualist and institutionalist theories. Besides, it ensures to understand the underlying mechanisms throughout the transformation process through assuming a historical and critical point of view. The development of a critical perspective will be appropriate because the mainstream studies are not take underlying class relations, and formation process of law into consideration. Further, they remain deficient as far as they are based on a dualistic conception of the state and the market.

The thesis benefits from academic books and articles. It will make use of publications, periodicals, speeches, press releases and reports of the representatives of the Turkish business and of the union confederations. The analysis of this period will also be enriched by elaborating on the policies and attitudes of them. In addition, the thesis will make use of the annual regular progress reports of the European Commission and accession partnership reports which are important driving forces of the neoliberal reform agenda on

social policy. Also, the thesis will refer to the letters of intent to the IMF written by Turkish governments, and some studies of the World Bank.

The thesis mainly benefits from three literatures to analyze the social security reform in Turkey in the context of new constitutionalism and Europeanization. First, there is Europeanization approach that incorporates with the European integration process with an institutionalist point of view. It endorses liberalization and market-oriented reforms and assumes a pro-Lisbon Strategy manner. Second, there is critical political economy approach that criticizes the Europeanization process as well as neoliberalism and new constitutionalism. The critical political economy challenges the dominance of liberal and institutionalist approaches through analyzing the changing dynamics of state-market and state-society relations. Finally, the thesis benefits from the literature on social policy and social security system in Turkey. The literature in Turkey on this issue has generally been shaped under the auspices of institutionalist approach. Most of the studies related with the transformation of the social security system in Turkey explain the outcome of the process and focus on visible features of the change, merely. They do not pay attention to the reasons of the transformation process and underlying class relations and generally make an ex post analysis of the apparent situation with an emphasis on the question of “what has happened” rather than asking “why it has happened”. However, the reform can only be explained through analyzing the changes in the capital-labor relations and the policies of capital to reproduce its economic and political hegemony (Yücesan-Özdemir and Özdemir, 2008: 161). Instead, the thesis will try to make a critical analysis of the social security reform and to focus on the formation process of the social security law and the transformation process itself, rather than just explaining the changes and results of it. With such a point of view, the thesis tries to evaluate the social security reform in Turkey revealing underlying mechanisms and processes, in that respect relating the reform process with change in the regime of capital accumulation and mode of economic regulation as well as examining the impact of the class relations in this process and the influence of the transnational capital through the channels of the IFIs and the EU.

Recently, the debate on the transformation of the social policy in Turkey has been shaped under the dominance of the so-called rights-based approach, which leans upon historical institutionalism, mainly represented by the studies of Ayşe Buğra and Çağlar Keyder. This approach sees recent transformation process of social policy as an opportunity to bring into question the inadequacies of the system and to change “inegalitarian” structure of the Turkish social security system into a more universalist scheme, especially

clientelist understanding of social assistance services to rights-based alternatives. However, as the thesis will argue, this approach apprehends inequality and poverty distanced from class relations and through such an understanding, this approach plays a legitimizing role in the neoliberal restructuring process of social policy (Yalman, 2011).

In sum, this study aims to go beyond the limits of the recent debates on the changing nature of social policy, social security system particularly, in Turkey through explaining the changes and underlying dynamics with reference to the rise of new constitutionalism and Europeanization throughout the world, and it aims to try to fill the gap in the class-based critical analysis of the transformation of the social security system in Turkey.

CHAPTER 2

THE NEOLIBERAL RESTRUCTURING IN THE 1980S

The 1970s signalize a significant change in the role of the state, the regime of capital accumulation and the form of articulation of the national economies with the world economy. The post-war economic and political order, characterized as “the golden age of welfare capitalism” or “organized/managed capitalism” due to crucial role of the state intervention into economy in that era, came to an end while a process of neoliberalization started to surround the world order. Full employment, social protection and universal access to health and education were important features of the previous era. However, the role of the state and its associated mode of regulation became insufficient to overcome the crisis in the 1970s and necessitated a new regime of economic and social reproduction. The crisis of the 1970s created the conditions for deep transformations especially in the social order, relations of production and class structures (Dumenil and Levy, 2004: 14). Neoliberalism emerged “as a *political* project to re-establish the conditions for capital accumulation and to restore the power of economic elites” (Harvey, 2005: 19). Beginning from the 1980s, neoliberalism has begun to dominate as new orthodoxy in a manner that concretized in the Margaret Thatcher’s famous statement “there is no alternative”.

In the 1980s, affects of neoliberal policies on social classes became evident; as a result, the balance of class forces had already turned in favor of capital against labor. In this respect, “the counter attack of capital” (Boratav, 2009) was realized through regulations that pave the way for market ascendancy. The neoliberal transformation had already started in Chile in the 1970s with a group of economists known as “Chicago Boys”, and as a result of this ‘brutal’ experience, the periphery became a model for the formulation of policies in the center (Harvey, 2005: 9). However, the striking rise of neoliberalism occurred in the advanced capitalist world, with the rise of the power of Thatcher in Britain and Reagan in the United States at the end of the 1970s.

Many states have adopted neoliberal policies since the 1980s either on their own or as a result of compulsion by the international institutions such as the IMF or the World Bank. As a result of a series of crises began at the end of the 1970s, mainly in the peripheral countries, the international financial institutions (IFIs) came into place with neoliberal prescriptions to overcome the crisis. Indeed, these prescriptions called as Structural Adjustment Programs (SAPs) necessitated structural transformations in the economy and later they have become an understanding, Washington Consensus, which promotes neoliberalism as the ‘quickest’ and the ‘surest’ formula for growth (Dean, 2008: 50) and exports neoliberal policies to the rest of the world through “shock therapies”. Indeed, neoliberalism has taken different forms in advanced capitalist countries than less-developed countries as it has been generated internally in the former rather than having been imposed externally on the latter (Howard and King, 2008: 2).

Turkey, as one of the countries that had been affected seriously from the neoliberal transformation in the 1980s, shared the same destiny with many other countries in the developing world. The neoliberal restructuring in the 1980s throughout the world provided the background for neoliberal transformation to take place in Turkey. The 24th January stabilization package put into practice the transformation of the Turkish economy from an import-substituting industrialization (ISI) case into an export driven one; hence the transformation of the mode of integration of the Turkish economy with the world economy. The coup d'état of 1980 facilitated the launching of the neoliberal restructuring through promoting the interests of the bourgeoisie. The commitment of the Turkish bourgeoisie and political actors to structural adjustment policies served to the consolidation of neoliberal restructuring of the economy and the state.

In fact, the neoliberal agenda was not simply put into implementation as a solution to the economic recession at the end of the 1970s in the world, and in Turkey in the 1980s in a similar way; but it aimed much deeper transformation both in the economy and in the society. The essence of the 1980 stabilization package was to construct the free market economy in Turkey; therefore, the post-1980 era witnessed the emergence of a distinctive type of state intervention and socioeconomic transformation in Turkey in accordance with the transformation in the world. It is acknowledged by many scholars that although the immediate purpose of the measures of the 24th January was to overcome the foreign currency problem and to stabilize the economy, the long-term aim was to enable structural transformation in the country that would open up the economy and integrate it

into the world capitalist economy. Nevertheless, what really lied behind the adoption of neoliberal policies was to establish the hegemony of the capital.

Today, the neoliberal doctrine has applied to an ever-expanding area of life in the real world; furthermore, neoliberalism has become hegemonic through the channels of globalization. In other words, as Perry Anderson states, “whatever limitations persist to its practice”, neoliberalism has succeeded to conquer the world, “as a set of principles rules undivided across the globe” (Anderson by Howard and King, 2008: 1). Turkey has been a part of this general transformation. It is important to denote that, the neoliberal transformation is not limited with economic transformation; but, as it will be elaborated in the following chapters, the role of the state, state-society relations and social policy has been parts of the neoliberal transformation.

In this regard, it is beneficial to examine the neoliberal restructuring from a political economic point of view in comparison with the pre-1980 era with an emphasis on the change in the regime of capital accumulation and mode of economic regulation, and to conceptualize the transformations in the new world order. The thesis acknowledges that although state formation is the result of class relations and historically specific conditions in each nation hence there are different state formations; some generalizations disregarding this issue necessarily will be made throughout the thesis to better draw attention to common features of neoliberal restructuring.

2.1. From Fordism to Post-Fordism

After the Second World War, state forms and international relations were restructured so as to get through the conditions of the 1930s, which threatened the capitalist world order (Harvey, 2005: 9). A new world order was constructed through the Bretton Woods agreement, which also resulted with the establishment of international financial institutions, namely, the International Monetary Fund (IMF), and the World Bank. Under a system of fixed exchange rate, free trade in goods was encouraged, the convertibility of the US dollar into gold at fixed price was guaranteed, and a compromise between capital and labor was constructed. This political-economic structure was referred to as “embedded liberalism”. In that era, high public expenditures and active state interventions in the economy facilitated the establishment of the welfare state. Moreover, through

redistributive politics, controls over capital mobility and Keynesian control on business cycles, high rates of growth were obtained (Harvey, 2005: 9, 11).

Jessop (2002) identifies the post-war era until 1970s as “Keynesian welfare national state” (thereafter KWNS) and uses each of the four terms to define basic dimension of economic and social reproduction. First, the KWNS is *Keynesian* because it has *distinctive set of economic policies* aiming to secure full employment through demand-side economic policies, and provision of infrastructure to support mass production and consumption. Therefore, the adjustment of effective demand to the supply-driven needs of Fordist mass production was important for the maintenance of the virtuous circle of Fordist growth. Second, the KWNS is oriented to *welfare* because it involves *distinctive set of social policies* securing the conditions for social reproduction. The KWNS aimed to institutionalize and expand economic and social rights attached citizenship of a nation state. The state tried to regulate collective bargaining and to help generalize conditions of mass consumption. Third, the KWNS is *national*¹ due to its relative primacy of national scale in economic and social policy making in a top-down manner and primarily regarding the equalization of economic and social conditions within the nation state. And, fourth, the KWNS is *statist* owing to its primary concern based on a mixed economy and *compensating market failures* rather than promoting free market economy.

Generally speaking, the dynamic based on mass production and mass consumption spread after the Second World War from the United States to the other advanced Atlantic capitalist countries (Jessop, 2002: 58). Big capitalist economies (such as Britain, France, Germany) as well as small and open economies (such as Austria, Denmark, New Zealand, Sweden, Canada and Australia) moved towards mass production due to their leading

¹ The KWNS had distinctive features as a national state. Jessop (2002: 71-72) summarizes these features as follows: national scale was regarded as primary and sovereign, thus local and regional scales played a secondary role as a transformer of national economic and social policies. The supranational institutions generally organized under the US hegemony promoted cooperation among national states and aimed to secure post-war political and economic order. Parallel to this, national economies were regarded as objects of regulation. The national and international economic management was operating according to the capitalist logic of “economic man”, in the national scale according to the combination of market and state, namely “mixed economy”. The national economy was measured in terms of national aggregates, and interregional differences relatively were not taken into account. The primary object of welfare and social reproduction policies was the stability of the “patriarchal” family form in which man received a “family wage” and could expect a lifetime job. The citizenship was seen as the basis of the social policy and various rights such as legal, social, political and economic were attached to citizenship. The protection and expansion of citizen rights were obtained through economic and social distribution without making concessions from essential capitalist features (Jessop: 2002: 71-72). In short, there was close relationship between the national state form and welfarism of Keynes.

sectors with Fordist accumulation regime enabled them to finance rising standards of mass consumption (ibid). At the same time, internationally, a system of fixed exchange rate prevailed considering free trade. The convertibility of the US dollar was fixed into gold. The US succeeded in coordinating other capitalist countries “under its aegis” in the post-war period, which was made possible through the economic and military power of the US (Panitch and Gindin, 2004: 13).

As Jessop (2002) argues, the role of the post-war state was to regulate and manage Fordism. It was materialized in the KWNS, which had a capacity to manage capitalism’s contradictory nature, thus succeeded for a time. Jessop’s (2002) analysis of Fordism is based on four angles: First, it comprises a *distinctive part of labor process* which involves the semi-skilled labor operating mass production based on moving-assembly line techniques. Second, it is an *accumulation regime* based on a virtuous circle of growth. In this circle, mass production leads high productivity based on economies of scale, rising incomes/wages as a result of this high productivity give rise to increased mass demand and then, full utilization of capacity and rising investment in mass production equipments and techniques leads to increased profits. Third, Fordism is a *mode of economic regulation* that aims to sustain given accumulation regime and maintain virtuous circle. The Fordist wage relation is based on the recognition of trade unions and collective bargaining by both big business and the state. Wages are indexed to productivity growth and inflation. Aggregate demand is secured through monetary emission and credit policies. In this respect, if tendencies towards under consumption occur, they can be offset as long as wages and productivity in the consumer goods sector move parallel. The state helps managing the conflicts between capital and labor through individual and social wages to sustain virtuous circle of the Fordist growth. Finally, Fordism involves a *mode of societalization* which provides workers an individual and/or social wage to satisfy their needs and to create “an urban-industrial, middle-mass, wage-earning society”.

It is proper to claim that the KWNS’s specific contribution to Atlantic Fordism was its capacity to manage and/or delay the contradictions of the capital relations expressed in Fordist accumulation regime (Jessop, 2002). In this context, the national state, national citizenship with social and political rights, and institutions securing full employment and economic growth contributed a “spatio-territorial matrix” (Jessop, 2002) in the post-war

era that Ruggie (1982) called as “embedded liberalism²”. It was through this spatio-temporal fix that specific but temporary resolution to the contradictions of capital accumulation expressed under Fordism was achieved. (Jessop, 2002: 75)

This specific resolution of the capitalist contradictions was obtained through the wage and money forms (Jessop, 2002). Jessop (2002: 75-76) identifies the primary aspect of the wage form as a source of domestic demand rather than as a cost of international production in the KWNS. Due to Fordist accumulation based on mass production and mass consumption, the state focused on full employment and organized its policies around this goal. Primary role of the wages was to guarantee purchasing power of consumers, hence to stabilize production (Dean, 2008: 49). Wages had a secondary importance as a cost of international production provided that they rose in line with productivity and prices, consequently contributed to the Fordist virtuous circle. At the same time, the state envisaged living with modest inflation. The state helped to balance supply and demand through labor market policies and demand management. In addition to this, the state enabled a stable economic growth atmosphere through smoothing fluctuations, thereby secured increasing returns to scale for Fordist firms and encouraged investment. Moreover, the state’s activities relating the wage relation was to support trade unionism, collective bargaining and bi or tripartite forms of corporatism. As a result of the corporatist bargaining, as long as the industry oriented to the domestic market, the interests of organized capital and organized labor was linked considering policies on full employment and social welfare; because wage could function as a source of demand for the domestic market. (Jessop, 2002)

The primary character of money form in Atlantic Fordism was its function as national credit money. Public spending and borrowing, private debt and consumer credit had a significant role in the post-war economic boom and mass consumption. This helped to create tax revenues to ensure welfare rights, social redistribution, infrastructure and mass consumption. Moreover, the consolidation of class compromise between industrial capital and organized labor could be materialized in this wise, which constituted a social basis for Fordist accumulation regime. On the other hand, the role of money as an international

² Ruggie (1982) identifies the task of post-war institutional reconstruction as achieving a balance aiming to safeguard domestic stability without endangering negative external consequences as it was in the pre-war period. “This was the essence of the embedded liberalism compromise: unlike the economic nationalism of the thirties, it would be multilateral in character; unlike the liberalism of the gold standard and free trade, its multilateralism would be predicated upon domestic interventionism”.

currency was secondary. Because most national economies' capital accounts were closed compared to their trade accounts, so national economies were designed a national labor standard rather than some monetary standard. This policy was materialized in the policies of commitment to full employment and fixed exchange rate regime. In this period, inflation played a crucial role by deferring the contradictions of the KWNS and Fordism and by redistributing their costs. Especially, inflation played an important redistributive role in market share and profits in favor of big business. (Jessop, 2002: 78-80)

In short, the most important role of the KWNS in the Fordist accumulation regime was to create the conditions of mass production and consumption; thereby sustain the virtuous circle of the Fordist growth. At the same time, in this era, international monetary system made possible the encouragement of developmental policies concretized in the import substitution industrialization for many developing countries, Turkey was one of them.

In the light of this analysis, it is possible to generalize that most of the states in Europe in that period were showing implications of the welfare state to a certain extent supported with Keynesian economic policies. In this period, foundations of the welfare state was tried to be laid down in Turkey parallel with many other countries. In this regard, whether Turkey had a welfare state tradition and the features of the Turkish welfare state will be touched upon in the next chapters.

2.2. Restructuring of the State

The Bretton Woods system based on embedded liberalism and Keynesian economic policies could not prevent the crisis that global capitalism had faced in the 1970s. This structure was underwent a crisis in the 1970s due to a number of reasons comprising economic, financial, political and social aspects. The most pronounced of them was the 1970s' stagflation that brought about the dissolution of Fordism and its accompanying mode of economic regulation. Towards the end of the 1970s, inflation rose seriously while wages remained stable. Decline in the profit rate led to slowdown of accumulation that resulted with high unemployment (Dumenil and Levy, 2004: 14). The decreasing rate of profit was exhausted the Fordist growth circle and the Keynesian demand management policies remained inadequate to overcome the crisis (Harvey, 2008: 12). Likewise, the dramatic increase in the oil prices and the collapse of the Bretton Woods Agreement in 1973 contributed to the structural crisis (Lapavitsas, 2008). At the same time, the global

expansion of production and finance, as well as the US's declining place in the system, together with the unstable relationship between the dollar and the gold played significant role in the sustainability of the system and led to the removal of the convertibility between dollar and gold (El-Ojeili and Hayden, 2006: 56). As a result, the fixed exchange rate system was abandoned in 1971 indicating the end of the era of embedded liberalism.

During the post-war compromise³, the gains of unemployment benefits and other social security arrangements had shifted the balance of class power in favor of organized labor. In the end of the 1970s, workers had improved and sustained purchasing power (Dumenil and Levy, 2004: 44). At the same time, social wage had constituted a downward rigidity on wages, which endangered profits of capitalist class and capital accumulation. Thus, wage began to be increasingly seen as an international cost of production rather than a source of domestic demand (Jessop, 2002). As, according to neoliberal theory, labor is an abstract and substitutable factor among other factors of production, it can be purchased where found cheapest around the world. These factors gave rise capital to restructure the labor process and repress labor costs. Moreover, money began to circulate internationally and forced the national states to abandon fixed exchange rates. This started the tendency of industrial/productive capital to be subordinated by financial capital. Therefore, with the internationalization and the dissolution of the national scale, the economic and political effectiveness of the KWNS further deteriorated. This required a paradigm shift from Fordist accumulation regime and the search for alternatives to Fordism. (Jessop, 2002: 82-84)

As the KWNS was a tax state (Jessop, 2002), one of the causes of its crisis was fiscal. However, the crisis exercised a 'scissors' effect' on the KWNS. On the one hand, while capital's contribution to state revenues fell, the tax base for social security payments was reduced. On the other hand, the expenditure on income maintenance (unemployment benefits, housing, health etc.) was increased due to the crisis, which in turn increased state expenditures more than tax revenues. At the same time, increasing international mobility of capital and competition created downward convergence of taxes. The resulting fiscal crisis of the state created increasing hostility to the tax costs, inflation and

³ In the post-war era, many governments adopted politics of incorporation, which necessitated state intervention to persuade business on the one hand, and trade unions on the other hand on moderate wage demands (Burnham, 2000: 19), which is called as "post-war compromise".

the welfare state, hence became one of the major factors in favor of the neoliberal shift. (Jessop, 2002)

Indeed, as Jessop (2002: 86) states, the crisis of the welfare state was not only fiscal and budgetary, but

[t]he economic crisis of the welfare state was rooted in the growing discrepancy between its activities and the discursively constituted (but often materially rooted) needs of capital accumulation. Tasks that had benefited capital during the Fordist upswing acquired their own institutional inertia and vested interests even though the needs of capital had changed (or many of the policies inherited from the period of Fordist expansion were failing or even proving counterproductive). Thus, resolving the economic crisis would require the reorganization of the accumulation regime, its modes of regulation and its mode of societalization, as well as private and public economic retrenchment.

The KWNS was defective to regulate and manage the contradictions and the crisis tendencies of the capitalist relations expressed in Fordist accumulation regimes (Veggeland, 2009: 29). To iterate Jessop, there was a need to reorganize the accumulation regime in response to the changes in the environment of accumulation so as to deliver expected policies and functions. In other words, structural contradictions of capitalism might be reconciled through a new and appropriate spatio-temporal fix for an extended time (Jessop, 2006: 91-92); although it is not possible to escape from the contradictions and inconstancies of capital accumulation exactly. In that regard, as the KWNS was in crisis, this implied the search for a new form of state.

In that sense, the restructuring of the state was necessitated. As Jessop (2002: 94) states, “what would replace the KWNS therefore came to depend on the changing balance of political forces mobilized for and against competing interpretations of the crisis in/of the postwar mode of economic growth, its mode of regulation and the appropriate solutions to any problem”. Since, the state can be seen as the condensation of the balance of class forces, the restructuring of the state is the expression of the changing balance of class forces. Therefore, in that period, the most striking change was taking place in the formation of the state. Indeed, as Poulantzas (2000) states, the state is a social relation of production; it is not an entity in its own right. In this sense, the historical and formal constitution of the state is derived from struggles throughout the history and at the same time it is reproduced in the length of time through class struggle; hence it is not a pre-

given constitution. For this reason, it is proper to argue that the neoliberal restructuring of the state in the 1980s can be seen as the restructuring of state-capital-labor relations driven by class struggle. In other words, as Clarke (1991: 186) puts it, “the state has to be derived from the analysis of the class struggles surrounding the reproduction of capital” because the development of the form of the state is an essential aspect of the development of the class struggle. In this context, while explaining the “neoliberal state”, it is convenient to consider the relation between the state and social classes, or in other words the relational character of the state, rather than taking state and society as two distinct units of analysis.

The search for alternatives near to social democratic and corporatist solutions became inconsistent with the requirements of capital accumulation in that process (Jessop, 2002; Harvey, 2005; Gamble, 2006). What emerged as the restoration or reconstruction of the power of the economic elites was neoliberalism (Harvey, 2005: 19). The era after the global economic crisis of the 1970s that pushed a significant change in the forms of state intervention into economy and forms of integration of national economies with the world economy is characterized as the dominance of neoliberal practices.

At this juncture, it is important to identify the notion of neoliberalism as it has been the leading actor since the 1980s in the global political economy. Neoliberalism is a broad concept; nevertheless it manifests itself as (1) “an ideology”; (2) “a mode of governance”; and (3) “a policy package” (Steger and Roy, 2010: 11). Great Britain and the United States pioneered the transformation of economic policy worldwide from Keynesian demand management policies to supply-side economic policy of neoliberalism⁴ (Veggeland, 2009: 29-30). With the rise to power of Reagan in the US and Thatcher in the UK, the New Right thinking, which embraces neoliberalism, gained significance in the political arena. The New Right shifted balance of class struggle in the opposite direction, replaced state regulation with regulation through the commodity form and removed the working class from its ‘privileged’ political position in the Keynesian era (Clarke, 1991: 202).

⁴ Supply-side economics sparked in the 1970s aimed at fighting stagflation advocated by Milton Friedman. The theory states that economic growth depends on market efficiency, which necessitates the removal of impediments to free markets and to reduce state involvement through privatization, deregulation and tax cuts as well as recommending free trade.

After the emergence of neoliberalism as a mode of regulation and economic policy package in the advanced capitalist countries, a new world order was constructed in the global South through the imposition of the neoliberal agenda on heavily indebted developing countries in return for much-needed loans (Steger and Roy, 2010: 10). Especially, during the external shocks⁵, which many developing countries experienced in the 1970s, neoliberal policies were adopted as policy solutions to these shocks. However, these policies were not only the policies offered to countries having balance of payments problems, but also aim at a structural transformation in these countries' economies⁶. These stabilization-cum-adjustment policies brought the dissolution of the developmental endeavors concretized in the ISI strategy until the 1980s for many developing countries, including Turkey. Indeed, ISI had been only possible way for industrialization of many developing countries in which there had been lack of capital accumulation and technology in their economies to industrialize⁷. However, the shift in the mode of accumulation has condemned them to provide cheap labor and/or become production sites to multi-national corporations (the MNCs) (Aydın, 2005: 11).

As Balassa (1982) states, the basic argument behind the necessity of adopting SAPs for developing countries was to implement outward oriented policies; hence to integrate them with the world economy through raising export shares according to the principles of comparative advantage. In that context, the export-oriented strategy (EOI) was promoted in comparison with the ISI strategy's alleged deficiency and dependency on imported capital goods to continue production (Gore, 2000: 793). During the adoption of the SAPs, the countries having put into practice these policies were praised for "getting relative prices right" to refer to popular motto of that era because they tended to better adapt to the changes in the world economy and had a more convenient open economy for investment and growth. Indeed, the IMF, as the featured actor of the stabilization process, was upholding in favor of foreign lenders rather than the borrower nations in Latin

⁵ Many developing countries faced external shocks beginning from the 1970s resulted with short-term, high interest-rated debts taken from the international markets from the mid-1970s, which exacerbated balance of payments problems in these countries and undermined ISI strategy by creating foreign exchange problems.

⁶ The IMF describes the purpose of the stabilization programmes, which the package of conditions attached to stand-by loan agreements, as achieving balance of payments equilibrium; but for many scholars, the role of the IMF is considered to transform Third World economies, in order to better integrate them into the capitalist world market (Harris, 1988).

⁷ During the post-war compromise based upon domestic interventionism and the protection of the aim of multilateral trade and transactions (e.g. Ruggie, 1982), the international economic system made possible the promotion of developmental policies, in particular ISI strategy, for many developing countries.

America throughout this process, thereby contributing to a “lost decade” of these nations (Stiglitz, 2004).

In that period, a neoliberal transformation took place in Turkey under the 24th January stabilization package of the IMF, as a result of which the Turkish economy has transformed from an import-substituting industrialization (ISI) case into an export driven one. The coup d'état of 1980 facilitated the launching of the neoliberal restructuring through promoting the interests of the bourgeoisie. The commitment of the Turkish bourgeoisie and political actors to structural adjustment policies served to the consolidation of neoliberal restructuring of the economy and the state.

The main elements of a standard structural adjustment package include (Balassa, 1982) 1) production incentives, which require the removal of price controls, and extending import⁸ taxes and export subsidies 2) saving and investment incentives composed of positive real interests, which “would increase the amount of savings available for investment” 3) “rationalization” and “economic evaluation” of public investment 4) institutional changes in sectoral policies in favor of energy and agriculture 5) reducing the budget deficit, putting credit ceilings for the public sector 6) putting limitations on public borrowing from the central bank 7) resorting foreign borrowing when needed. Parallel with that, according to Frenkel and Khan (1993, 87-88), although the policy measures may differ across countries, each package share certain common features: countries should put monetary restraint to reduce rate of inflation; set interest rates at positive real levels; reduce fiscal deficit by cutting public expenditures; improve international competitiveness by ensuring a real exchange rate; reduce external debt and, most importantly, adopt structural reforms. In fact, although the content and the success of the policies differ according to different countries’ historical specificities, what is identical is that the implicit concern of the policies pursued has been to put an end to class-based politics (Bedirhanoğlu and Yalman, 2010: 107).

The so-called “Washington consensus”⁹ had become orthodoxy in the economic policy making in the 1980s (Gamble, 2006). Although the name-giving father Williamson’s

⁸ According to Balassa (1982), “in order to minimize dislocation, the reform of import protection should be carried out over a period of 4-5 years that is the time horizon of structural adjustment policies”.

⁹ Washington Consensus signifies a set of neoliberal policies imposed by the Washington-based international financial institutions on developing countries, although Williamson claimed the opposite, which these policies were widely desirable for Latin America as of the second half of 1989 (Naim, 2000). The ten policy

claim that he did not intend to list ten specific policy reforms (Williamson, 2004), it had been widely interpreted as the Washington Consensus is not only offering a policy prescription for developing countries, in particular Latin America; but also, by doing this, structural adjustment and stability became an end itself as a result of these policies.

The dissemination of the Washington Consensus affected developing countries' formulation and implementation of economic policies immensely (Naim, 2000: 505). A reordering of policy priorities took place so as to give priority to growth objectives compared to objectives of full employment and income distribution (Balassa, 1982: 23). The role of the market and the importance of relative prices in the allocation of the resources were emphasized (Frenkel and Khan, 1993: 87). However, this was not meant that all forms of government intervention had been opposed. Government intervention was well appreciated when there was a market failure and there was a need to provide the infrastructure (Frenkel and Khan, 1993: 87). In other words, the state form was transformed so as to deliver expected functions under the globalization pressures. Newly industrialized countries' (NICs) competitive pressures in low-cost, low-tech production on advanced capitalist countries and post-Fordist type of production's flexibility demands affected the reorganization of the state capacity in supra-national, regional and local levels (Jessop from Rainnie and Fairbrother, 2006b: 38). This means that the role of the state has changed but it does not signify 'the end of the state'.

In fact, the state has an active role in neoliberalism notwithstanding the alleged minimal role given to the state in the neoliberal theory. Contrary to classical liberalism, neoliberal states are to be strong and significantly involved in redirecting and restructuring state activity (Howard and King, 2008: 3). In other words, the government is not a mere "night watchman" (Steger and Roy, 2010: 5). It was acknowledged by the proponents of the liberal ideology that in modern capitalism, a strong state has to put certain regulations and controls on capitalism (Steger and Roy, 2010: 6). Providing institutional frameworks for markets, establishing property rights, creating and securing markets have been juxtaposed as the primary role of the neoliberal state. The primacy of the market has been recognized, which at the same time necessitates a 'strong state' to overcome the obstacles

reforms are as follows: fiscal discipline, reordering public expenditure priorities, tax reform, liberalizing interest rates [financial liberalization], ensuring a competitive exchange rate, trade liberalization, liberalization of inward foreign direct investment [in many developing countries, this policy was implemented together with the policy of 'early' liberalization of capital account, which has caused financial crises], privatization, deregulation and securing of property rights. (Williamson, 2002, 2004)

and to secure market order. In Gamble's words, "a free economy requires a strong state" (Gamble, 2006). However, this constitutes maybe the main reason behind the contradictions of neoliberalism (Gamble, 2006: 2).

As Fine (2009) identifies, there have been two phases of neoliberalism. The first is the "shock" or "classic" phase of neoliberalism that was applied to the Latin American countries and the transition economies of Eastern Europe. In a nutshell, in this period, little regard was given to the consequences of neoliberal policies. The second phase, beginning from the early 1990s, on the one hand is in need of responding to the dysfunction and conflict resulted from the first phase, on the other hand, the process of financialization has been sustained in this phase. Therefore, it can be identified as the 'financialization phase'. He also argues that the shift between the two phases of neoliberalism can be identified with the shift between the "Washington Consensus" and the "post-Washington Consensus". He goes on with saying that "the first phase of neoliberalism, then, was privatized in various ways and sat back to wait upon the results to which its second phase can respond." However, when the premises of privatization are not delivered the stage has been left to the state to fix the consequences.

In that context, towards the end of the 1990s, the Washington Consensus was begun questioning. The 1980s' drastic de-regulation and liberalism delivered its problems in the 1990s with a series of crisis. With the increasing integration of international financial markets, new challenges to domestic financial markets have emerged everywhere, but especially in developing countries. A series of crises in the developing world (e.g. 1987/1994 Mexican crisis, 1989/1991/2001 Argentinean crisis, 1997 Asian crisis, 1999 Brazil crisis, 1994/2001 Turkish crisis) raised throughout the world a number of questions about the sustainability, and even the merits, of the market-oriented reform process in developing economies. It was argued by many that there was a mistaken sequencing of financial liberalization. The capital account opening was premature and should have been postponed until other major reforms had been consolidated. Both opponents and proponents of financial liberalization called for substantial regulation and supervision.

For BWIs, the crisis was not the result of simple macroeconomic mismanagement but the result of institutional deficiencies. For this view, the problem is not liberalization as such, but the absence of effective, prudential regulation and supervision of the banking system. The main solution was strengthening the domestic financial system and implementing "second-generation reforms". Therefore, there emerged extra-market coordination

mechanisms to enable markets deliver expected results. In this regard, “second generation reforms” (or Post Washington Consensus)¹⁰ came into the place and the need to develop state capacity to implement these reforms has become important. These reforms were introduced in addition to the original Washington Consensus reforms (“first generation reforms”), which include promotion of innovative capacity, dissemination of property rights, improvement of banking system together with financial regulations and flexibilization of the labor market (Cedrini, 2008: 507). Therefore, it can be said that the period of post-Washington Consensus has further consolidated the gains of the capitalist class through institutional and constitutional amendments and guarantees. The new constitutionalism period, which will be explained in the following chapter, can be evaluated as an extension of this process.

In this process, some considerations regarding social policy have been added to the agenda of the IFIs. In that context, post-Washington consensus “justifies piecemeal intervention to enhance the imperfect working of markets and institutions” and bring poverty and subsequently poverty relief back onto the agenda (Fine, 2009: 5-6, 8); thus the following phase is called as “neoliberalism with a human face” by some scholars that is also identified as “reactive neoliberalism” or “New Social Policy” in Latin America (Molyneux from Fine, 2009: 8) emphasizing the transformative role of social policy in development¹¹ (Mkandawire from Fine, 2009: 10). In fact, the issue is not “human face” or reaction to the negative consequences of neoliberalism; “but the extent to which these are consistent with or facilitate continuing financialization against the struggles and constraints of economic and social reproduction” (Fine, 2009: 8). Instead, Fine identifies the following phase as “twixt risk management and developmental transformation” without demarcating the second (financialization) and third (reactive) phases of neoliberalism (Fine, 2009: 8).

¹⁰ In 1998, Stiglitz was criticizing the BWIs for trying to achieve economic growth by using macroeconomic stability, free trade and privatization as the only instrument. He argued that development was not a technical problem and a mere result of economic variables but it requires extra-economic adjustments and the transformation of the society. The reductionist conception of development should be avoided. For him, the financial sector is to be strengthened, which necessitated a strong legal framework and regulatory institutions; and human capital is to be invested. For these, state has to complete the markets and the antagonisms between state and market has to be eliminated by the implementation of “partnerships” between the public and the private sectors. In that way, deficiencies of market and/or market failure have been recognized. (Van Waeyenberge, 2006: 32-34), which has signified the emergence of the post-Washington Consensus.

¹¹ In this regard, for Adesina, social policy should facilitate development of the economy while trying to achieve social cohesion, nation-building, universal social rights, state capacity building etc. (Fine, 2009: 10)

Neoliberal thinking has become occupying considerable position through education, media, financial institutions, key state institutions, in particular treasury departments and the central banks, and also international institutions such as the IMF, the World Bank and the WTO (Harvey, 2005: 3). Therefore, neoliberalism has become hegemonic as the new paradigm shaping accumulation regime and mode of regulation as well as economic and social policies. In that sense, the neoliberal state form has proliferated throughout the world from the mid 1970s onwards. However, neoliberalism is an ongoing process; hence, it takes different forms in different countries although Washington-based institutions' "one size fits all" understanding. The role of the state is the result of the class struggle in each country. In accordance with that, as the Regulation Theory¹² manifest, regimes of accumulation emerge as a result of the interaction between the general capitalist tendencies at the transnational level and the specific formation of institutions and policies within each society (Palan, 2006: 249). Therefore, different varieties of capitalism emerge according to each state's class struggle.

2.3. The New Phase of Capitalism and the Competition State

Many scholars, considering the transformation in capital accumulation and its implications for social and economic policy, identify the era after the 1970s crisis as "post-Fordist"¹³. At the same time, in this era, knowledge plays an important role as the 'production factor' in economic, social and political restructuring. That is why Jessop (2002) prefers to use the term "knowledge-based economy" for signifying post-Fordist economy.

Jessop (2002) argues that there are important contradictions related with the crisis of Fordism and the following replacement of it with post-Fordism. The transpositions of wage and money forms are considered to be main contradictions in the post-Fordist mode

¹² Regulation theory emphasizes the role of the state in the accumulation process. However, this is not a statist interpretation which conceptualizes the state as independent from the society but comprehend that state is a condensation of class forces (Palan: 2006, 250)

¹³ There has been a scholarly discussion about whether post-Fordism is a suitable concept for studying changes in capital accumulation and its related policy implications from the end of the 1970s onwards. (See: Jessop, 2002 and Palan, 2006). In that sense, Jessop (2002: 102-103) states "as regulationists have emphasized for more than twenty years, the transition from Fordism to a stable post-Fordism is not guaranteed. Instead, it depends on complex trial-and-error search processes, on the development of new accumulation strategies, state projects and hegemonic visions, on major institutional innovation, and on the consolidation of new spatio-temporal fixes".

of regulation. Primary aspect of wage form previously considered as source of demand in Fordism was replaced with secondary aspect, which is cost of production. It means that, wage has been seen more as a cost of production, rather than source of demand. Likewise, while primary aspect of money form was considered as national money, it has been replaced with secondary aspect, which is international currency. The dominance of the money concept of capital over the productive concept has been another significant transformation. The dissolution of class compromise between organized labor and domestic and international capital also strengthened money capital vis-à-vis productive capital¹⁴ in the post Fordism. In addition, the fact that competitiveness depends on extra-economic factors further differentiates post-Fordism from the Fordist type of accumulation regime. Also, pressures from the global economy towards increasing competitiveness require developing capacity to establish and maintain necessary institutions. This raises the importance given to knowledge further. (Jessop, 2002: 104-109)

Post-Fordism, involves flexible production based on the operation of flexible machines. The production based on economies of scope that comprises diversity of products derives from economies of networks, contrary to the Fordist type of accumulation, which comprises economies of scale based on diminishing unit cost of production (Jessop, 2002: 98). *As a distinctive type of labor process*, post-Fordism requires flexible workforce comprises multiskilled and/or unskilled labor as opposed to Fordism, which involves semiskilled and inflexible workforce (Jessop, 2002: 99-100). *As a stable mode of macroeconomic growth*, post-Fordism's virtuous circle would be based on flexible and innovative production (ibid.). This virtuous circle includes

... growing productivity based on some combination of economies of scope, economies of networks and process innovations; rising incomes for skilled manual and intellectual workers (often jointly reclassified as 'knowledge workers'); increased demand for differentiated goods and non-exportable (and hence also nonimportable) services favored by the growing discretionary element in these

¹⁴ However, this transformation is much related with the national conditions considering the degree and power of labor unions and the "technological capacity" of the national state. Therefore, nations such as Belgium and Sweden have resorted "... to innovation and deskilling in order to sustain a high-wage, high-tech, high-growth accumulation strategy" due to their relatively well organized labor unions. On the other hand, capital has attacked "... unions at all levels and adopt a hire-and-fire approach in the hope that neoliberal flexibility would reinforce competitiveness" in countries such as Britain and the United States owing to their relatively weak unions (Jessop, 2002: 106).

incomes; increased profits based on technological and other innovation rents and the full utilization of flexible capacity; reinvestment in more flexible production equipment and techniques and/or new sets of products; and a further boost to productivity owing to a new round of creatively destructive innovation, economies of scope and economies of networks (Jessop, 2002: 99-100).

As a mode of economic regulation, supply side innovation and flexibility are important characteristics of post-Fordism (Jessop, 2002: 100). In addition, more decentralized and flexible forms of organizations are other main structural forms of post-Fordist regulation (ibid.). Also, competition depends on technological innovation. In industrial relations, post-Fordism brings about new wage relations consistent with changing market conditions (such as flexi-wage and hire-and-fire and/or responsibility wages and regular reskilling) (ibid.). Collective bargaining tends to be decentralized from the national to sectoral or even company level in order to achieve increased flexibility that also limits wage increases as a source of demand (Jessop, 2002: 101). To compensate the decrease in the purchasing power of workers as a result of the shift in the wage form from source of demand to cost of production in post-Fordism, financial sector undertakes a significant role in enabling purchasing power and revitalizing consumer demand. The emancipation of finance capital through deregulations has reshaped the regulatory landscape, which requires mode of regulation at the national, regional and international levels (Jessop, 2002: 106-107). On the other hand, there is no predominant post-Fordist *mode of societalization*. Nevertheless, due to its advances in the important sectors of the knowledge-based economy and its military supremacy American hegemony has been more successful as a mode of societalization (Jessop, 2002: 102).

Following the crisis of the Fordism, the functions of the state have changed. As a response to the contradictions and the crisis tendencies of capitalist relations, a distinctive form of state crystallized which aims to promote conditions appropriate to the emerging post-Fordist accumulation regime¹⁵. The new type of state in the current era is identified as “competition state”. As Jessop (2002: 96) explains “competition state characterize[s] a state that aims to secure economic growth within its borders and/or to secure competitive advantages for capitals based in its borders, even where they operate abroad, by promoting the economic and extra-economic conditions that are currently deemed vital

¹⁵ Burnham (2000: 12) criticizes Jessop’s “post-Fordist state” thesis and finds his analysis determinist due to the fact that Jessop’s analysis is derived from the ‘needs’ of the post-Fordist accumulation regime and class relations are considered as external to the process.

for success in competition with economic actors and spaces located in other states”. Jessop (ibid.) argues that the type of the competition state is ‘Schumpeterian’ “... because of its concern with technological change, innovation and enterprise and its attempt to develop new techniques of government and governance to these ends”.

The distinctive feature of the competition state is its proactive manner towards promoting competitiveness in the atmosphere of enhanced international competition. In this sense, the promotion of competitiveness means reorganization of the accumulation regime together with its mode of regulation and mode of societalization (Jessop, 2002: 124). If we neglect the generic features of the capitalist type of state, the changes in the form of the state towards competition state best manifest themselves in the wage and money forms (Jessop, 2002). As wage is now seen as an international cost of production, full employment is no more regarded as the crucial object of the state. Instead, the priority is given to supply side policies that promote employability and flexibility in the job creation rather than Keynesian national demand management policies. In addition, the hegemony of money as the international currency rather than national money has been necessitated the establishment of a new financial architecture aiming to resolve the contradictions and to facilitate the ground for capital flows and the MNCs (Jessop, 2002: 125). In this atmosphere, the main function of the state has been reduced to creating conditions favorable to invest in the country and to advance technological and economic competitiveness of the nation. In this new economic paradigm, the role of the R&D activities has gained significance. States have undertaken a key role in promoting innovative capacities; technological competence and technology transfer; hence achieving technological innovation. Capital and knowledge intensive production of many high-growth sectors and increasing competitive pressures from the newly industrialized countries (the NICs) upon the advanced capitalist economies on low-cost and low-tech production have necessitated moving up the technological hierarchy and specialize in the new core technologies (Jessop, 2002: 127). As the economy has been becoming increasingly knowledge-driven, states have become more concerned with promoting the production and diffusion of knowledge. In this respect, states are involved in separating intellectual and manual labor. As a result, intellectual labor has transformed into wage-labor that produces knowledge for the market; consequently, production is more made up of intellectual labor (Jessop, 2002: 129, 131). This causes the commoditization of knowledge, which was reflected in the increasing weight of training, life-long learning and the emphasis on information society. Taking together, the redefinition of ‘extra-

economic' has been necessitated as a result of the significance given to competitiveness. Therefore, many phenomenon previously seen as extra-economic in the heyday of the Fordism have been politicized and now seen as economic and is subject to state intervention (Jessop, 2002: 132).

Beginning from the 1990s, in order for better functioning of the market, the argument that state intervention is necessary has gained significance. However, this does not imply a departure from the neoliberal approach; indeed, the emergence of "competitive state" or "regulatory state" consolidates the hegemony of neoliberalism. It has been acknowledged that as a significant principle of the market-based social order, competitiveness is not a phenomenon that would be realized per se (Yalman, 2003). It is important to emphasize that the role of the state is neither like in the 1980s' drastic liberalism or laissez-faire capitalism, nor is like the post-war period. The question is not whether the state should intervene or not but how it should intervene (Van Waeyenberge, 2006: 35). Henceforward, the state creates or restructures social institutions and economic agents according to the needs of market forces. In this respect, the state acts as a regulatory or competition state considering the improvement of necessary financial institutions and domestic financial system.

The organization of economic production and the institutional function of the state and the public sector in general have changed significantly due to increasing interdependences and the 'power' of financial markets in the 1990s (Burnham, 2000). Likewise, increased privatization and deregulations have paved the way for the rise of the regulatory or competition state while replacing the 'dirigiste' type of the state (Mahone from Veggeland, 2009: 14). The institutionalization of the regulatory or competition state has prepared a change in the international governance framework, which will be elaborated in the next chapter. The ground has made convenient to the replacement of Keynesian interventionist state with the new regulatory or competition state founded on the market-based and supply-side economy that state only plays a regulatory function while committing to the global free market economy (Veggeland, 2009: 30).

In this new political-economic structure, independent national central banks and agencies of the legal system plays important role.

The most basic and important instruments of the government are interest rate level, tax and currency regulations ... However, in the regulatory state these instruments are placed in the hands of the arm's-length body, the central bank. As executor, this

body calculates the interest rate according to a set of indicators that account for the most likely achievement of economic goals given by the government. The government is only responsible for deciding the framework for the economic policy, while the central bank is responsible for the calculations and implementations for changing the knowledge-based interest rate. (Veggeland, 2009: 31).

This means that, the government constitutes the political sovereignty whereas the central bank constitutes the technocratic sovereignty. In other words, the state apparatus is disengaged from direct management of economic issues, such as inflation is redefined as a technical issue irrespective of class relations (Fairbrother and Rainnie, 2006a: 3). This reiterates the nature of capitalism in which political and economic are separated and displaced to different spheres (Wood, 1995). An obvious reflection of the understanding of separating economy from the politics can be seen in analyzing the process of new constitutionalism, which will be made in the following chapter.

With the increase in capital mobility and the integration of global markets, the 1980s and the 1990s saw a general convergence in the interest rates and monetary policy focused on exchange rate management; since then, price stability has become indispensable determinant of monetary policy. In this regard, current governing strategies involve depoliticization characterized as a shift from discretionary to rules-based economic policies (Burnham, 2000). This shift while benefits the state managers by using the language of ‘external commitments’, at the same time provides a legitimization for the recomposition of capital-labor relations behind the discourse of global competitiveness (Burnham, 2000). In this wise, it is an opportunity for governments to maneuver by externalizing the imposition of financial discipline on labor and capital. This situation has been valid for the transformation of the social security systems because in this process governments have faced with significant opposition from the society. In that process, the transformation of the social security has identified as a technical issue and oppositions have been externalized from the process through justification of the prescriptions of the IFIs as a necessary condition, which will be elaborated in the following chapter.

Monetary policy has been assigned to independent bodies such as Central Banks in order to avoid inflationary pressures. In particular, high wage settlement has been seen one of the major reasons of inflation. Fiscal discipline and monetary stability have been supposed to be achieved if the state does not engage in discretionary deficit spending.

With an independent Central Bank equipped with technocrats¹⁶, insulation from influences and pressures, thereby avoiding discretionary policies will be achieved according to this scenario. Therefore, in the current environment, rules-based policies are preferred from governments for allowing the depoliticization of economic policy making while escaping the political consequences of conducting deflationary policies. Whereas, operational independence of Central Banks has been guaranteed, some measures have been left to governments to increase accountability, transparency and external validation of policy. Fiscal policy has been narrowed down which allows borrowing only to invest and public debt at a prudent level. Moreover, binding rules have been adopted so as to limit governments' maneuverability (Burnham, 2000: 23). Indeed, these policies consolidates perceptions on the "neutrality of the state" and the "self-regulating market" through reproducing the separation of the political and the economic (Bedirhanoğlu and Yalman, 2010: 109). Through these policies of depoliticization, removing the political character of economic policy-making has realized which accompanied with the internationalization process and politics of austerity has gained legitimacy with commitment to economic adjustment and binding rules. In this regard, the new constitutionalism process has consolidated the separation of economic policy from political influence through adding certain economic policy issues to the national or supranational constitutions; in this way, it aims to create a stable domain for neoliberal economic policy and to provide the predictability of the national economy for investors; as a result to lock-in power gains of the capitalist class.

Furthermore, the role of the state has transformed so as to act as a corporation. The New Public Management (NPM) strategies have adapted from private sector management to the public sector. The hierarchies of the public sector, the layered and rule-bound organizations, have been recomposed and responsibility of the state activity has shifted from politicians to the state managers as such the modern state has gained a 'managerial' character (Rainnie and Fairbrother, 2006a: 3). Operation of public services has been redefined in a market-driven way, which has brought customer-client like relations in the provision of public services (ibid.). One of the concrete implementation on this way is seen in the provision of social protection and the social security systems. These changes

¹⁶ According to Gamble (2006), technocrats are a group of people "who are not governed by self-interests, but motivated purely by the public good of upholding the rules of the market order".

have brought a kind of “technocratic managerialism” which concretized in the current neoliberal capitalism (Gamble, 2006: 8).

As a result of the international competition pressures and globalization (or internationalization), reflected in the tendency towards flexible and knowledge-based production, economic functions have become occupy the dominant place; hence, social policy has been subordinated to the needs of supply-side aspects of international competitiveness (Jessop, 2002: 126). In particular, the choice between low unemployment versus low inflation has changed in favor of the latter. In that sense, necessary economic measures have been recognized in order to keep inflation rate low as well as comprehensive reforms have been launched to facilitate public sector to make it more competitive (OECD 2002, 2005). The market primacy and property rights have become standing in the forefront through guaranteeing them in constitutional arrangements. By doing this, the uncertainties of representative politics are tried to be avoided by insulating technocratic decision-making (Robinson, 2006: 5), which will be explained elaborately in the next chapter.

Since the end of the 1990s, neoliberalism has been unchallenged and has remained its place as the dominant ideology. The process of globalization goes hand in hand with neoliberal ideology in which national and global aspects are compatible with each other; hence, national capitalism has given way to global capitalism. As a global system of accumulation, capitalism has evolved through financial circuit where priority is given to money capital vis-à-vis productive capital. Kotz (2008: 9) explains that the shift from productive to money capital is an opportunity for capitalists to avoid the problem of introducing new technologies.

Any fortune that is stuck in the form of an actual productive enterprise is always in danger of eroding due to competition from new products and new processes. Hence, capital always is looking for ways to escape such risks. There are various ways to gain some protection against such threats, including the pursuit of monopoly power or protection by the state. However, shifting ownership of capital from real capital to financial capital is the best way to insulate against the inherent risks of the capitalist marketplace. This is likely the reason why the Rockefellers' huge fortune, born in oil, was soon shifted to finance and real estate.

This means the restructuring of capital under neoliberalism. Capital has gotten rid of fixed positions of the Keynesian era, freed up and regained mobility, and dissolved the

spatial and institutional rigidities (Harvey from Gamble, 2006: 5). In this sense, the Washington Consensus laid the foundation of financial liberalization. What follows is that the preservation of the value of money, which has become directing national and global politics and also necessitating state intervention to prevent destabilization (Fine, 2010: 18).

In this regard, finance managed the crisis since the 1970s to its own interests therefore, while managing the crisis; setting up an alternative society became possible for it (Dumenil and Levy, 2004: 16). In this sense, the balance of class power has turned in favor of capital than labor as "...the domination of finance in neoliberalism is ... a direct expression of class struggle" (Dumenil and Levy, 2004: 68). As Kotz (2008: 13) states, the neoliberal Social Structures of Accumulation (SSA) has presented a favorable environment for 'financialization' because, it represents not only the interest of the finance capital but also a relatively unified capitalist class's interests.

According to Epstein (2005: 3), "financialization means the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of domestic and international economies". It implies significant quantitative and qualitative changes in the economy, which are wide spreading of finance in relation to the non-financial sector and the tightening of the link between finance and non-financial sector (Kotz, 2008: 4). The current period acquires a different character considering the dominance of finance and gives considerable reason to identify the period as neoliberal (Fine, 2010: 12). This particularity is very obvious regarding general characteristics of capitalism as a system of accumulation and the extraordinary feature of the current period of capitalism comparatively (ibid.). In the Marxian sense, capitalism has always been dependent on finance for expansion of production (Fine, 2010: 12). However, the 'extraordinary extent' of finance is unique to this period that leads to "the elimination of productive capacity and employment as well as financialization of non-financial factors (Stockhammer from Fine, 2010: 15). In other words, "neoliberalization has meant, in short, the financialization of everything" (Harvey, 2005: 33). Besides, as Bedirhanoglu and Yalman (2010) states, the neoliberal project is so successful for its 'transformative' power, which eliminates social conflict under the discipline of finance.

Related with this, international competitiveness has brought competitive pressures on nation states and has made them competitive actors. In this regard, labor has become both an object and a subject.

In a world of international mobility (and pricing) of capital and commodities, national costs come down predominantly to labor as the economic factor which, by its relative immobility internationally, is the one most imbued with the characteristics of 'nationality'. Labor costs become the key to national success. They also become the zone of sacrifice in order to achieve that success. (Bryan from and Fairbrother, 2006b: 43)

In fact, this manifests the re-politicization of the modern state as capitalist relations are inherently based on structural antagonism between capital and labor. It is very evident that the redefinition of the policy parameters against labor and changing the accumulation strategy of the country and the mode of integration of it with the world economy; thereby creating One World (Gamble, 2006) has been main objective of neoliberalism. Hence, one can say that current state restructuring is highly politicized in nature.

To conclude, as it has been displayed, when one compares the different phases of neoliberal capitalism with a historical and political economic point of view, it is legitimate to say that there is not a pure form of neoliberalism but its versions, as the history of neoliberalism shows. As Gamble (2006) puts it, "there have been at least two main strands of neoliberalism": a "laissez-faire strand" and a "social market strand". Although both of them embraces market priority and active state involvement, in countries where laissez-faire strand dominate, the functions of the state is limited with removing obstacles to the markets. On the other hand, in the social market economy, the state also takes the responsibility to create conditions and institutional settings for well functioning of the markets (Gamble, 2006). Today, although there is a considerable convergence in neoliberal practices, these practices oscillate between these two strands according to balance of class forces in each country; hence, different varieties of capitalism has come into existence.

2.4. Conclusion

This chapter has tried to examine neoliberal restructuring from the 1980s onwards in a critical political economic point of view. The transformation in the regime of capital accumulation from Fordism to post-Fordism has been examined to provide a historical and comparative point of view. Related with that, the role of the state in that period has been analyzed in order to compare the transformation in the role of the state towards the competition state with the welfare state of the previous Keynesian era.

This paradigm shift started at the end of the 1970s and resulted with the transformation of Fordist accumulation regime and its related mode of economic regulation to post-Fordism. This transformation has brought a significant change in the form of state intervention, which can be identified as “neoliberal state” and in the form of integration of the national economy with the world economy. Henceforward, instead of Keynesian demand management policies, supply side monetarist policies have dominated and neoliberalism has become hegemonic.

The KWNS gave its place to neoliberal state than to the “competition state” and/or “regulatory state” from the 1990s onwards. In this process, knowledge has gained importance as a factor in the production function. Pressures on nation states towards increasing competition have led to capacity development and establishment of necessary institutions as well as the rearrangement of necessary policies, which necessitated competition state. As a part of this transformation, economic policies have bound to fulfill certain criteria; in other words discretionary policies have replaced with rules-based policies; hence, economic policy-making has been depoliticized. As Burnham (2000) states, behind the discourse of global competitiveness, this process benefits state managers as national policies have been restructured in accordance with external commitments, which legitimizes the recomposition of capital and labor relations at the same time. As a part of this restructuring, social policy has been subordinated to the supply side needs of the economy, which will be elaborated in the following chapters. Also, the process of new constitutionalism has consolidated the rules-based economic policy through adding certain pre-commitment mechanisms and binding rules to national and supranational constitutions to make economic policy bounded with certain rules; in this way, to depoliticize economic policy, which is the topic of the following chapter.

Neoliberal policies have spread through the channels of SAPs and have been institutionalized under the name of Washington Consensus in the less developed capitalist countries. Turkey has been a part of this transformation. With the adoption of the 1980 stabilization program of the IMF, a rapid transformation realized in the economic as well as social policies, which has resulted with the change in the state-society-economy relations. This chapter has been important to analyze the global neoliberal transformation, and to assert that Turkey has been a part of this transformation. As it has been explained, although the process of neoliberal transformation has carried different projections in different countries, many countries have shared certain characteristics in the transformation period; Turkey has been one of them. In that sense, the role of the state in

Turkey has changed in a way to better protect the interests of capital and a process of suppressing of labor has begun. However, as it will be elaborated in the next chapter, this shift in the policies of the state towards the consolidation of the interests of the capitalist class has not been realized explicitly. While the state has appeared as neutral throughout this process, it has implicitly remained serving to the interests of capital in order not to endanger the sustainability of the system. In this regard, it is necessary to explain the notion of the autonomy of the state, which is one of the topics of the next chapter. Also, the gains of capital as a result of the neoliberal transformation have been put under protection from the 1990s onwards through the amendments in the constitutions in many countries. Although this process has been realized mostly in the advanced capitalist countries, Turkey has been affected from this process through the channels of the EU, and the IFIs. This issue will also be examined in the following chapters.

All in all, this chapter has provided the basis and reasons with an emphasis on the change in the regime of accumulation and its accompanying mode of economic regulation for the following chapters so as to discuss the changes from the 1990s in the field of social policy. Discussing the change in the role of the state has been also necessary to make an analysis based on class relations as the restructuring of the state can be seen as the redefinition of state-society-market relations. Liberal-individualist and institutionalist literatures are deficient to analyze this transformation as they maintain the dualistic conception of the state and the market. Therefore, the chapter has attempted to make a political economic analysis of the neoliberal restructuring process.

CHAPTER 3

THE RISE OF NEW CONSTITUTIONALISM IN THE 1990S

The 1990s were the years that neoliberal policies were begun consolidating through a series of new legal and institutional structures that prioritize market ascendancy. Such legal and institutional frameworks were not an issue at the beginning of the 1980s. The period until the mid-1980s was the years of the demolition of the existing structures and the removal of socially oriented arrangements but at the same time the replacement of those with policies regarding liberalization and deregulation. In other words, it was a period of the dissolution of the ISI and “social state” which were deemed to be hampering in front of the diffusion of neoliberalism. They were seen as impediment for including inappropriate relations for neoliberal capitalism. In this context, almost every country’s legal structures have been reshaped in accordance with neoliberal principles since the 1990s. In this process, competitiveness pressures upon neoliberal states have been used as a legitimizing mechanism to realize neoliberal amendments without encountering any opposition from the society.

This chapter is an attempt to examine why new legal, institutional and constitutional arrangements have been needed since the 1990s. As Gill (1998; 2002) states, the main purpose of the process of the “new constitutionalism” is to make the constitutional structure serve to the interests of the capital by insulating economic forces from political influence hence to consolidate and stabilize gains of the capitalist class. In this regard, the discussion on the autonomy of the state will form the basis to understand the relations behind the launch of new constitutionalism through revealing that the state has to act as neutral to reproduce itself remaining within capitalist relations. Examining the arguments on the autonomy of the state will help to apprehend the relations among capitalism, law and the state at the present day and ease to understand which class benefits from the changes despite the neutral appearance of the state and the arrangements. In other words, it will enable us to analyze the transformation of the state and market relations by revealing the class character of the state in neoliberal globalization. In this regard, the

chapter will assert that the capitalist class has consolidated its power and market ascendancy through amendments in the constitutions of many countries. In this process, the rule of law discourse has been used as a legitimizing mechanism through signaling global competitiveness pressures upon neoliberal states to justify the separation of economic from the political; as a result, to legitimize the process of new constitutionalism.

The first part of the chapter will question the autonomy of the state. In this context, state-centric and the society-centric arguments on the autonomy of the state will be taken into consideration. The autonomy of the state will be correlated with the nature of the capitalist state and the arguments of Poulantzas on the relative autonomy of the state will be examined. This part will help to reveal the underlying class character of the state as well as recent regulations by the state in the neoliberal era, notwithstanding the neutral appearance of these regulations at the first sight. As it will be explained in the following chapters, most of the changes and subsequent regulations in neoliberal capitalism veil underlying class interests and appear as neutral, changes made in the social security system in Turkey in the 2000s have been one of them. This chapter will provide a theoretical framework to evaluate the transformation process of the social security system in Turkey and the role of the state in this process to unveil that while the state has apparently acted independently, it has, nevertheless, remained serving to the interests of the capitalist class.

The second part will discuss why new constitutionalism appeared beginning from the 1990s and will attempt to associate this process with the rule of law to form the basis to the next part of the chapter. In this respect, this part will provide the arguments of the liberals and the Marxists on the rule of law, as well as law and the legal system. Also, the relationship between law and capitalism will be considered. The arguments of liberal theoreticians in this chapter construct the theoretical basis for the policies of the IMF, the World Bank and the EU particularly, which have been the leading actors in the neoliberal era. As most of the changes in the global political economy have been increasingly attributed to the notion of the rule of law and has become legitimized in this way, it is important to elaborate on this issue to understand the class character of the transformation that took place from the 1980s onwards.

The last part of the chapter will examine “new constitutionalism” as the political and juridical form of the neoliberal process. In this context, it will be argued that the process

of new constitutionalism can be read as international capital's endeavor to secure market ascendancy, in other words as 'lock in' power gains of capitalist class. This part will manifest the grounds behind the subordination of social policy to economic policy and the transformation of the welfare state to workfare state and will give reason to evaluate Europeanization and the Lisbon Strategy as a part of this process in the next chapter.

3.1. The Question of the Autonomy of the State

The question of the autonomy of the state is a highly contested subject considering the nature of the capitalist state¹⁷. It is related with the class character of the state and its institutional separation from the bourgeoisie. The crucial point to be explained is that, as the Marxist theory asserts, how the state appears institutionally separated from the capitalist class although it is a class state (Clarke, 1991: 185). According to Clarke (1991), it is a common feature of all class societies that the state and the exploiting class is institutionally separated. The problem is not this institutional separation (or the neutral appearance of administrative apparatus) but its class character. However, Clarke states that just as capital appears neutral in the production relations in a fetishized form, so does class rule appear as a neutral administrative apparatus in capitalism (Clarke, 1991: 185).

Clarke (1991: 193) states that the state is subordinated to capital and this is achieved through various mediations. This subordination is not direct because in appearance the state seems autonomous from dominant classes and their interests. Materially, the reproduction of the state depends on the reproduction of the capitalist social relations. Therefore, the state has to intervene so as to modify conditions for the reproduction of capitalist relations. Politically, capital has the "ability to represent its own interests as the interests of 'society' or of the 'nation'" (Clarke, 1991: 193-196). This is the main contradiction behind the use of the state as an instrument of class domination. And these are the material and political mediations through which this subordination is achieved (Clarke, 1991: 196).

Similarly, Harvey (2000: 270-271) states that in order to solve this contradiction two strategies are very helpful: first, the institutions must appear as if they are independent and autonomous from the interests of the dominant classes. Second, the dominant/ruling

¹⁷ In a nutshell, the 'state autonomy' means the capitalist state's ability of acting and formulating interests independently of classes (Machado, 1992).

class must transform its class interests into the ‘illusory general interests’ and universalize these ideas as the ‘ruling ideas’¹⁸. It has to represent these ideas as universal, rational and valid thrust for all time. Also,

these ideas have to be presented as if they have autonomous existence of their own. Notions of ‘justice’, ‘right’, ‘freedom’ are presented as if they have a meaning independent of any particular class interests. (Harvey, 2000: 271)

Indeed, these are not only ideological concepts but also as they comprise capitalist relations of production, they become embedded formally in the system of bourgeois law (Harvey, 2000: 273). Since, concepts such as property rights, equality and freedom are necessarily supported and protected by the capitalist state (ibid.).

As it will be explained in the following chapters, the ruling class (capitalist class) has promoted the social security reform composed of neoliberal principles in this way from the beginning of the 1990s in Turkey. Through arguing that the changes would be in the interests for the whole society, the class character of the changes has been neutralized. The state has supported the social security reform without explicitly embracing the interests of capital but through the argument that the social security reform would increase the welfare of all. In this way, the state has continued its existence through guaranteeing the reproduction of the capitalist social relations.

In capitalism, the state and law are of necessity has to guarantee the maintenance of the system and the capitalist relation. The state plays a crucial role in enforcing the contracts, protecting the property rights and capital accumulation while eliminating the barriers in front of capital mobility and stabilizing the money system. In this process, interests of bourgeoisie prevail, hence “the state becomes the form of organization” of the bourgeoisie (Harvey, 2000). In this respect, for Marx and Engels, the state is of necessity is “an instrument of class domination because it is organized to sustain the basic relation between capital and labor” (Harvey, 2000: 274). The capitalist state also has an important role as an ‘arbiter’ among the conflicting interests of the fractions of capital (ibid.). Due to the different fractions of capital, self-interests and competition, it is hard to express a collective class interests. Therefore, the state plays an important role through which

18 For Marx and Engels, the ruling class rule also as thinkers, as producers of ideas, and regulate the production and distribution of the ideas of their age: thus their ideas are ruling ideas of the epoch (Marx and Engels from Harvey, 2000: 271).

capitalist class can express its interests (Harvey, 2000: 275). And, the homogeneity within the capitalist class can be obtained in this way.

Marx has left an ambiguous heritage, which on the one hand he understood the state as an instrument of the dominant class; on the other hand he retained the state significant political independence (Held, 1983: 31). On the question of the autonomy of the state, there are two main oppositional arguments: one is the state-centric and other is the society-centric.

The state-centric approach does not focus on class struggles, forms of the state and the role of the state in the process of capital accumulation, but only considers these questions subsequently (Jessop, 1990: 92). This approach concerns with the institutional forms of the state, but does not relate them with capitalist mode of production and class relations. For this view, the state and society are separate, distinct and only contingently related entities (ibid.). There are two different strands in this approach. Some theorists argue that “the state is fully autonomous and should even be the main independent variable in social analysis”. The others assert that “the state (state managers) has its own special interests”, but these interests can “coincide (or made to coincide)” with the interests of capital. (Jessop, 1990: 92)

For example, Skocpol treats the state as an autonomous structure with its own interests. Sometimes these interests fuse with the interests of the bourgeois (Skocpol from Miliband, 1992: 19). In other words, she argues that the state both have some interests which can be reconciled with other interests in the society and at the same time, she assumes that, “the state may have interest fundamentally opposed to those of all forces and interests in society” (Skocpol from Miliband, 1992: 20). The latter is relatively dominant idea in her arguments. For her, the state is an organization for itself. In this sense, she opposes the idea of neo-Marxist structuralists who assert that states are inherently shaped by class struggle and as Poulantzas argues the capitalist state is necessarily relatively autonomous (Machado, 1992).

Similar with Skocpol, Block (1980) opposes the idea that the state is the “condensation of class relations” in Poulantzas’ words and asserts that the state is not reducible to class interests and power. The state power, for Block, is *sui generis* and autonomous. He discusses the question of the autonomy of the state through his theoretical construct of “state managers”. For him, state managers are “those at the peak of the executive and

legislative branches of the state apparatus” (Block, 1980: 241) and they are individuals who are not involved in the relations of production. They might be members of the capitalist class but they became state managers. His assertion is that state managers have their own interests and they “tend to maximize their [interests] within particular political rules of the game” (Block, 1980: 229). He states that, as the state managers are autonomous, it is not true to say that state power is equal to class power. Therefore, for him, talking about relative autonomy of the state is limiting and unnecessary (Block, 1980: 228).

According to the society-centric approach, forms of the capitalist state is a result of class relationships, hence social formation is the starting point of this enquiry. In this sense, the state is not an entity in its own right and it takes different forms. In the Marxists account of the relation between classes and the state, there are two interrelated positions. First approach asserts that the state can take different forms and the interests of the dominant class cannot be defended directly by the state in the short term. In this situation, the state has a power independent from the dominant class and it is hard to infer the “institutional forms and operational dynamics” of it “directly from the configuration of class forces” (Held, 1983: 26). Therefore, the state is ‘relatively autonomous’. However, the state “cannot escape its dependence upon [the capitalist] society and, above all, upon those who own and control the productive forces ... [because they] create the material resources on which the state apparatus survives” (Held, 1983: 28). If the state’s overall policies is not compatible with the objectives of for example manufacturers and traders, the stability of the state may be jeopardized (ibid.) On the other hand, the second approach states that the state is merely an instrument of the dominant class. Marx and Engels insist that the state is directly dependent on “the economic, social and political power of the dominant class”, it serves “directly the interests of the economically dominant class” and it does this in the name of general interest of the society (Held, 1983: 28-29).

In the Marxist theory, only particular interests are protected by the state, but not general interests. It means that, in the long run, “the state can only correspond to the interests of the capital” (Jessop: 1990, 30). In other words, the policies of the state must be consistent with the capitalist relations of production because of its dependence on the productive forces for the maintenance of the state apparatus (Held, 1983: 30). On the other hand, the state can give “certain benefits and guarantees to labor” in the short run, which are not in

the interests of the capital. However, in the long run, the state has to act to the advantage of capital as it enhances the stabilization and maintenance of the system. In a Gramscian point of view,

The ruling class has to exercise its hegemony over the state through a political system which it can control indirectly. In the context of bourgeois democracy, this has certain important consequences. In order to preserve its hegemony in the political sphere, the ruling class may take concessions which are not in its own immediate economic interests.... However, ... 'there is no doubt that such sacrifices and such compromise cannot touch the essential'. (Gramsci from Harvey, 2000: 276)

A similar approach with those approaches, which argue that the state is not autonomous but it is an instrument of the bourgeoisie, is called as "capital logic approach", which explains the functions of the state through the laws of capitalism. According to this approach, the function of the state necessarily derives from capitalist mode of production and the form of the state derives from these functions. Although, in this approach, there is room for state autonomy, the state plays a 'mediating' role, which serves the subordination of the state to the needs of 'capital in general'; hence there is no functional autonomy of the state from the economy (Jessop, 1990: 86). In this regard, although this approach seems economic determinist, there are different strands, which consider on the one hand capitalism as a pure economic system, on the other hand as a compound of economic, political and/or ideological relations (ibid.). For example, while Altvater considers the function of the state "as an ideal collective capitalist" that promotes the interests of the capitalist class, many studies asserts that the role of the political is important in this system "to socialize control over the relations of production to match the growing socialization of the productive forces" (Jessop, 1990: 86).

Holloway and Picciotto argue that capitalism is both an economic and political relation. For them, they are "distinct but complementary moments of the capital relation" (Jessop, 1990: 87). However, as a result of the separation of the economic and the political in capitalism, the state appears in its fetishized form. Similarly, Althusser stresses that capitalist mode of production is overdetermined by economic, political and ideological factors and asserts that the state is both a 'predefined' concept and a determining factor in the capitalist mode of production (ibid.). For this approach, the state has to enable the cohesion of the society and to stabilize it in order for the continuation of capital

accumulation in a class-divided society. Therefore, there is more room for the state to have a certain degree of autonomy (Jessop, 1990: 87).

The state ensures the maintenance of particular interests of the society through preserving the conditions necessary for the reproduction of the capitalist production relations. However, this protection and extension of particular interests is seen as deprived of any class characteristics. The capitalist state accomplishes these tasks by exercising relative autonomy¹⁹. For Instrumentalists such as Miliband, the state is an instrument of the dominant class and it functions according to the interests of the people in strategic positions (Miliband from Machado, 1992). For this approach, the capitalist state, by its functionality, must be relatively autonomous²⁰. “Its relative independence makes it possible for the state to play its class role in an approximately flexible manner. If it really was the simple ‘instrument’ of the ‘ruling class’, it would be fatally inhibited in the performance of its role” (Miliband from Machado, 1992). Miliband opposes the argument that the state is a neutral arbiter among interests of social groups and argues that the capitalist class is so strong and ‘cohesive’ that it “constitutes a formidable constraint on Western governments and state institutions, ensuring that they remain instruments for the domination of society” (Miliband from Held, 1983: 32). However, the state has to “separate itself routinely from ruling-class” and even execute policies that are against the interests of capital in the short-run in order to be elective politically (Miliband from Held, 1983: 32). On the other hand, for Structuralists such as Poulantzas, the capitalist state by its very structure cannot be independent, but it can only be relatively autonomous because the state is the condensation of class struggles and it reflects power relations. The state, while apparently acts independently, it remains serving the interests of the capitalist class. Poulantzas did not interested with the questions such as “who influences important decisions and determines policy” because for him class composition is not important for the nature of the capitalist state (Miliband from Held, 1983: 32). He, instead, states that it is due to the structure of the societies that the state becomes the servant of the capitalist

¹⁹ The term ‘relative’ refers to the relationship between state and dominant classes. In the long run, the capitalist state “can only correspond to the political interests of the dominant class or classes” (Martin, 2008: 280). “...the degree, the extent, the forms, etc. (*how* relative, and *how is it* relative) of the relative autonomy of the state can only be examined with reference to a given capitalist state, and to the precise *conjuncture* of the corresponding class struggle (the specific configuration of the power bloc, the degree of hegemony within this bloc, the relations between the bourgeoisie and its different fractions on the one hand and the working classes and supporting classes on the other, etc.)”(Martin, 2008: 280-281).

²⁰ Classical Marxism underwent a change and shifted from the drastic idea that the state is a mere instrument of the bourgeois class in the 1960s.

class (Machado, 1992). For Poulantzas, the state has an objective function, which is maintaining social cohesion for capital accumulation to continue, since state forms and functions are integral elements of capital accumulation (Jessop, 1990: 30). For this reason, the issue that which class controls the state apparatus is not important because the state must maintain cohesion as an objective function (ibid.).

According to Poulantzas, state is the condensation of struggle between classes. It is not a 'thing/instrument' or a 'subject' (Jessop, 1990). Neither it is a "passive tool in the hands of class or fraction" with any autonomy as in the instrumentalist conceptualization of the state, nor its power is absolute with its 'own will' as concretized in the representative elites (Jessop, 1990). Poulantzas strictly opposes the instrumentalist argument that the state is a mere instrument of the dominant class, but instead asserts that "the state is a complex social relation" (Jessop, 1990: 30.). In the case of conceiving the state as a 'thing' or as a 'subject', the relation between the state and social classes is seen as external. When in the first conceptualization (thing), social classes would gain control over the state apparatus, in the second one (subject) the state would dominate/control classes. In this conception, there is an external relationship between dominant classes and the state confronting each other as two different entities to gain the power in a 'zero-sum' manner. However, in order to escape this false dilemma, it is important to identify the state as a relation, which is created by class contradictions. According to this analysis, as Poulantzas asserts, the bureaucracy is not a specific social group standing above classes; but it has a class situation. The former analysis enables us to forgo putting social classes and the state in an opposition position. (Poulantzas, 2008: 283-284)

Poulantzas states that, the relative autonomy of the state is based on the separation of the economic and the political. This separation, specific to capitalism, keeps back the dominant class (or fraction of the power block in Gramscian sense) expressing its interests immediately and maintains the political unity of the class. The separation of the economic and the political is a result of power relations between classes within a capitalist formation, which entails us to understand state not as a mere instrument or a subject, but as a social relation. This unifying role of the state is not the result of the state's (bureaucracy's) own 'rationalizing will', but the relative autonomy of the state with respect to the fraction of the classes under the hegemony of a class. Therefore, it is proper to say that the state is not a monolithic entity, but by its very structure that it is divided. (Poulantzas, 2008: 282)

Based on this analysis, it is proper to apprehend the process of the transformation of the social security system as a process shaped by class relations. Through this process, the state has not been a mere instrument of the capitalist class but it has acted as if it is autonomous from the classes. As it will be explained, the state has given certain concessions and has bargained with labor in some instances during the social security reform process to maintain cohesion for capital accumulation. However, in the long-run, the reform has consolidated the interests of the capitalist class, as a result of which the existence of the state apparatus has been continued.

3.2. The Rule of Law

Law and the legal system have always been at the very center of capitalism. The development of the capitalist system and the development of law are parallel to each other and they are mutually beneficial. To understand capitalism and its reproduction, it is crucial to apprehend where law stands for in the capitalist relations of production. While from a Marxist point of view, law is seen as a social relation; liberals focus on the function of law and legal system, which are mainly to prevent majority's arbitrary applications and to provide predictability.

Liberal philosophers have always been worried about the possibility of politics or government to extend the range and scope of the political action beyond the reasonable boundaries of "publicness/minimal state" (Buchanan, 1985: 255). They argue that in order individual governments not to stretch their authority, the rule of law²¹ is important. In political and legal theory, "the rule of law means that the government shall be ruled by the law and subject to it" (Raz from Trebilcock and Daniels, 2008: 14). According to them, the rule of law is necessary for well functioning of institutions and markets and for freedom.

As stated, liberal scholars have been concerned with the possibility of "the tyranny of majority". They explain that "democratic decision making is the same as decision making

²¹ Although there is scholarly discussion about the definition of the rule of law it is proper to say that the phrase includes at least five separate meaning or end goals: (1) Government bound by law; (2) Equality before the law; (3) Law and order; (4) Predictable efficient justice; (5) Lack of state violation of human rights. (Kleinfeld from Trebilcock and Daniels, 2008: 13) For a more detailed explanation and discussion on the definition of the rule of law see: Rachel Kleinfeld, "Competing Definitions of the Rule of Law," in Thomas Carothers (ed.), *Promoting the Rule of Law: In Search of Knowledge* (Carnegie Endowment for International Peace, 2006).

by simple authority” hence there is nothing which prevents majority –great number of voters- to violate the fundamental moral interests of the minority (Kis, 2003: 188). Majority’s interests might prevail over the stronger interests of the minority (ibid.). In this case, it is important to avoid majority’s ‘arbitrary’ applications (Hayek, 1992: 238). Since, “the majority tends to sacrifice even the most fundamental moral interests of the minority” (Kis, 2003: 189). The unlimited power of the majority is seen as a weakness and as a threat. To this end, particular will of the majority should be restrained by a general rule (Hayek, 1992: 238). In other words, the scope of majority decision should be narrowed down in a way that it does not include the minority’s fundamental interests. Coherence can only be achieved if majority “submits to general rules in its particular decisions, (and does not permit even the majority is prepared to commit itself to a new rule which it undertakes henceforth to apply without exception”) (Hayek, 1992: 247). Therefore, the power of the government should be limited. For Hayek (1992: 247), only if majority accepts “some general rules which guide all particular measures” than conflict can be avoided. In this manner, liberal theorists advocate that the safeguarding of individual freedom with the constitution is of crucially important.

Similar with Hayek, Buchanan, *inter alia*, stresses the importance of “constitutional democracy”. According to him, if the democracy is wanted to be sustainable, “the term ‘constitutional’ must be prefixed the term democracy” (Buchanan, 1985: 248). He states that only if the “range and scope for collective political action are constrained or limited by constitutional boundaries”, than individual liberty can be secured (ibid.). Liberals believe ‘the harmony of the interests’ meaning that allowing individual interests to be reconciled without any political intervention and attribute to the state a limited role. In this sense, for Buchanan, the role of politics and ‘governance’ should be limited with the determination of general rules and institutional structure (Buchanan, 1985: 252). For liberals, as individuals are the only “sources of value” (ibid.), its satisfaction should only be achieved through some constitutionalized general rules which cannot be changed easily according to the politics of individual governments. These rules have “positive normative weight” and they are above the daily politics of the governments (ibid.). In this manner, Buchanan (1985), as many other liberal theorists, identifies the role of the politics only with enforcing individual rights and contracts; in addition, producing public or collective goods and services –legal system is one of them. The role of the politics is ‘severely’ limited according to the “ordering principle of the market economy” (Buchanan, 1985: 254). For Buchanan, this limitation is a sign of political ‘success’ as he

defines democracy as “a process that allows equal expression of separate individual values in choices that are necessarily mutually exclusive and that necessarily generate results applicable to all members of the polity, may be severely limited in scope and range” (Buchanan, 1985: 253).

On the other hand, for the legal norms to be effective, order has to be established first. (Schmitt cited from Bonefeld, 2006: 241) For Rossiter, law requires order; it cannot be applied to chaos (Bonefeld, 2006). It is not possible to solve rebellions by parliamentary debate but it requires executive action (cited from Bonefeld, 2006). The resumption of the rule of law necessitates the imposition of order. The latter is necessary for the “codification of social relations and their regulation on the basis of the rule of law” (Benjamin quoted by Bonefeld, 2006: 244). For liberals (see Rositter and Hayek), it is the state that determines whether the rule of law should be applied or the rule of force, a containment based on law and coercive force, would be better to be preferred in the state of emergency (Bonefeld, 2006: 241). It is necessary to resort to the force of law in order for the resumption of the rule of law. Therefore, force of law is a “law-making power and [also] a law-preserving power” (Benjamin quoted by Bonefeld, 2006: 244). In order to preserve freedom, it is sovereign’s own initiative to apply the rule of law or to break it. (Bonefeld, 2006)

For liberals, individual freedom is prior to democracy. Liberal (constitutional) democracy can be established under liberal confines but if it does not work, there will be a dictatorship in order to establish order. Therefore, in case of necessity a dictatorship might be required which “ends the crisis and restores normal times” (Friedrich quoted by Bonefeld, 2006: 243). Hayek states that dictatorship may impose limits on itself and such a dictatorship may be more liberal in its policies than a democratic assembly with no such limits (Bonefeld, 2006: 243). Similarly, Buchanan (1985) makes a comparison between an unlimited democracy and other governmental forms that limit the range of politicization. He argues that even if the choices made under the limited (constitutional) democracy are non-democratic, it is preferable to other one. Individual freedom is so primary that even a dictatorship can be preferable to protect constitution and freedom (cited from Bonefeld, 2006). Therefore, both Hayek’s conception of constitutional dictatorship and Buchanan’s constitutional democracy are means of restoring order and securing the liberal state.

Although the rule of law is originally discussed in that context, the notion connotes more different meaning in the current context. Today, the rule of law is rather used to signal the addition of certain (binding) economic policy issues to the constitutions in some countries in order not to make any concessions in the stability of the economy even when governments are changed. The process aims to separate economic issues from the political sphere; hence to guarantee the stableness of the economic policies. Capital consolidates its interests through separating the economic from the political on this wise, and through resorting the discourse of the rule of law as it is preferable in all times and at all places. Also, relating certain economic policies with the rule of law, benefits state managers through insulating these economic issues from oppositions and political accountability. When viewed from this aspect, the rule of law keeps its original meaning, which is ‘protecting capital from popular democracy’ through insulating the economic policy-making using technocratic cadres and independent central banks.

With Turkey’s official recognition by the EU as a candidate country, the EU has emerged as a key player by institutionalizing the rule of law. In this process, the EU’s export of ‘good governance’ and the broader process of external regulation “...imply or mandate the insulation of key aspects of the economy from the influence of politicians or the mass of citizens by imposing internally and externally, ‘binding constraints’ on the conduct of fiscal, monetary, trade, and investment policies” (Gill, 1992: 269). In this respect, current connotation of the rule of law will be related with the process of ‘new constitutionalism’ in the next part of the chapter.

In a nutshell, liberal philosophers advocate the rule of law, which is important for the preservation of freedom. The rule of law, “[in this process], ... is held to constitute the legal subject or citizen. This ... enables law to be understood and to be legitimized as something external to the state ...” (Chandler, 2010: 101).

... the rule of law is no longer perceived as part of the superstructure, i.e. as determined by social forces and economic interests: law is understood as constitutive of the social and economic order. For it is the rule of law which is held to prevent the post-conflict state from falling back into collapse and social disintegration, not by imposing a strong state capable of suppressing opposition but by constraining the autonomy of the sovereign or governing powers (Chandler, 2010: 104-105).

However, liberal philosophers do not consider the law-making process, the relationship between capitalism and legal structures and do not deal with the question of how laws are made. At this juncture, Marxists theory recognizes constitutions and law as comprising social relations. The theory discusses where law stands for in the capitalist production relations. In bourgeois societies, law and legal system works for securing class domination. As Poulantzas (1978) states, “the roots of specific features [of capitalist law] (abstraction, universality, formalism) ... have to be sought in the social division of labor and the relations of production”.

In capitalism, social relations appear as the relations of ‘free’ and ‘equal’ individuals; they are not seen directly relations of power (Picciotto: 1979, 166). Similarly, “law and legal system ... appears to be essentially neutral. However, beneath its neutral and equal appearance, law carries class relations. So any attempt to understand law as social relation of class, or power in any sense, must first explain this appearance of neutrality” (Picciotto: 1979, 166). In fact, legal and political order is not separate from its social and economic roots. The development of the legal relations is part of the changes in the social relations of production. It results from contradictions and underlying tendencies of the dominant mode of production. Contrary to liberals’ argument that law is external to the state and society (Chandler, 2010); it is not merely the result of social relations but at the same time it is a field of struggle hence both it affects and being affected from the struggle. For Tuschling, law and the legal system is necessary for “the concentration and centralization” of capital (Jessop, 1990: 54). In this respect, capitalism determines the form and function of law. This process realized “at the expense of the petty bourgeoisie, and inefficient capitals as well as the proletariat” (ibid.). This is the reason why law cannot be the private concern of capitals – it must be enforced not only against labor and other subordinate classes but also against individual capitals (ibid.). Thus the administration of law must be handled by an apparatus that is distinct from the various economic agents and this task falls to the *Rechtsstaat* as an autonomous legal subject endowed with a formal monopoly of force and empowered to implement the law in all spheres (Jessop, 1990: 54-55).

It is important to consider whether law is made for establishing order or to safeguard it. As it has been stated, according to liberal philosophers, law needs order first. Therefore, rather than establishing order, law functions as a safeguarding mechanism. In this sense, it will be revealed in the next part of the chapter that the interests of the capitalist class have been protected through amendments in the legislations and constitutions. The

process of new constitutionalism can be evaluated, in this context, as a reflection of the arguments of liberal philosophers on law and its function in capitalism.

Within the context of Turkey in the 1980s, from such a perspective, it was too early to make amendments in the existing legislations. Between the years 1980 and 1990, law was seen restrictive by capital as it includes ‘inappropriate’ relations; therefore, in this period, talking about the rule of law did not suit the capitals’ demands. After the 24 January Decrees which transformed Turkish economy from an import-substituting industrialization (ISI) case into an export driven economy and the adoption of the 1982 Constitution supporting the relative position of capital against labor, it was time to lock in power gains of the capital. The 1980 coup d’état had already been used as a rule of force to establish order and to prepare the ground to set the principles of the neoliberal state.

Many amendments have been made in the legal structures of the advanced capitalist countries, including the strengthening of the position of capital, and these changes have been exported to the developing world through conditionalities in the loan agreements. Supranational (the EU) and international institutions (the IMF and the World Bank) have been played crucial roles as the exporters of the rule of law to Turkey in this process.

3.3. New Constitutionalism as the Counterpart of Disciplinary Neoliberalism

The rule of law has taken different forms in the 1990s, has become prevalent and has departed from its original meaning explained above. Carothers states that

[o]ne cannot get through a foreign policy debate these days without someone proposing the rule of law as a solution to the world’s troubles. The concept is suddenly everywhere – a venerable part of western political philosophy enjoying a new run as a rising imperative of the era of globalization. Unquestionably, it is important to life in peaceful, free, and prosperous societies. Yet its sudden elevation as a panacea for the ills of countries in transition from dictatorships or statist economies should make both patients and prescribers wary. The rule of law promises to move countries past the first, relatively easy phase of political and economic liberalization to a deeper level of reform. But that promise is proving difficult to fulfill. (Carothers from Trebilcock and Daniels, 2008: 1)

As Carothers has befittingly stated, the rule of law has become a hegemonic discourse and has been exported from the developed world to the developing countries as a condition to fulfill.

As the period beginning from the 1980s has consolidated the relative power of capital against labor, legal and constitutional amendments had to be done in the same direction considering the interest of capital. The arguments of Hayek and Buchanan –or the arguments of liberal thinkers in general- on the necessity of the rule of law for well functioning of institutions, markets and for freedom, and the necessity of the limitation of the role of the politics constitute the basis for the process of new constitutionalism. In this regard, “new constitutionalism” has come to play to lay the ground work for investors by insulating economic forces from politics. As in capitalism law and legal system appear to be neutral, so does new constitutionalism process, which is an “attempt to legitimate neoliberal globalization” in Gill’s words (Gill, 1998: 38).

“New constitutionalism”, at a glance, redefines possible limits of the politics. It is “the political/juridical form specific to neoliberal process of accumulation and market civilization” (Gill, 2002: 48). The redefinition of the relationship between the political and the economic is the main aim of new constitutionalism. This process includes attempts to eliminate political challenges to neoliberal globalization through depoliticization mechanisms (Gill, 2002: 48). In other words,

[n]ew constitutionalism is an international governance framework. It seeks to separate economic policies from broad political accountability in order to make governments more responsive to the discipline of market forces and correspondingly less responsive to popular-democratic forces and processes. New constitutionalism is the politico-legal dimension of the wider discourse of disciplinary neoliberalism (Gill, 1998: 5).

Today, economic growth become depends on maintaining investors’ confidence and credibility. Capital is the disciplinary power over the society. As Strange (2006: 197) states, “multinational corporations (MNCs) ... dictate policy terms to national governments, forcing them to accept the ‘golden straitjacket’ of deregulatory neoliberal policy”. In this regard, it is important to explain the features of “disciplinary neoliberalism”. It is a discourse and politico-economic order, which promotes the interests of capital “through extension and deepening of market values [as well as] disciplines in social life, under a regime of free enterprise” (Gill, 2002: 47).

In the neoliberal restructuring, politico-constitutional mechanisms play a crucial role so that disciplinary neoliberalism “involves political and legal reforms to redefine the political via a series of pre-commitment mechanisms” (Gill, 2002: 48). Gill (1998: 25) states that, the growing power and reach of transnational capital necessitates new constitutionalism to lock-in neoliberal policies to eliminate possibilities of turn back to previous order. He argues that the process is a ‘deliberate’ and ‘strategic’ project pursued with the leadership of the USA, the G-7 and Third World governments’ state apparatuses. This process includes the reconfiguration of state apparatuses, construction of markets and dealing with dislocations. For him, the first process includes operation of governments as a facilitator for investors through providing legal guarantees to them, which are necessary to sustain market discipline and ‘protect capital from popular democracy’. The latter is realized through technocratic cadres and independent central banks by insulating the economic policy-making. Moreover, conducting ‘appropriate’ and/or ‘sound’ macroeconomic policies under the surveillance of international organizations and private rating agencies are important components of the system. Also, transparency in the economic and political data is significant for providing investors greater information. The second process is to protect “property rights and entry and exit options of holders of mobile capital” by putting constitutional constraints on public institutions. The last process is dealing with dislocations in the process of commoditization. As formal democracy is more institutionalized today, contrary to old constitutionalism of the nineteenth century, new constitutionalism requires not only suppressing but also eliminating political mobilization against economic liberalism through attenuating, co-opting and channeling democratic forces. This involves some legitimization mechanisms and the separation of economics and politics to restrict “democratic participation to safely channeled areas”. (Gill, 1998: 23-24)

As Gill (1998, 38) states, “new constitutionalism is a subtle attempt to legitimate neoliberal globalization”. It enables a consistent and predictable climate for capital to maintain confidence and credibility in the eyes of investors through insistence on the rule of law. As a part of the redefinition of the political in the current world order new constitutionalism locks in the power gains of capital through jurisdictions while locks out or depoliticize forces which challenge these gains” (Gill, 1998: 48). In fact, the state has already become a party by defending private property. “The state ... is not an independent structure or set of institutions above society i.e. a ‘public power’ acting for ‘the public’.

On the contrary, it is deeply embedded in socio-economic relations and linked to particular interests” (Held, 1983: 25).

The most concrete implementation of disciplinary neoliberalism is the separation of economic institutions from political influence as in the case of European Economic and Monetary Union (the EMU). With the reestablishment of the European Central Bank separated from the political influence, it would be possible to reach “sound money”; hence macroeconomic stability according to the proponents of this view.

The Maastricht Criteria²² is a part of new constitutionalism and disciplinary neoliberalism. Its main aim is to institutionalize fiscal discipline to obtain credibility and give confidence to investors. It is a part of state activity that provide greater legal protections and a stable investment climate to investors; thereby “changing the balance between state and civil society” (Gill, 1998: 8). In the Maastricht Criteria, the fiscal and economic criteria are set out one by one to be met by European countries in order to adopt single European currency. In this way, the economic policy (making) has been insulated from the political process and the interests of the capital have been guaranteed. In other words, the risk of investing a country for capital has minimized through the country’s adoption of these criteria. With regards to the ‘invested’ country, the pressures of competitiveness have been used as a legitimizing mechanism for the adoption of these criteria and have helped governments to insulate themselves from pressures in the society.

Similarly, the Copenhagen Criteria²³ is also a part of the process of new constitutionalism through endorsing the rule of law, democracy, human rights and “functioning market economy” as necessary criteria for a country to become eligible to join the EU.

One of the results of the process of new constitutionalism is the subordination of social policy to the interests of capital. In other words, ‘collectivist’ social protection systems

²² In order to be a full member of the EU, candidate countries must fulfill five criteria: “1) inflation of no more than 1.5 percentage points above the average rate of the three EU member states with the lowest inflation over the previous year. 2) A national budget deficit at or below 3 percent of gross domestic product (GDP). 3) National public debt not exceeding 60 percent of gross domestic product. A country with a higher level of debt can still adopt the euro provided its debt level is falling steadily. 4) Long-term interest rates should be no more than two percentage points above the rate in the three EU countries with the lowest inflation over the previous year. 5) The national currency is required to enter the ERM 2 exchange rate mechanism two years prior to entry”. See http://glossary.reuters.com/index.php/Maastricht_Criteria (2 August 2012).

²³ See http://ec.europa.eu/enlargement/enlargement_process/accession_process/criteria/index_en.htm (2 August 2012).

have been transformed into a more individualist systems and pension systems have been privatized in many countries in order to open new financial fields for funds. Contrary to collective provisioning, a self-provisioning, including user fees has been realized. This has narrowed “access and entitlements according to income or ability to pay”. Also, this undermined universal access to basic services. A “hybrid”, system regulated by market principles, between public and private health care institutions has emerged, which has created unequal structures (Gill and Bakker, 2006: 38). As Gill (2002: 50) states,

... new forms of possessive individualism re-emerged worldwide and social institutions were redefined to create an emergent civilization – a monoculture of both social development and the mind that is associated with a new political economy of disciplinary neoliberalism...

In liberal lexicon, justice does not assume any specific conception of good. Therefore, justice can be secured equally for the entire society through an effective rule of law. This is the reason why liberals oppose conceptions such as ‘social justice’, ‘social redistribution’ or ‘inequality’ (Gill, 2002). For them, above all of these conceptions are ‘liberty’ and ‘individual rights’ including private property rights. Therefore, social protection is reshaped in a possessively individualistic way, which leaves people in the mercy of marketplace. For Buchanan, a self-regulated market order on a world scale is the key to the creation of “efficient social order” (Buchanan from Gill, 2002: 55). Moreover, as from the 1980s onwards, a global transformation has been realized; as a result, capital and corporations have been freed from contributing to collective costs hence to social reproduction as it was in the post-war era. It has been realized through supply-side programs, in particular lowering corporate taxes and regulation. On the other hand, as a result of neoliberal restructuring, which has led cutbacks in government expenditures service provision has been endangered. Consequently, self-provisioning, today, has become creating inequality, and greater “discipline of capital intensifies a general crisis of social reproduction” (Gill and Bakker, 2006: 42).

In this regard, social policy has been reduced to protecting only the vulnerable, and the fiscal crisis of the state –growing pension costs- has been cited as the reason for this. Social insurance and social assistance are differentiated – private competition has come into play for the former (Gill, 1998: 37). Thus, a self-financing saving system in the social insurance has been provided and has locked-in with legal frameworks on a world scale (ibid.). The disciplinary power of market forces was so dominant and enveloping

that as a part of “supranational constitutionalism” (Gill, 2002) the General Agreement on Trade in Services (the GATS) aims determination of social reproduction in a market-driven way through liberalizing and privatizing “caring institutions, according to principles of equal treatment for both foreign and domestic buyers” (Gill and Bakker, 2006: 37). That is to say, social policy is shaped by economic policy, particularly rules and mechanisms to guarantee rights of capital. In this framework, greater insecurity has been created for workers through “the reprivatization of social production and the intensification of exploitation” (Gill and Bakker, 2006: 52).

Gill (1998, 2002) states what really at the heart of the new constitutionalism is its attempts to “lock-in” neoliberal reforms in a way which eliminate possibilities of roll back of the socio-political order. For this reason, it is important to fix the gains of capital through constitutional amendments. This is consistent with the ideas of liberal thinkers, namely Hayek, Friedman and Buchanan explained in the previous part. Both Hayek (1944) and Friedman (1962) argue that in a capitalist society political and economic stability could be achieved only if economic rules and politics are separated. According to Hayek (1944), it is significant to constrain government action with formal rules for securing predictability. Similarly, Buchanan (1985) makes a distinction between “constitutional politics” and “ordinary politics”. For him, constitutional politics is about “quasi-permanent rules” which is above “ordinary politics” and for defining the limits of it. On the other hand, ordinary politics exists within these rules. In this regard, depoliticization of economic policy is a good example of new constitutionalism; hence constitutional politics. Through adding constitutional constraints, its limits have been specified and governments are allowed to maneuver remaining within these limits. For liberals, the rule of law provides an effective solution to the economic questions through constructing a “protected domain” for money with fiscal and monetary constitutions (Gill, 2002: 53). In this way, the matter of “sound money” could be procured together with a minimal state (*ibid.*). According to liberals, the protection of private property rights is so important that it is secured by both the Constitution and by the coercive capacity of the state (*ibid.*). As Hayek argues, the law and private property are inseparable components of and necessary conditions for liberty (Hayek from Gill, 2002: 54). Therefore, in order for the continuation of this order, binding rules and constitutional constraints are necessary.

The World Bank anticipates the arguments of Hayek and Buchanan on rules-based economic policies to create credibility, predictability and confidence for investors. Many

of the discussions of the World Bank coalesce on the point of containing social and political conflict through limiting democracy. Therefore, “locking-in measures” as a factor of new constitutionalism can be considered as a way of dealing with dislocations (Gill, 1998: 37). As Trebilcock and Daniels (2008: 4) point out, it is believed that the robustness of a country’s commitment to the rule of law is an important determinant of its development, as today, the dominant political and economic actors are investors, especially transnational corporations (TNCs). In this way, the international financial institutions, TNCs, and the countries of G-7 reproduce the system of disciplinary neoliberalism on a world scale.

What is new today is that both the background and the purpose of constitutionalism have changed significantly. After World War II, mobility of capital was limited and interests of workers and producers were considered in the policy making whereas finance and credibility had a secondary place. Therefore, as Gill (1998: 29) states, constitutionalism in the Bretton Woods period was “a form of more democratic or progressive constitutionalism over economic policy”. However, since the 1980s, the power of transnational capital has grown. Thus, constitutionalism has developed into the way, which embraces the extension of legal protections for property rights mainly. The most important feature of new constitutionalism is that it relies on the disciplinary power of market forces. Concomitantly, “new constitutionalism [has become] associated with the restriction of popular democracy” (Gill, 1998: 30). It is a strategy to limit the process of democratization through authoritarian and coercive mechanisms. On the other hand, this process is justified by argument that neoliberalism promotes market efficiency and welfare of the society as a whole. In this way, new constitutionalism is used as a legitimization mechanism to achieve this target.

Under the pressures of disciplinary neoliberalism, a pronounced *transformismo* has realized in the Third World particularly. Under the guidance of the IMF and the World Bank, new constitutions took the older’s place embracing the separation of economics from politics. Especially, in the 1990s, for many developing and transition economies, billions of dollars amount of development assistance projects for law reform were conducted. According to the World Bank’s reports, there have 330 “rule of law” projects been funded and 2.9 billion dollars spent by the World Bank since 1990 (Trebilcock and Daniels, 2008: 2). As in the European Union or other capitalist economies on the world, the architecture of economic governance became established in the Third World to better

articulate with global capitalism (Gill, 2002: 49). The situation was the same in the former East bloc, the former Soviet Union and in Turkey.

To sum up, as Gill states, current socio-economic order relies on “the disciplinary power of market forces” (Gill, 2002: 50). That is why Gill identifies the current political economy as “disciplinary neoliberalism”. It involves a series of instruments such as constitutions, laws, institutional arrangements and property rights to guarantee a permanent status to interests of capital “through extension and deepening of market values and disciplines in social life, under a regime of free enterprise” (Gill, 2002: 47). In this socio-political order, the role of the state is to create and maintain a credible climate for business based on the rule of law. Moreover, to institutionalize market reforms, regulate finance, “promote public-private partnerships in service provision, enforce contracts and prevent corruption” are other important functions of the state (Gill, 1998: 31). The World Bank argues that, contrary to 1980s’ minimalist state, an ‘effective’ state is needed to enforce market discipline and credibility (ibid.).

Proponents of the relationship between governance and development accept that in developing countries (as in developed countries) even on a limited view of the role of the state, the state is indispensable in formulating and implementing a wide range of economic and social policies that bear on human well-being, and that failures of governance in many developing countries are an important explanation for many of the characteristics of low levels of development cited above (Trebilcock and Daniels, 2008: 6).

Moreover, the state is responsible from the creation of an enabling business environment as well as transparency (Gill, 1998: 33). These missions are components of the regulatory state, which has been elaborated in the previous chapter. Therefore, it is proper to say that state activity has expanded since the 1990s to provide legal protections, investment climate and confidence to investors. While state’s responsibilities on social insurance have been reduced or eliminated by de-socializing risk provision, it has facilitated capital accumulation by expanding the scope of free enterprise (ibid.). In this regard, as Gill states (1998, 2002), we are not witnessing the ‘retreat of the state’ as some scholars argue; but the redefinition of global governance. In this regard, a “strong state” is needed to institutionalize market forces (Gill, 1998: 10). Also, there is growing dominance of capital in representation that constrains the process of democratization into one direction in accordance with the interests of capital. (Gill, 2002) Through this mechanism and providing juridical and coercive protection to capital, the subordination of the state to the

forces of civil society under a liberal constitutional framework has been realized (Gill and Bakker, 2006: 43). Especially, in the South, through the SAPs, the global debt crisis and inadequate investment in the “real economy”, a “hollowing out” of the state has been realized (Gill and Bakker, 2006: 52).

3.4. Conclusion

In this chapter, the aim has been to explain that there is a close relationship between the relative autonomy of the state, the rule of law and the current process of new constitutionalism. It is proper to say that the state is a complex social relation; it is not a *suis generis* entity as proposed by state-centric theorists. The state and society are not distinct and separate entities but the state is the result of class relations.

This chapter has been an attempt to reveal that as a result of the separation of the economic and the political, the state appears in its fetishized form as if the state and social classes are two distinct entities in opposition. It has been asserted that while the state appears independent from the interests of the social classes (or neutral) and above them, it remains serving to the interests of the dominant (capitalist) class. Since, in capitalism, the state has to maintain the reproduction of capitalist relationships of production. The policies of the state must be compatible with the objectives of the capitalist class; otherwise, the stability of the state may be jeopardized. This necessity generates the subordination of the state to capital. However, the state serves the interests of the capital indirectly by separating itself from the dominant class and even executing policies that are against the interests of capital in the short-run. In the light of the above, the transformation of the welfare state, and the subsequent transformation in the social policy will be examined in the following chapters through an emphasis on the autonomy of the state during the transformation process.

The role of law in capitalism is corroborative to this purpose. The state and law necessarily has to guarantee the maintenance of the system and capitalist relations. In this sense, this chapter has tried to examine where law stands for and what it is for in capitalism. It has been argued that for liberal theoreticians, law and the legal system are mainly to prevent majority’s arbitrary applications, to provide predictability hence to protect freedom. This is also the definition of the rule of law in a sense for liberals. Also, it has revealed that the notion of the rule of law has gained new connotations in the last

twenty years. Today, the rule of law is rather used to signal the addition of certain (binding) economic policy issues to the constitutions in some countries in order not to make any concessions in the stability of the economy even when governments are changed. On the other hand, it has been revealed that, from a Marxist point of view, law carries certain relations behind its neutral appearance. In capitalism, law and legal system work for securing bourgeois class domination.

This chapter has argued that the process of new constitutionalism is the reflection of the rise of the rule of law with a different face. Today, the rule of law is used as a legitimizing mechanism both by governments and capital to introduce harsh economic and social policies under the cover of maintaining investors' confidence and credibility. In this regard, the chapter has examined new constitutionalism process as an international governance framework, which aims to separate economic and political to eliminate political mobilization by insulating economic policy-making while enhancing consistency and predictability of government policies in the eyes of investors through insistence on the rule of law. In the current process, the rule of law is a popular and 'necessary' concept from the point of view of the international capital that is important to restrict the policies of individual governments in the confines of the neoliberal policies. This chapter has argued that the discourse of the importance of the rule of law constitutes the basis of the process of new constitutionalism. As Buchanan (1985) argued, some constitutionalized general rules, which cannot be changed easily according to the politics of individual governments, has gained importance from the 1990s onwards to institutionalize fiscal discipline and to obtain credibility and confidence of investors. Some amendments, some binding rules and constraints about fiscal discipline have been constitutionalized worldwide and constraining government action as a way which should not exceed these neoliberal components deemed necessary. This process began roughly in the 1990s as the neoliberal take over consolidated its position in the 1990s. As the resumption of the rule of law necessitates the reimposition of order, so does new constitutionalism process had to wait till the 1990s to lock-in power gains of capital.

However, behind the neutral appearance of new constitutionalism and growing importance given to the rule of law lie capital's endeavors to obtain permanent status to its interests in general. In this regard, the chapter has revealed that the process of new constitutionalism is not a neutral process; but it serves to the interests of capital. However, in this process, the state has to implement neoliberal transformations and to constitutionalize them as if it is the interests of the whole society. In this process new

constitutionalism is used as a legitimization mechanism that gives the reason to make constitutional amendments in line with other governments worldwide in order not to fall behind the competitive pressures of countries in the globalized world while eliminating responsibilities of governments regarding social dimensions. This process leads to the subordination of social policy to the needs of capital, which will be the topic of the next chapter.

CHAPTER 4

GLOBALIZATION, EUROPEANIZATION AND THE TRANSFORMATION OF THE WELFARE STATE TO WORKFARE STATE

All these changes explained above in the accumulation regime, in the role of the state, and in the international governance framework have affected social policy formation significantly. Therefore, an important reflection of the neoliberal restructuring from the 1970s onwards is seen in the field of social policy. As a class project, neoliberalism has surrounded financial and economic policy-making to a great extent almost irrevocably, not to forget social policy. There has been a pressure towards one-way transformation of social policy in accordance with the needs of market, to put it differently, to create social policy of/for the market. As a result, welfare regimes have been significantly affected from this transformation, turning gradually towards residual welfare regimes, including more targeted social protection systems, policies forcing disadvantaged people to work in order to benefit from social security system, life-long learning programs to make people 'active actors' in the economy rather than passive objects undermining the sustainability of pension system, and privatization of pension systems and policies pursuing recommodification. "Workfare state" is commonly used to describe these changes stated above, which is one of the main topics of this chapter.

This chapter is an attempt to make a critical evaluation of the changes in the welfare state, and transformation of it towards workfare state. It is necessary to examine changes in the social policy-making hence welfare state transformation as a part of reorganization of the labor processes, accumulation regimes and modes of regulation; rather than taking into consideration social and economic as two different entities and conceptualizing these changes as pre-given as in the most of the studies in this field. In that regard, the previous chapters have provided theoretical frameworks for analyzing the transformation in the welfare state and social policy as a reflection of the changes in the capital accumulation and regulation regimes, as well as in the international governance framework, which is new constitutionalism.

First part of the chapter will make a critique of the existing literature on the fact that welfare state and; accordingly, the transformation of it is not an independent variable; indeed it is shaped by class relations and adaptation processes to the changes have been differently in each national state. Also, a critique of the globalization thesis will be made as it has reduced globalization and effects of it on welfare states as if it is homogenous and exogenous, and national states as passive receptors disregarding different adaptation processes. The process of globalization also plays a legitimizing role on the national governments' policies towards introducing neoliberal economic policies. First part of the chapter will also examine main components of the welfare state transformation and will concentrate on the workfare state and its constituents. In this regard, especially 'activation' policies will be elaborated as coercive aspects have become playing important role in the workfare state and the discourse has shifted from entitlements to obligations.

Second part of the chapter will explain the process of Europeanization, which has affected the EU member states through converging economic and monetary policies and will examine effects of it on European welfare states, especially with an emphasis on the Lisbon Strategy. In that regard, the Lisbon Strategy will be elaborated as a part of Europeanization process. The thesis acknowledges that although the Lisbon Strategy was finalized as of 2010, the understanding it represent still continues in the EU and shapes the social policy understanding of it. Therefore, the thesis evaluates the Lisbon Strategy as an ongoing process that shapes social policy of the EU. The Strategy aimed "modernizing social protection" by ensuring sustainability of social benefits (in particular pension system) and social inclusion through activation policies mainly training on a life-long basis and enabling employability. In fact, as Van Apheldoorn (2006) states, it has aimed a "hegemonic synthesis" of the promotion of competitiveness and the preservation of social cohesion. The Strategy has not aimed to transform the welfare regimes of the member states explicitly, but it has aimed to help member states "progressively develop their own policies in line with neoliberalism" (Savio and Palola, 2004: 14). Therefore, the section will assert that the Strategy has been used to legitimate the hegemony of neoliberalism. Also, as a governance mechanism, the Open Method of Coordination (the OMC) will be discussed considering its deficiencies, especially creating "asymmetry" between economic and social policies at the EU level. Indeed, as a class project, the Lisbon Strategy will be criticized considering both substance of its policies and results of these policies mainly creating recommodification. In this respect, post-Lisbon social

policy will be explained and criticized as it sees social policy justifiable only if it is a productive factor.

Examining the Europeanization process is important as the EU has been a significant external actor in the transformation process of the social security system during Turkey's accession process. As the Europeanization process has been shaped under the Lisbon Strategy from the 2000s, it is of necessity to explain the Europeanization and the Lisbon Strategy as processes shaping the social policy of the EU. Also, discussing the features of the OMC as the methodology of the Lisbon Strategy is equally important because it continues the asymmetrical regulation in favor of economic policy in the EU level; therefore reproduces the market primacy and subordinates social policy to the needs of the economy. In this regard, it is possible to say that the process of Europeanization and the Lisbon Strategy have affected the transformation of the social security system in Turkey indirectly through shaping the transformation of social policy in the EU. As the EU has been one of the significant actors throughout the transformation process of the social security system in Turkey, an analysis of these processes is a necessity to apprehend the transformation process in Turkey properly through taking into consideration state and market together.

This chapter will explain the Europeanization process but the effects of it on Turkey will be evaluated in the next chapter in terms of its implications on the social policy and the social security system in particular.

4.1. The Transformation of the Welfare State to Workfare State

The transformation of the welfare state has been a highly contested debate especially since the 1990s. Since Esping-Andersen published *Three Worlds of Welfare Capitalism* in 1990, welfare state has realized important transformations especially in Europe.²⁴ First, Southern enlargement of the EU in the 1980s, then the Eastern enlargement raised the differences such as average income, taxation level and social spending among the welfare groups further. Later, European integration and globalization has deepened the transformations for a great extent.

²⁴ According to Esping-Andersen (1990), countries of Europe can be classified into three groups according to their level of decommodification: 'liberal', 'social-democratic' and 'conservative'.

In general, changes in the welfare regimes are to be thought as a reflection and a part of more general and widespread changes taking place since the end of the 1970s considering reorganization of the labor processes, accumulation regimes and modes of regulation (Jessop, 2002).²⁵ In order to better conceptualize these general and widespread changes in the welfare state, the *explanandum* should be defined at a sufficiently high level of abstraction (Jessop, 2002: 142). Since a macro-level analysis will enable us to “explain historical specificity and continuities and discontinuities in different welfare regimes” (ibid.), contrary to the general tendency of the existing literature on social policy and welfare state/regime change that mainly focuses on results of these changes on welfare regimes without sufficiently taking into consideration reasons stemming from capitalism’s inherent contradictions and political class struggle as a factor in the policies chosen for transformation.

As Jessop (2002: 143-148) states, much of the literature carries significant problems regarding ontological and methodological approaches to the issue of the welfare state reform. First, and foremost, many studies are full of empirical details and analytical insights and are excessively concerned with quantitative indications and statistics, which make the issue superficial and veil real reasons of the changes (Jessop, 2002: 144). These studies are too concerned with (indications of) retrenchment and austerity, and they focus on the results of the welfare state change rather than its causes. For example, as McGregor (2005) states, studies on government expenditures focus on where the government spends its money. However, it is better understood whether there is decline in welfare state in analyzing outcomes such as poverty, unemployment and income distribution (Elveren, 2008: 214). This kind of analysis can divert attention from qualitative issues to quantitative ones. For example, they cannot explain well enough why even in many neoliberal welfare regimes social expenditures remain at relatively high levels (Jessop, 2002: 144). Although it is important to take into consideration quantitative changes, the analysis of qualitative issues such as ‘targeting’ and ‘means-testing’ is equally important, which may have significant effects independently from current spending level (ibid.).

Second, some studies assume that “the welfare states in the circuits of Atlantic Fordism (if not outside) exist in the same time, i.e., have the same genealogy, rhythms, cycles, and

²⁵ See chapter two.

so forth” (Jessop, 2002: 144). In fact, it is important to recognize that while some KWNSs emerged in the interwar period and were consolidated in the 1950s and 1960s, others, in particular Southern European welfare states²⁶ (Spain, Portugal, Greece) are still in a period of catching-up considering their northern counterparts at the same time adapting to neoliberal social policy adjustments (Jessop, 2002: 145).

Third, there is a tendency of fetishization of the typologies of Esping-Andersen in much of the literature regarding welfare regime changes, which results with increasing number of studies on the issue of the convergence of the welfare regimes (Jessop, 2002: 145). However, these studies provide only partial understanding as the study of Esping-Andersen only partially explains the role of the state in social reproduction, with an emphasis on decommodification (ibid.).

Then, much of the literature considers social policy and economic policy as two different spheres with isolation to each other. For example, Esping-Andersen bases his analysis on the role of the welfare state without sufficiently considering capital accumulation (Jessop, 2002: 147). Therefore, to a certain extent, his study fails to consider linkages between social and economic policies.

Last but not the least, some studies give excessively more importance to globalization as a factor in the welfare state reform. In these studies, globalization is represented both by politicians and some academicians as an “alibi” for changes in the political economy (Jessop, 2002: 147). As there is a comprehensive literature on globalization and possible effects of it on the welfare state, it is convenient to give much place to this topic in this part.

4.1.1. Evaluating the “globalization thesis”, reasons and development of the transformation of the welfare state

The discussion on the possible effects of globalization on the welfare regimes clusters around three main arguments. First, there are “hyperglobalizers” who advocate the idea that global economic pressures (such as increased trade and capital mobility) have had a great effect on social and economic policies of advanced capitalist economies (Ellison,

²⁶ Whether Turkey can be included to the Southern type of welfare regime is a highly debated question, which will be touched upon very briefly in the next chapter.

2006: 48). These pressures to adopt neoliberal social and economic policies have transformed welfare regimes significantly. For this view, it is possible to propose that all European countries experiencing substantial impact of globalization would experience similar welfare changes (Prior and Sykes, 2001: 196). As globalization is a constraining factor on the social and economic policies of national governments, there is no way out of pursuing anti-inflationary policies, reducing taxation and deregulating labor market in order to attract mobile capital, for the proponents of this argument. Therefore, it is proper to say that, from this perspective, there is ‘race to bottom’ considering social policies (Mishra, from Holden, 2003: 306).

Globalization provides a far more powerful justification than neo-conservative ideology for retrenching the welfare state. For neo-conservatism at least appears to be a matter of political and ideological choice... Globalization, on the other hand, appears as an external constraint – no matter a political choice at all, but rather of economic necessity (Goldberg from Elveren, 2008: 214).

In fact, for Clarke, the acceptance of globalization thesis is “ideological” as “it provides a convenient rationalization for those politicians and their intellectual supporters who wish to see market forces extended to all aspects of welfare provision” (Ferguson et.al, 2002: 133). Arguments that assert globalization as an unavoidable force compelling nation states to change their economic and social policies and creating convergences are very crude and simplistic and highly challengeable (Prior and Sykes, 2001: 195) as “globalization²⁷ is still both a contested notion and a contested process” (Prior and Sykes, 2001: 210). It is not reasonable to attach the changes in the welfare regimes only to globalization. Similarly, it will be very problematic to reduce the changes in the welfare state solely to the national endogenous factors. It is more plausible to comprehend globalization not as a monolithic exogenous factor, which has direct and same impacts on nation states; but as an ideological process that nation states have internalized (Prior and Sykes, 2001: 197). Also, globalization is not a new phenomenon; what are different in the contemporary period are that globalization’s effects on welfare systems “have been exaggerated to meet the ideological needs of neoliberalism” (Ferguson et al, 2002: 139).

²⁷ There is no single universal definition of globalization. For broader discussion see: Ohmae, K. (1990) *The Borderless World: Power and Strategy in the Interlinked Economy*, London: Collins.

According to the thesis of globalization nation states are powerless (Prior and Sykes, 2001: 204). They are only passive receivers of pressures especially stemming from globalization and agents of transformation that adopt according to these pressures necessary regulations (ibid.). However, different responses and experiences of individual states show that nation states are not powerless in the face of global pressures. For example, although both Britain and Ireland are classified as liberal welfare states, they have shown different patterns of adaptation to global pressures. While Britain has set social expenditures in line with competitiveness, Ireland has chosen to increase social expenditures (ibid.). As Prior and Sykes (2001: 204) assert, “the ideological position of the individual national government determines the patterns of adaptation deemed most appropriate, and these can result in quite different models of welfare systems and employment policies”.

Second, “skeptics” argue that globalization has had an impact on the welfare state but this impact is not as important as endogenous factors shaping transformation of the welfare regimes of the nation states (Ellison, 2006: 48). According to this view, some domestic factors such as unemployment, low growth and aging population have triggered the transformation of the welfare state (ibid.). These institutional factors have attenuated the impact of global economic pressures on the welfare state (ibid.) and also a high degree of continuity of the previous policies has been realized (Prior and Sykes, 2001: 196). In addition, from this point of view, similar welfare policies would be expected to be the result of similar policy choices by the national governments (Prior and Sykes, 2001: 196).

Third, according to “middle way” or “weak globalization” view, contrary to the globalization thesis, there are different adjustment processes of welfare states to the globalization and there is no ‘race to bottom’ (Ellison, 2006: 48). Nation states (or welfare regimes) are able to accommodate global economic pressures without endangering fundamental character of the welfare regime (ibid.). Also, the impact of globalization can be mediated through institutional structures and policy responses, which are path-dependent (Prior and Sykes, 2006: 197). Therefore, pre-existing institutional structures and welfare ideology are significant determining factors on the welfare policy changes. Concomitantly, the same type of welfare regimes would be expected to deliver similar changes (Prior and Sykes, 2001: 196-197).

While the third perspective seems more persuasive than the others, it has some defects, which limits its explanatory power and handicaps the adoption of the view in this thesis.

For example, this view leaves differences within the same group of welfare regime out of consideration. Yet, even within similar welfare regime, welfare policies may change because national governments may choose different policies (Prior and Sykes, 2001: 198). As Prior and Sykes (2001: 198) point out, this fact can be seen in the examples of the UK and Irish welfare states explained above. Even they are identified in the liberal welfare regime; they combine different sets of policy solutions. The argument is also valid for the different French, German and Dutch experiences within the Bismarckian group.

As Jessop (2002: 146) states, globalization perspective fails to comprehend “the multiscalar, multicentric, multitemporal nature of globalization” and the fact that globalization “is just one vector ... among several ... contradictions and dilemmas inherent in the capital relation”. Also, this kind of studies tend to ignore the “manifold pressures of globalization as a multicentric, multiscalar, multitemporal, multiform and, of course, multi causal process express themselves differently in different labor processes, branches of production, regions, parts of the overall circuit of capital, accumulation regimes, modes of regulation, and so forth” (Jessop, 2002: 147).

Accordingly, rather than conceptualizing globalization as a homogeneous exogenous factor that forces nation states into a certain direction of change, it is more convenient to argue that while globalization affects welfare regimes, different welfare regimes react differently to the process of globalization. Also, it is possible to say that; globalization and welfare state change should be conceptualized as reciprocal and multidirectional relations (Prior and Sykes, 2001: 198). In this regard, Clarke states that national and international experiences have had impact on globalization therefore it is not true to say that globalization is a single and one way process (Prior and Sykes, 2001: 207). In fact, it differs from country to country. Different countries’ experiences and different responses to the changes are evident to more complex and diverse nature of globalization. Countries’ different national structures such as employment structures have affected the policy options and the degree of vulnerability to competitive pressures (Prior and Sykes, 2001: 207). In short, “the individual national responses were mediated through existing national structures that were extremely varied” (ibid.).

In accordance with that, constituents of globalization differ regarding different European welfare states. For example, for Nordic welfare states, globalization means integration of Nordic firms and financial system with the global market (Prior and Sykes, 2001: 199).

For the Southern welfare states, globalization has brought European economic and political integration whereas for the Bismarckian welfare states, it means, especially, restructuring of labor markets in a more flexible way (ibid.). In the Central and Eastern European welfare states, international organizations have adopted a new welfare ideology in line with neoliberal policies while in the liberal welfare states globalization process has resulted with full force opening of national economies to the global market (ibid.). The affects of globalization have also been seen in Turkey especially in the labor market, which has been reshaped in the EU accession process with the requirements of global competitiveness towards flexible labor schemes. In this regard, considering the transformation of the social security system, a detailed analysis will be made in the next chapter.

The process of globalization also plays a legitimizing role on the national governments' policies by constituting an argument that there is no choice (Holden, 2003: 306); hence, legitimizes the introduction of harsh policies on social considerations in line with the thrust of international organizations (Prior and Sykes, 2001: 197). In particular, European integration process and European welfare regimes have been affected from globalization and competition pressures that it brought. In this respect, "the globalization thesis is part and parcel of neoliberal ideology" (Ferguson et al, 2002: 136). It should be considered that, as a result of globalization, for the European welfare states in particular, the role of the EU has increased considerably and influence of it on the welfare systems has become much more significant. The Maastricht economic and fiscal criteria and the importance of meeting these criteria as well as the economic and social policy implications of the EU have constrained policy options of the nation states to a considerable extent. This is valid for the member states as well as candidate states such as Turkey. The impact of the EU accession process on the Turkish social security system will also be analyzed in the next chapter on the basis of regular progress reports of the EU.

As a result of globalization, a "competitiveness discourse" has been flourished, which also legitimates and underpins neoliberal hegemony by shaping the discourse of European policy-making through the ideological agency of European transnational business elites, in particular the European Round Table of Industrialists (ERT) (Van Apeldoorn, 2006: 8). In that respect, it is important to state that "competitiveness discourse" has shifted from mercantilist (and partly social-democratic) promises based on

strengthening of European industry through non-market means in order to enable it to better withstand the forces of global competition, to a neoliberal competitiveness discourse in which competitiveness is precisely seen as benefiting from an unprotected exposure to global competition, in product as well as in capital markets (ibid.).

The pronounced result of this process is that social policy is linked to the alleged demands of competitiveness; therefore it is subordinated to the demands of mobile capital. For Jessop (2002: 153), this implies a significant qualitative changes and a departure from the ‘old’ welfare state and its role in social reproduction.

However, this change was not realized overnight. From the 1970s onwards, the welfare state lost its characteristic features much more, in every decade. Mainly, as Jessop (2002: 153-154) explains welfare state has passed from three phases. In the 1970s, state activity and spending were high, partially because of automatic stabilizers that increased welfare spending and lower tax revenues as a result of rising unemployment. Strong working class resistance had resulted with higher wages. However, while, at first, higher wages were thought that they would restore conditions for economic expansion through increasing demand, and then it was seen as a source of rigidities and a cost of production. Demands towards welfare state change which would facilitate flexibility of labor markets and reduce production costs resulted with limits on the scope of unemployment benefits, social assistance and eligibility criteria for them in the 1980s. In the 1990s, active labor market policies begun to prevail, which include policies to create the conditions of full “employability” and to prepare unemployed people work. This ‘activation’ approach is an inseparable part of ‘workfarist’ regulation and it has become very common especially from the 1990s onwards; but it takes different forms. For example, liberal welfare states are more able to adopt ‘workfarist’ changes, while social-democratic welfare states adopt these changes while trying to maintain their public welfare spending unchanged. Corporatist welfare states, on the other hand, are faced with a “continental dilemma” including rising inactivity rates and public expenditure at the same time (Jessop, 2002). Throughout this process, essential constituents of the welfare state have been hollowed out and become replaced with workfare state²⁸.

²⁸ For a political economic analysis of the reasons of the emergence of the workfare state see Chapter Two.

Elveren (2008: 213) explains the decline of the welfare state in the world in terms of its legitimization crisis, rather than its fiscal crisis. For him, as the working class has been shrinking since the 1970s; it has created a problem of legitimization for the welfare state. Moreover, the absence of the Soviet Bloc that attached importance to full employment made it easier to transform welfare state in line with neoliberal principles (Goldberg from Elveren, 2008: 214). As a result of the legitimization crisis of the welfare state, it gave its place to the workfare state, which is the topic of the next part.

4.1.2. Workfare state: no rights without responsibilities

The profound result of this process is the transformation of the welfare state to the workfare state. In this process, the role of state intervention has changed in a way to better serve the needs of markets (Cerny from Holden, 2003). As Holden (2003: 303) points out, this transformation has not realized by the withdrawal of the state; on the contrary, state intervention has increased. Indeed, state intervention, previously in a decommodifying form, has shifted to commodifying or marketising form²⁹ (Cerny from Holden, 2003: 307). It means activities pursued by the state are being left to market solutions. Thus, the state has come into being as a “commodifying agent” rather than a “decommodifying agent” as it had been in the Keynesian era. In other words, beyond the general discussion that welfare state has changed, it is a shared idea that decommodification policies have been replaced with recommodification (Dingeldey, 2007: 83). However, the level of state intervention has increased as a result of the new role of the state as the promoter and the supporter of the system and the key agent of change (Cerny from Holden, 2003: 307). It has been also necessary to facilitate the adjustment of the capitalist states to the political economy of globalization to “fit the rules of the game” as the World Bank (1997) stated. Maintaining economic competitiveness and acting as ‘enabling’ state rather than concerning direct provision of public goods and services are main responsibilities of the state from now on. Concomitantly, engaging with low tax and low wage regulations to attract MNCs has been put forward as the only feasible policies for governments (Ferguson, et al, 2002: 133). As Jessop (2006, 20-21) points out, in workfare strategy, both requirements of labor market flexibility and pushing social wage downward hence reducing the cost of international production, lead to the

²⁹ Offe (1984) identifies this process as “administrative recommodification”. See: Offe, C. (1984) *Contradictions of the Welfare State*. London: Hutchinson.

subordination of social policy. In such kind of American-style ‘welfare-to-work’ strategy, welfare is used “as a springboard into the labor market rather than as a safety net for the unemployed” (Jessop, 2006: 21). It means, rather than providing passive and redistributive welfare assistance, social policy functions as a facilitator role to make people more employable hence to incorporate them into market relations.

Workfare policies emerged in Britain in the period of the New Labor or Third Way, which continued Thatcherite-neoliberal policies in a “socially inclusive way” and become a hegemonic process in the 1990s. Therefore, talking about workfare policies will be deficient without concerning the policies of New Labor. In general, New Labor followed policies of Thatcherism signaling a shift from Keynesian welfare policies to workfare policies. Thenceforth, “unemployment is no longer seen in terms of a shortage of jobs and hence of a need to manage aggregate demand in order to secure full employment but is interpreted instead in workfarist terms as the product of a shortfall in job-readiness that is reflected in a lack of full employability” (Jessop, 2006: 13). In other words, policies that force unemployed into work hence reducing welfare dependency were replaced with short-term job creation (ibid.). For that purpose, compared to full employment achieved through macro-economic policies, New Labor advocated full employability achieved through micro-government (ibid.). If people are unemployed they must have their skills upgraded, and that is supposed to happen with activation measures (Abrahamson, 2010: 82). Instead of the passive provision and unconditional rights with no obligations, active participation of individuals to labor market and conditionality of social rights are justified³⁰. Welfare dependency was identified as a problem to be eliminated; instead they are replaced with policies promoting workfare and making welfare benefits more selective or ‘targeted’ (Jessop, 2006: 19). Therefore, New Labor directed welfare spending to the very poor people “through carefully-targeted means-tested benefits” (Jessop, 2006: 19). Also, the growth of an “underclass” and “culture of dependency” has been seen by governments as a result of their lack of responsibility and their mismanagement of resources rather than the levels of benefits, which systematized legitimization of reducing or cutting benefits more harshly (Sinfield, 2005: 17). In this respect, it can be said that the Third Way constitutes the antecedent of workfare policies, in a sense, which shares the same coercive aspects of neoliberal social policy.

³⁰ ‘Active’ means training and employment measures to help finding a job whereas ‘passive’ denotes inactivity-encouraging benefits according to this view (Sinfield, 2005: 18).

One of the most concrete requirements of the workfare state is reconfiguration of state intervention in a way, which make possible to attach social rights some responsibilities (Offe from Holden, 2003: 313). In order to benefit from social rights, responsibility to search for work, hence to participate in the labor market has been set as the main requirement. Thus, coercive aspects have started to play an important role in the workfare state.

Activation policies are a coercive aspect of the workfare state that necessitates mainly training of disadvantaged or ‘socially excluded’ people and in this way make them ‘employable’ hence to participate in the labor market. Activation policies³¹ were also important in the KWNS; but what exactly differentiates current activation policies from the formers is that “work obligations have become more explicit, stricter and mandatory in the 1990s” (Jessop, 2002: 155).

It has become harder to refuse participation and the authorities have gained powers to sanction non-participation. In addition, the discourse has shifted from entitlements to obligations, especially as regards the young unemployed (Jessop, 2002: 155).

As Jessop (2002: 152) states, in leading forms of welfare delivery, social insurance, redistribution and collective consumption, significant changes have been realized. Considering welfare delivery, there have been significant qualitative changes that prioritize economic policy. Under these changes, social policy is allowed to be implemented within limited alternatives that mainly prioritize activation policies; policies putting pressure on the social wage; policies pursuing increasing dependence on market; selective and targeted redistribution policies directed only the neediest people; and partial or total privatization of the pension system (ibid.). As a result of these policies, training and life-long learning; hence investment in social capital have become the cornerstone of social as well as economic policy (Jessop, 2002: 164). Considering pensions, it can be said that they have been seen as constituting a major treat and a financial burden by governments. Also, the OECD and the World Bank has promoted private defined contribution scheme (Jessop, 2002: 159). Turkey has got its share from the changes necessitating the transformation of the social policy especially through the channels of the

³¹ Activating labor market policies include enforcement of labor market participation, and increasing obligations on workers as requirements to rights and expansion of services that promote employability (Dingeldey, 2007: 824).

IFIs and the EU. In particular, the need to reform the social security system due to increasing financial deficits has been frequently demanded from Turkey by these actors.

In this process, the World Bank's social risk management strategy played an important role in terms of changing the policy discourse on social protection from universal and rights-based schemes to more targeted ones directed to "the critically poor people" (Holzman and Jorgensen from Sinfield, 2005: 18). As Fine (2009: 2) states, World Bank's approach to social policy remains constrained with "some sort of household risk management of vulnerability within a broader framework of correcting market and institutional failings". Today, social policy has evolved through regulating or managing poverty rather than tackling it. Similarly, compulsory subsidization of the weak has become out of date and less sustainable; therefore, it has been replaced with liabilities. Hence, equality for all was seen as creating insecurity and social exclusion (Sinfield, 2005: 18). Last but not the least, many states have reduced their expenditures on retirement pensions (Jessop, 2002: 160). As a result, although there are differences between welfare regimes, almost all states have realized significant changes in their welfare regimes and, subsequently, in their social policy formations and has adopted new regulations in line with the workfare state. Similarly, the social security reform in Turkey is a reflection of the transformation of the welfare state to workfare state. In this regard, putting financial constraints in the first place to transform the system, degrading social assistance services to the neediest people and forcing people to work, increasing premiums to the social security system but reducing benefits from the system are some workfarist implications in Turkey.

Social policy has evolved correspondingly to the general transformation in the welfare state. Since the last thirty years, traditional components of social policy have transformed significantly (Özüğurlu, 2003: 62). As Özüğurlu (2003: 62) states, paid employment has lost its importance in the traditional social policy that was one of the main concerns of it in the previous era. Its "center of gravity" has shifted from full-time paid employment to temporary, part-time, individualized and subcontracting forms (ibid.). Labor unions have been exposed to severe government implementations that even threaten their existence. At the same time, collective bargaining, in particular tripartite system have been disabled or removed under the jargon of "minimalist-state" (Hyman from Özüğurlu, 2003: 63). Increase in unemployment and deregulation policies have eroded collective bargaining based on paid employment. These transformations have affected the social policy understanding in the world and in Turkey profoundly.

Koray (2000), similarly, explains the transformation of social policy in terms of increasing unemployment, increase in informal employment and proliferation of flexible job forms. For her, segmentation and diversification of labor markets; shift of collective bargaining and industrial relations to company level; widening of the domain of capital; and new management strategies that promote loyalty of workers to their companies have affected labor union membership negatively and have weakened class and labor union solidarity; as a result, increased the legitimization crisis of the welfare state.

Özüğurlu (2003: 64) explains main components of transformation of social policy as follows: 1) The main concern of social policy, which is working class, has given place to unemployed people and poor people who have been seen as “underclass”. 2) The aim of strengthening and protecting “dependent-workers” has been replaced with development of “social capital”. 3) Policies promoting social integration have been transformed to policies compatible with market competitiveness and market efficiency.

For this new paradigm, the target is “underclass” that has been not only living in poverty but also excluded from the labor market. As it has been stated above, in this new social policy understanding, the main concern is limiting social policy with only the really “needy” people. To that end, complex statistical tests have been developed to determine the needy. However, what this new paradigm neglects or excludes is workers subject to paid employment (Özüğurlu, 2003: 64) because they are not seen as poor enough to benefit from targeted social assistance schemes.

Also, social capital has gained great significance in this process. Now, the role of the social policy is to develop social capital in as much as this will solve the problem of poverty. In that point, Fine (2002) states that through the notion of social capital, neo-classical economics colonizes other social science disciplines, one of which is social policy. In other words, although social policy has been an interdisciplinary science, now it becomes a colony of neo-classical economics. Crucially, social capital does not mean “socialization of capital” but it means “capitalization of social” (Özüğurlu, 2003: 65-66).

In the current phase of neoliberalism, there is more emphasis on individual responsibility and the co-management of risks among the family, the state and the private sector (Fine, 2009).

The individual has to make responsible provision against risks (through education and employment), the family too must play its part (through better care), while the

market (through private interest) and the community (through devolution ‘co-responsibility’ and the voluntary sector) are all involved in the de-linking of expectations of welfare from the state. (Molyneux from Fine, 2009: 9)

The process of the transformation of the welfare state and social policy has accelerated in Europe with the process of Europeanization and the Lisbon Strategy, which will be the topic of the following part.

4.2. Social Policy under the Process of Europeanization and the Lisbon Strategy

Europeanization³², *prima facie*, can be identified as “the formation of policies and institutions at the European Union level” (Tsarouhas and Bölükbaşı, 2007: 1). It, at the same time, refers to certain changes in the policies of the member states as a result of European monetary and economic integration. Therefore, it is a factor in and a result of the European integration process, which affects the policies of the member states. Europeanization means, in addition, blurring of the dividing line between the EU and national politics. In this process, the relation between the EU and a member state is reciprocal. While the EU affects the member states by setting laws and creating obligations, at the same time, national governments try to influence the EU by inserting their interest to the agenda (Featherstone and Papadimitriou, 2008). Indeed, Europeanization includes “complex” and “multidimensional” processes of transformation (Yalman, 2008). Nevertheless, although, the process is mostly described as a two-way process, the focus has been on the one-way and/or top-down path as a “goodness of fit” is required from the EU candidate countries (Tsarouhas and Bölükbaşı, 2007: 1). In this direction, “many new and prospective members of the EU are faced with the dual tasks of political and economic development and adjustment to a rapidly changing international environment” as in this process “the EU emerges as a key player which changes the rules and the structures of policy making for the member states as well as for others aspiring to be full members” (Yalman, 2008).

Tsarouhas and Bölükbaşı (2007: 12) also identify the process of Europeanization as “intensified economic integration inaugurated in the mid-1980s through the Single

³² It is a trendy terminology generally used in the institutionalist literature on European integration policies.

European Act and continued in the 1990s through the convergence criteria set out at Maastricht (1991) leading to the creation of a Economic and Monetary Union (EMU) by the beginning of 2000s”.

From the 1980s onwards, the European integration process has evolved through neoliberal ways. With the launch of the Single European Act (SEA) in 1986 and the European Monetary Union (EMU), course of action was identified requiring curtailment of the welfare state and a full force adoption of the neoliberal economic and social policies. Beyond certain changes in the decision mechanism within the EU such as qualified-majority voting, as well as significant changes considering possible future of the European integration process, the Act necessitated the liberalization of many traditional public services (e.g. infrastructure, transportation, telecommunications, and energy), and extension of the reach of EU competition law to national areas (Scharpf, 2002). Together with these changes, as Tsarouhas and Bölükbaşı (2007: 4) assert, it was anticipated by some scholars that the SEA would leave national welfare states open to the damaging effects of competitiveness, which would also give way to competitive deregulation or social dumping. In this process, the Maastricht Treaty constituted foundations and preconditions of the integration process and the Criteria demanding certain policies such as fiscal discipline and price stability has become a significant determinant of the policies of nation states. In this context, member and candidate states have been considered to fulfill certain macroeconomic criteria. Moreover, with the enactment of the Monetary Union and the launch of the Stability and Growth Pact, national sovereignty on economic policy-making has been almost eliminated (Scharpf, 2002).

In this context, the Europeanization process can be described as a part of the process of new constitutionalism as the former signifies the formation of policies and institutions at the EU level and the EU emerges as the key player, which set the rules in line with the interests of global capital. In this process, policy options that challenge the interests of capital were put out of action through linking economic policies of the member as well as candidate countries to certain criteria, such as the Maastricht Criteria. In this way, national states have been constrained politically and economically as well as legally. Since the 1980s the interests of capital have been prevailing, some legal and constitutional amendments have been made to consolidate its interest. As new constitutionalism locks in the power gains of capital through jurisdictions, in the same way, it locks out policy options that challenge these gains including the field of social policy; similarly the Europeanization process has constrained policy alternatives of the

member and candidate countries with policies compatible with the EMU and global neoliberalism. There are certain policies allowed for national states to maneuver that are within the boundaries of supply side policies (Scharpf, 2002). For example, tax cuts, deregulation and flexibilization of labor market are some of the options to move within the neoliberal band (Scharpf, 2002). However, the main premise is that the more competitive is the country, the more successful it is in attracting mobile capital; in this way, every country is competing with all the others to attract investment.

The EU's ten-year medium term development plan, the Lisbon Strategy, was launched in 2000 with the motto of to be "the most competitive and dynamic knowledge-based economy capable of sustainable economic growth with more and better jobs, and greater social cohesion" (Council of European Union 2000). Main rationale behind the Lisbon Strategy was to catch-up the US in productivity and innovation (Alesina and Giavazzi from Natali, 2010: 94). The strategy was proposed to consist of two pillars: an economic and a social pillar. While competitiveness and innovation were set as the main goals of the European economy, raising employment, enabling social cohesion hence to fight with social exclusion³³ were objectives of the social pillar (Council of European Union 2000). The targets of competitiveness and innovation are consistent with current economic inclinations of knowledge-based economy, which has been explained in the previous chapter. In relation to social pillar, the underlying philosophy was "modernizing social protection" and ensuring sustainability of social benefits (in particular pension system) and social inclusion through activation policies mainly training on a life-long basis and enabling employability hence to increase employment rate (Daly, 2006: 465-466). "In fact, the Lisbon Strategy was an attempt to bolster – through ideological and discursive mechanisms – the social support for the European integration project of market liberalization" (Van Apeldoorn, 2006: 10).

The Lisbon Strategy can be conceptualized as a reflection of the transformation of the welfare state to the workfare state throughout the EU. The most important point of the Lisbon Strategy was that, for many academic and political commentators, it envisaged a new balance between social cohesion and economic growth and identified them not as mutually exclusive targets but factors that strengthen each other (Savio and Palola, 2004:

³³ Originally the term "social exclusion" refers to labor market participation as a result, excluded from the social protection system in Bismarckian type of social protection. However, in this context, it means 'disadvantage' or 'poverty' at the same time (Grahl, 2010: 117).

9). With the premise of constructing competitiveness and social cohesion as mutually reinforcing goals, the Lisbon Strategy declared that social policy would be taking into consideration much more than before (Council of the European Union 2000). This increased emphasis on social policy would eliminate the contradictions in the European integration process stemming from the unbalanced and asymmetrical regulation; the latter explains the economic bias in the integration process (Scharpf from Eren Vural, 2011: 5). In other words, the Lisbon Strategy was premised upon the “hegemonic synthesis” of the promotion of competitiveness and the preservation of social cohesion (Van Apheldoorn, 2006). Thus, it is a part of neoliberal hegemony. As Van Apeldoorn (2006) states, “combining competitiveness and social cohesion thus involves a shift from the ‘old’ idea of supranational market-correcting regulation ... towards a market-enabling strategy” as the former would undermine competitiveness. However, although the plea of the Lisbon Strategy was that it would put both economic and social policies on an equal footing contrary to social policy’s continued secondary position behind economic policy, expecting this to happen would be an optimistic judgment as the EU constitutional structure gives priority to the economy (Grahl, 2010: 124).

Streeck (1999) calls the discursive articulation of the goals of competitiveness and social cohesion in the Lisbon agenda as “competitive solidarity”. He states that “European solidarity” is exposed to competitiveness pressures not only from outside the Europe, but also inside the Europe itself.

While the political-institutional base of solidarity remains national, its substance is rapidly transforming under the pressure of intensified competition. In trying to adapt to the new economic circumstances, national communities seek to defend their solidarity, less through protection and redistribution than through joint competitive and productive success – through politics, not against markets, but within and with them, gradually replacing protective and redistributive with competitive and productive solidarity (Streeck, 1999).

Under these conditions, there is not “*ex post* political intervention in market outcomes”; but “*ex ante* equalization of the resource endowments of market participants, especially their human capital and employability” (Streeck, 1999). In other words, “social cohesion is sought, not through equal outcomes, but through equal opportunity” (Streeck, 1999), this is what was called as “supply side egalitarianism”.

The methodology of the Lisbon Strategy was Open Method of Coordination (OMC), which is an intergovernmental coordination procedure. The method is composed of (1) determining guidelines to achieve compromised goals, (2) comparing good practices and gathering indicators for them, (3) through setting specific targets and measures, adopting these European guidelines to national and regional level policies, and (4) monitoring and evaluating (Savio and Palola, 2004: 5-6). As a result of these steps, the method anticipated that member states would gradually construct their own national policies. Under this framework, it was expected from the member states to learn from other countries' experiences. Indeed, the particular mode of government, the OMC, was supportive of the neoliberal restructuring (Van Apeldoorn, 2006: 13).

According to intergovernmentalist and institutionalist approaches, certain external and internal factors such as globalization, completion of the internal market and the European Monetary Union have been constraining the choices of the member states concerning social policy. Therefore, for these approaches, the OMC was adopted as a flexible governance mechanism, which offers a middle way to the member states between totally transferring power in the sphere of social policy to supranational level and determining on a national basis as well as between economic competition and social cohesion. (Eren Vural, 2011: 4)

On the other hand, for critical approaches, the current content of European socio-economic governance “has been the outcome of a struggle between rival transnational social forces (as in part operating through the agency of the ERT), and concomitant ‘strategic’ projects” (Van Apeldoorn, 2006: 5). In that respect, “neo-mercantilism”, “neoliberalism” and “supranational social democracy” can be identified as rival projects from the second half of the 1980s to the first half of the 1990s (Van Apeldoorn, 2006: 5). With the Maastricht Treaty, an asymmetry emerged between the rival projects, turning towards more neoliberal components. In the course of time, “neoliberalism secured its hegemony through incorporating elements of the two contending projects, incorporating them in a way that the antagonism of these rival projects was effectively neutralized and the primacy of the neoliberal objective of free enterprise effectively secured” (Van Apeldoorn, 2006: 7). Strategically, interests of rival transnational social forces have been taken into consideration but the ascendancy of competitiveness discourse has prevailed as a “linchpin” in the formulation of the neoliberal hegemonic project and as a shared goal “to which all main social and political forces within the European elite have been wedded

all along, whether social-democratic, neo-liberal, or neo-mercantilist” (Van Apeldoorn, 2006: 9).

As critical political economy approach puts it, European integration process is much related with the contradictory nature of capitalist reproduction, which politics and institutions are shaped under the given mode of capitalist development. This process evolved in the course of time through Keynesian to more market-based regulations and has created an inequality between economic and social regulations in the EU. In other words, as Van Apheldoorn (2006) states, European integration evolved through neoliberal way sidelining alternative transnational projects, in particular neo-mercantilism and social democracy. The European Monetary System (EMS) was founded as a reaction to the currency uncertainties after the collapse of the Bretton Woods system. The economic convergence system was supported to facilitate the EMS, which eventually resulted with the Single European Market (SEM) program. From the late 1970s, especially with the SEM, neoliberal, competitive and monetarist measures were predominated. It is plausible to say that this change stemmed from both the shift in the mode of capitalist reproduction and political compromises as well as conflicts. Also, arguments such as economic growth, productivity and high employment, deregulation, social rigidity and flexibilization have prevailed and were shared by neoliberal economists, think-tanks, corporate interests and national governments (Bieling, 2003: 207). Put differently, the change was the product of the articulation of political and social interests. Therefore, the nature of the European integration is socially constructed and partially contingent (Bieling, 2003: 206). As Bieling points out, this new European constitutionalism “insulates political decision making from democratic control and impairs national regimes of social and labor regulation”. The latter is realized by exposing “employment, labor and welfare regimes to the modernizing, often deregulating pressures of disciplinary regime-competition” (ibid.).

As in the mid-1990s, European social policy shifted from the “hard law” towards “soft law” (Savio and Palola, 2004: 2), the method –the OMC- chosen was consistent with this transformation³⁴. It included the determination of common objectives in the supranational level and implementation of these objectives at the national level and the European Commission’s and member state’s surveillance (Schafer from Eren Vural, 2011: 2).

³⁴ There is an ample literature on this issue but it is beyond the scope of this thesis. There are critiques, which argue that the EU had turned to a “paper approach” (see Peters, 1997), and those argue that the EU’s social policy instruments conflict with its economic policy instruments (Savio and Palola, 2004: 2).

Common objectives of the Union would be complied voluntarily by the member states that form the basis of the method. Sharing policy experiences and practices and adapting them to the national policies were important. For these factors, the OMC acquired a different character from the traditional regulation of the Union (Savio and Palola, 2004: 6).

This 'participatory', 'co-operative oriented' and 'flexible' method has been argued for some politicians and institutionalist academicians as being inadequate to realize harmonization and has been criticized for its lack of capacity to bring about change. It was argued by Radaelli that the OMC is "just discourse, a talking shop or 'discursive bandwagon'" (Daly, 2006: 474). Also, this 'voluntary cooperation' has been criticized due to its soft law quality which is non-binding, lacks formal sanctions and leaves policy choices to the member states; hence led to ineffectiveness regarding the convergence of the social sphere. It has been criticized by the opponents that the OMC has deliberately eliminated supranational regulation in the social policy in this way consolidating asymmetric regulation. "Under the constitutional priority of European law policies promoted through the Open Method of Coordination must avoid all challenges to the *acquis communautaire* of the Internal Market and of Monetary Union" (Scharpf, 2002). Scharpf (from Van Apeldoorn, 2006: 15) asserts that the European member states will never comply on common social policy goals (that is, positive integration); but it is easy to reach a consensus regarding issues of internal market and market competition such as removal of barriers (that is, negative integration), which he identifies as "joint decision trap". He, therefore, argues that there is an inherent bias in the European integration process against positive integration.

In that context, Scharpf (2002) criticizes the process of European integration as it has created a "constitutional asymmetry" generally between economic and social policies. Whereas in nation states, both social and economic policies have been "in political competition at the same constitutional level", European integration have created a fundamental asymmetry between policies promoting market efficiencies and policies promoting social protection and equality (Scharpf, 2002). Put differently, economic policies have been "progressively Europeanized while social protection policies [have] remained at the national level" (Scharpf, 2002). As a consequence, national welfare states are constitutionally constrained by the 'supremacy' of all European rules of economic integration, liberalization and competition law, and they must operate under the fiscal

rules of the Monetary Union while their revenue base is eroding as a consequence of tax competition and the need to reduce non-wage labor cost” (Scharpf, 2002).

In fact, the analysis of Scharpf (2002) only focuses on the institutional form. What has been behind the preference of “negative integration” over “positive integration” is transnational capitalist class, whose interests have been in line with neoliberal policies. Positive integration has been left out as a result of strong oppositions of Europe’s transnational business elite (Van Apeldoorn, 2006: 16). In the same way, applying the OMC as a convenient method of the Lisbon agenda has not been only the result of that it has been appropriate as a governance method but also it has also been appropriate to the interests of Europe’s transnational business elites.

Scharpf (2002) says that

national welfare states are legally and economically constrained by European rules of economic integration, liberalization, and competition law, whereas efforts to adopt European social policies are politically impeded by the diversity of national welfare states, differing not only in levels of economic development and hence their ability to pay for social transfers and services but, even more significantly, in their normative aspirations and institutional structures.

As he states, the methods of promoting common objectives but leaving policy choices to the national states are not enough to overcome the constitutional asymmetry (Scharpf, 2002). It means, as Radaelli argues, that the OMC carries a tension as a form of politicization and at the same time depoliticization (Daly, 2006: 478). It means that what is highly political becomes depoliticized.

It also limited the social policy options with market supporting and conforming policies (Scharpf from Eren Vural, 2011: 9) because the Lisbon agenda tended to “define ‘the social’ mainly in terms of the adaptability of the labor force to the exigencies of competitiveness in a globalized world economy” (Van Apeldoorn, 2006: 11). In that regard, as Scharpf (2002) stresses, “Europeanization of social-protection purposes” would be realized by adding an amendment formula to the Treaty, which is “employment and social protection requirements must be integrated into the definition and implementation of the Community policies and activities referred to in Article 3, in particular with a view to promoting social inclusion”. The statement proves the subordination of the social policy to the needs of capital. Also, it proves that the Europeanization process and the

Lisbon agenda have been reflections of new constitutionalism as they prioritize and constitutionalize economic issues whilst social policy attains a supporting role.

Also, in this process, governments are constrained with the pressures coming from international capital that seek lower production costs towards strategies of competitive deregulation (Scharpf, 2002). In that sense, unions are forced to accept low levels of wage and worse employment conditions given the fear of losing existing jobs at the same time welfare states move backward by reducing the scope of protection (Scharpf, 2002).

Scharpf (2002) asserts that

whereas the welfare state was once about limiting the reach of market forces and about the partial ‘decommodification’ of labor (Esping-Andersen 1990), the agenda of ‘Social Europe’ as it must be defined through the Open Method, is about optimizing the adjustment of social protection systems to market forces and fiscal constraints and about facilitating the ‘recommodification’ of the labor potential of persons who are threatened by ‘social exclusion’ – which is understood to mean primarily exclusion from the labor market.

However, the results of the Lisbon Strategy were not realized in the anticipated way. In 2009, as a closure review, Swedish Prime Minister Fredrik Reinfeldt admitted that “even if progress has been made it must be said that the Lisbon Agenda, with only a year remaining before it is to be evaluated, has been a failure”.

One of the most pronounced results of the Lisbon Strategy is that increasingly more parts of the social sphere have been reorganized in line with the market. Forms of social welfare regulation, for example social security, have been affected from finance-led capitalist discipline and evolved through privatization. Policies such as “supply-side egalitarianism” that aims the creation of equal opportunities for commodification rather than decommodification proves the thesis that the Lisbon Strategy has been a recurrence of the past that sees the social policy as a productive factor rather than protective (Daly, 2006: 469) hence, it has not given social policy a primary place as it had been claimed at the outset of the Strategy and it has remained serving to markets. As it has been explained in the previous chapters, this overlaps with the role of the competition state that gives priority to the investment in human capital and productive capacities; as, in general,

‘active’ social policy components and ‘investing’ in people has become the focal point of the social policy beginning from the Lisbon process³⁵.

The Strategy did not aim to transform the welfare regimes of the member states, but implicitly, the method aimed to “help Member States progressively develop their own policies” in line with neoliberalism (Savio and Palola, 2004: 14). In fact, both the Strategy and the Method did give up harmonization or convergence of the welfare regimes, instead have aimed at confining social policy within the boundaries of the EMU or the EU economic policy in general (Savio and Palola, 2004: 14). In that regard, Streeck (1999) states that, rather than the emergence of a unified European system, one can say that there was “Europeanization of national systems”. Put differently, European social regulation has evolved through “neo-voluntarism”, a new approach that did not necessitate any changes in national legislation (Streeck, 1999). In this system, instead of imposing uniformity on national systems, “national diversity is coordinated rather than harmonized” (Streeck, 1999).

Particularly,

The European Commission took the initiative on pension reform at the EU level in a communication titled “Toward a Single Market for Supplementary Pensions” in 1999. Some proposals give the reasons for the different criteria necessary to achieve harmonization of DC schemes on the EU level. The main argument in those proposals is the “efficiency” of the DC system, and there is strong encouragement to switch from pay-as-you-go (PAYG) to private pension scheme (Elveren, 2008: 215).

³⁵ The employment strategy of the Lisbon Strategy is mainly based on the European Employment Strategy (EES), which includes the assumption that “raising the employment rate will underpin the sustainability of the financing of social protection systems’ and that employment was the main route to social inclusion” (Grahl, 2010: 117). It is not convenient to say Europeanization of employment policy throughout the EU; rather, it is right to state coordination of national employment policies in line with European framework in a normative way that includes formulating new policy paradigm and establishing benchmarks convenient to the policy paradigm (Van Apeldoorn, 2006: 15). Indeed, the EES is a supply-side strategy adopting labor market flexibility as a main policy instrument. Under the constraints of the internal market, the EMU and the 1997 Stability and Growth Pact, it is composed of four pillars, which are ‘employability’, ‘entrepreneurship’, ‘adaptability’ and ‘equal opportunities’. It reflects a shift from Keynesian targets of market-correcting and market-steering macro-economic full employment towards a new transnational policy paradigm of market-making employment policies (Van Apeldoorn, 2006: 15). Therefore, ‘employability’ means in a sense marketability; hence recommodification (Van Apeldoorn, 2006: 15).

The term “supplementary pensions” in the title of the initiative is clear enough to signify the social policy understanding of the EU, which reduces social policy to a mechanism that serves markets.

With the announcement of the failure of the Lisbon Strategy, it was relaunched in 2005 under the new name, the Strategy for Growth and Employment. Economic growth and employment were set as main goals, which would be achieved through investing in knowledge and innovation (Council of the European Union 2005). These objectives gathered together under a guideline called as *Integrated Guidelines for Growth and Jobs*. However, social purposes again was excluded from this guideline and remained in the confines of the OMC. The emphasis on active employment policies remained and labor productivity increase added to the strategy, which would be achieved through investment in human capital, training systems and lifelong learning (Council of the European Union 2005). The strategy also included flexibilization of labor markets. Concept of “flexicurity³⁶” was used for the first time in this guideline meaning that increasing employment together with economic growth and social cohesion. In other words, flexibilization of labor markets could cover employment security and social protection at the same time (Council of the European Union 2008). Social policy content was reduced compared to pre-2005 period and it “was interpreted as a retreat back by the Union to one sided coordination of member state’s social policies in pursuit of financial sustainability and employment promotion” (Zeitlin from Eren Vural, 2011: 10). It means that the strategy embraced a more intensified neoliberal approach (Hager from Eren Vural, 2011: 11).

In general, post-Lisbon social policy rests on the idea that social policy is justifiable only if it is a productive factor. The economic and social policies will reinforce each other through a virtuous cycle (Grahl, 2010: 117). Social protection is seen as an investment rather than a right based on solidarity. It means that “the three worlds of welfare capitalism” that were based on the decommodification of labor have been replaced with post-Lisbon social policy, which embraces recommodification (Savio and Palola, 2004: 10). Also, ‘passive’ social policy, which was based on redistributory mechanisms, has become out of date and proactive policies that enhance people’s capacity have been

³⁶ “Flexicurity” refers to “a new range of policies intended to make labor markets more flexible at the same time as providing greater social and employment security for those in or out of work, and improving social inclusion for all labor market participants” (Jessop, 2002: 156-7).

promoted (ibid.). The question whether the “Lisbon process” represents a significant departure for the EU social policy is still a contested issue although the thesis acknowledges that the Lisbon Strategy is an ongoing process affecting the social policy understanding of the EU. This issue requires an in-depth analysis; thus it is beyond the scope of this thesis³⁷.

It is important to point that not every welfare state has been affected in the same way from this process. In fact, adaptation processes to the changes have been different in each national state depending on their ideological position as a result of class struggle. For example, as Tsarouhas and Bölükbaşı (2007) assert, despite the common prediction of some scholars towards “neoliberalization of labor regulation” throughout the Lisbon process, this was not realized in the Southern countries –Greece and Spain in particular. According to simple thinking, as Tsarouhas and Bölükbaşı (2007) quote, neoliberal policies would undermine welfare regimes and lead to social dumping through policies of austerity and competition. It was thought that competitive deregulation led by companies seeking social regulations with least costs in nation states would degenerate national welfare systems and would create a race to the bottom (Tsarouhas and Bölükbaşı, 2007: 4-5). As there are diminishing sources for welfare spending given the budget deficits and public debt from the 1990s and the requirement to meet the Maastricht Criteria, which requires fiscal austerity, convergence was expected to happen towards minimalist welfare states (ibid.). The neoliberal circle would work in such a way that pressures on total output and employment would lead to decrease in tax revenues, which would give rise to declining social budget and a crisis of welfare state financing (ibid.). However, it is not the exact case. The reason why it did not result in the expected way can be best explained by referring to national institutions and politics and power relations in each nation state. It shows that the process of Europeanization is not a mere top-down process, but national

³⁷ For views on the idea that the Lisbon Strategy signalized a shift in the EU’s social policy towards “strategic management”, which meant that eliminating the boundaries between economic and social policy, in other words, linking them see: Savio and Palola (2004: 4). The literature on EU social policy is composed of mainly three strands (Daly, 2006: 462-463). According to first approach, the EU social policy is hollow and limited and it has not converged successfully to achieve a supranational model of social policy. The second approach advocates an articulated social policy approach rather than convergence. Third approach engages with the concepts such as social identity and social sphere and goes beyond the social policy and argues that social policy is more than just the surface; hence it is not an end itself. (Daly, 2006: 462-463).

factors, which labor is one of them influence the process. Also, whether these improvements have been the result of the EU membership is a question; given the fact that the effects of the EU membership have not been the same way for post-communist countries, which have evolved through inegalitarian schemes (Buğra and Keyder, 2006: 211).

Today, the remaining differences between welfare regimes make it difficult to agree on social policy formulations on the EU level as they differ regarding their normative assumptions and their political salience and philosophy. For example, neither is it easy for Britain to accept high levels of taxation, nor is it much desirable for Sweden to lower levels of social spending (Scharpf, 2002). As structural changes generate conflict between different welfare regimes, Scharpf (2002) argues that uniform changes are questionable. That is the reason why the OMC, as a ‘participatory’, ‘co-operative oriented’ and ‘flexible’ method, has been launched; that is, for Scharpf (2002), “to protect and promote Social Europe”, which only converged on the issue of confining social policy within the boundaries of the EMU and to make social policy serve markets.

In such a scheme, nevertheless, as Scharpf (2002) states, Europeanization is evolving towards the same direction based on neoliberal practices and striving for uniformity rather than allowing different welfare regimes to maintain their characteristics and normative aspirations. However,

It should allow the Bismarckian welfare states on the European continent to seek common solutions to their common problems; and it should support Southern countries as well as the accession states of Central and Eastern Europe in developing economically and politically viable institutions of social protection without being required to a uniform European blueprint (Müller, 1999 and Müller et al. 1999 from Scharpf, 2002).

In other words, Europeanization process should be differentiated.

There is an ample literature that criticizes the amorphous EU social policy, in particular the Lisbon process. Arguments cluster around the idea that achieving the goals set by the Lisbon Strategy has been above the Lisbon Strategy’s scope and the process is so ‘unsocial’ to realize them. For example, Savio and Palola (2004: 2) criticize the Lisbon Strategy and the OMC as having been signs of social policy that left its “customary” place to become a project to invent the social within the confines of the European Union”

(Savio and Palola, 2004: 2). As they point out, with the Lisbon Strategy, attempts to create convergence between the Liberal, Bismarckian, Scandinavian and Southern European models were replaced with designing a welfare model aiming to serve the economic interests of the Union (Savio and Palola, 2004: 4).

Another argument against the EU social policy is that the EU places social policy at the end of the political hierarchy (Tucker from Daly, 2006: 475). Moreover, as Sinfield (2005: 17) puts it, these flexible, less contributory schemes, individualization of social security rights and means-testing or targeting social assistance –the CEC’s main recommended instrument for achieving greater efficiency- “tends to involve a shift away from certain goals such as compensating and the prevention of poverty”.

As Daly (2006: 464) states, the EU engages with social policy so long as it will contribute to efficiency, in other words, if it is “efficiency-enhancing”. As the EU has been a market-making project, social policy has remained functional for economic policy and market integration. In other words, social policy options have been limited with “their potential distorting effects on market integration and competitiveness” (Daly, 2006: 468). The EU embraces regulatory social policy based on “the resolution of problems created by market failures in regard especially to public goods, negative externalities and information”, which contradicts the classical social policy understanding, which is much concerned with redistribution (Daly, 2006: 463). In that sense, it is plausible to state that the EU social policy measures have always been consistent with policies that advance the market (Daly, 2006: 464). As Patrick Venturi (Jacques Delors’ advisor) states, “the question is not whether the EU needs more or less legislation at the Union level. Rather, it is a question of what form of government and social regulation is best suited to the times, problems and expectations of the economic and social players” (Savio and Palola, 2004: 5). The quotation explains well the fact that social policy has been subordinated to the needs of the economic policy.

In fact, the failure of the Lisbon Strategy was not the result of lack of effective implementation or only the result of institutional failure to generate more democratic governance mechanisms through for example the OMC as some scholars argue; but due to the content of the policies in the Lisbon agenda, as it aimed the transformation of the “social purpose” in line with the European integration process. (Van Apheldoorn, 2006:

3). Van Apheldoorn (2006) identifies this new social purpose of the EU beginning from the 1990s as “embedded neoliberalism³⁸”. This social purpose rests on the concepts of competitiveness and benchmarking and interests bound up with transnational capital. Through the competitiveness discourse, formerly rival social forces have been successfully incorporated to neoliberal hegemonic project. In fact, these neo-mercantilist and social democratic concerns have been “incorporated in such a way that they remain subordinate to the overriding goal of competitiveness defined in a neoliberal way” (Van Apheldoorn, 2006: 10).

In a sense, the Lisbon Strategy represents an “indirect stimulus” for financial market integration in the EU (Bieling, 2003: 213). As it was stated in the previous chapters, the world economy, in particular the European economy, has been evolving through financial market integration as a process in the neoliberal restructuring, national governments have been disciplined by mobile financial capital, which creates pressure to lower corporate taxes and curtail public spending mainly. As a result, transnational capital has had a much strong voice over national economic and social policies. Furthermore, this impact bears itself on labor regimes that put pressure on it to reorganize them in a more flexible and insecure way hence exploitative. What lies at the heart of the announced goal of the Lisbon Strategy, *ipso facto*, as the Internal Market Commissioner Frits Bolkestein stated is that “financial integration is a building-block of our [European] single market” (Bieling, 2003: 213). In other words, the Lisbon Strategy resigned national economic and social policies to the hands of the disciplinary control of financial markets (Bieling, 2003: 213). Put differently, the Lisbon Strategy was a part and parcel of financial market integration and finance-led restructuring. In this context, European integration project retains EU social policy a special place as an underpinning factor in the process, which signalizes the distinctiveness of the EU social policy (Daly, 2006: 464).

For critical approaches, the Lisbon Strategy is a class project that represents the interests of transnational capitalist class (Van Apeldoorn, 2009). In the process of integration, regulation has been shaped asymmetrically towards social deregulation as a result of neoliberal restructuring. While competitiveness has been promoted in the supranational

³⁸ As Van Apeldoorn (2000, 2006) identifies, “embedded neoliberalism” is the result of contending transnational elite projects; it is a synthesis of neoliberal elements and post-war social and political institutions. In other words, it is forgoing “fully disembedding the European market economy from its post-war social and political institutions” (Van Apeldoorn, 2006: 8). Put differently, it is neoliberalism without a pure *laissez-faire* perspective.

level, social cohesion has remained at the national level. This asymmetrical regulation has “strengthened the neoliberal hegemony through relegating conflictual social policy issues to the national level while promoting neoliberal competitiveness at the European level” (Bernhard from Eren Vural, 2011: 7). This asymmetrical regulation is a deliberate strategy in this process that serves to open the doors in the interests of transnational capital. In search of ways to attract mobile capital, national states have been bound with the rules of internal market that involves transferring power to supranational level to eliminate macroeconomic instabilities. This asymmetrical regulation process in the EU has been compatible with the process of new constitutionalism as the former aims to fix the position of the economic policy in the supranational level through some binding rules and pre-commitment mechanisms just like in new constitutionalism.

Moreover, the articulation of social cohesion as a goal within the Lisbon Strategy has helped to legitimate hence to gain support of popular classes to the interests of the transnational capital and the European project. This articulation “ helped to solidify the bloc of social forces underpinning the emergence of embedded neoliberalism as a hegemonic class project articulated and propagated by – and reflecting as well as mediating the interests of – social and political forces bound up with European transnational capital” (Van Apeldoorn from Eren Vural, 2011: 6). However, it is possible to state that as the Lisbon Strategy has been “an extension of the neoliberal thrust”, “its commitment to social cohesion was bound to remain hollow, symbolic rather than substantive” (Van Apeldoorn from Eren Vural, 2011: 4). Therefore, the articulation of social cohesion to the goal of achieving competitiveness can only be conceived as the legitimization of the neoliberal restructuring process.

As a conclusion, Delors had stated years ago that rather than relying on “welfare regimes”, the EU had to be constructing its own “social”. In that regard, it is possible to say that “the modernization of social protection” has resulted with transformation of the welfare regimes of the member states in accordance with the EU’s economic goals (Savio and Palola, 2004: 14). In other words, social policy once again has been subordinated to the economy.

4.3. Conclusion

From the end of the 1970s, increasingly more aspects of everyday life have been exposed to market rules and recommodification. Social policy is one of those areas that has been detached from its original meaning and significantly transformed towards a market-friendly and competitive-enhancing instrument.

It is not hard to answer the question that to what extent the change in the social policy understanding is a part of the changes in the global political economy, in short, disciplinary neoliberalism, as its evidences are very clear and pronounced in the everyday life. Although there are differences in national circumstances, prevalence of welfare policies is a common fact.

Current political economy has been shaped by pressures of transnational social forces especially operating through the agency of the ERT that prioritize market ascendancy. As capitalist social-political forces have been stronger in the last three decades, so gains have been achieved in accordance to capitalist interests as a result of transnational class struggle. Accordingly, these gains prioritizing marketization have been institutionalized in a way that limits the policy alternatives of governments regarding more socially-oriented solutions; instead, market-enhancing options have been imposed in the name of being a more competitive economy. In this regard, the transformation of social policy understanding in the process of European integration through confining it with supranational regulations and make it serve markets is a result of the process of new constitutionalism, explained in the previous chapter.

As a reflection of new constitutionalism, the Europeanization process has constitutionalized policies that prioritize market efficiency in the EU level, such as the Maastricht Criteria and in this way it has consolidated neoliberal hegemony and the interests of the capitalist class. In particular, through setting being the most competitive economy in the world as the goal, the EU has benefited from the competitiveness discourse to legitimate the regulation of economic and social policies in line with the requirements of the neoliberal global economy. In this way, the Lisbon Strategy has reshaped the social policy understanding in the EU to a certain extent through constraining social policy with alternatives compatible with market competitiveness. However, as it has been explained, this process has brought the privatization of pension

systems in most of the member and candidate countries in the EU, increased workfarist implementations and recommoditization.

With such a social policy understanding, the EU has affected the transformation of social policy in Turkey during the accession process as an important external actor. Therefore, this chapter has been necessary to explain the process of Europeanization and the Lisbon Strategy to show that these are the factors that affect the transformation of the welfare state and the social policy understanding in the EU. It has been also necessary to explain that as a candidate country, Turkey has to harmonize its economic and social policies in line with the requirements of the membership and the *acquis communautaire*, as well as the criteria of Copenhagen and Maastrich, which are the reflections of new constitutionalism and Europeanization prioritizing market competitiveness and the constitutionalization of neoliberal economic policies in the supranational level to achieve this aim. An analysis of the Europeanization process under the impact of the Lisbon Strategy has been also necessary to better apprehend the transformation of the welfare state and social policy through going beyond the analysis based on national endogenous factors versus globalization as factors affecting this transformation in analyzing the social security reform in Turkey.

A review of the comprehensive literature on the welfare state change has showed that although deterministic arguments on globalization and the effects of it on the welfare state should be avoided, it is a common fact that all European economies have being radically affected from the globalization process and have experienced substantial changes in their welfare regimes due to neoliberal globalization. In this process, globalization has been used as a legitimizing tool to introduce harsh neoliberal policies in order not to fall behind the global race of competitiveness. Globalization discourse has prevailed and globalization has been understood as if it is a monolithic exogenous factor that necessitates shaping of all economies in the same way. Indeed, acceptance of globalization thesis is highly ideological. Although political class struggle, as a result of ideological position of national states that determines patterns of adaptation to changes, national states have been reflected as powerless and passive actors. However, there have been different patterns of adaptation, and globalization hence competitiveness pressures have been mediated within existing national structures. In other words, nation states are able to accommodate pressures and changes while at the same time responding to them according to their ideological choices. In some cases, changes related to globalization are described as “retrenchment” as they are mainly within the framework of existing welfare

systems, in other cases “restructuring” as they challenged and shifted existing welfare systems radically (Prior and Sykes, 2001: 199-200). Especially, in advanced European capitalist economies, this transformation has been towards retrenchment of Keynesian welfare regimes whereas in premature welfare regimes of particularly Southern European welfare states, there have been partial recoveries and improvements. Nevertheless, workfarist regulation is very common.

As a result of the prevalence of competitiveness discourse, which also legitimates neoliberal hegemony, and the processes of new constitutionalism and Europeanization, social policy is linked to demands of market. To what extent Turkey is a part of this transformation will be discussed in the following chapter.

CHAPTER 5

A CRITICAL ANALYSIS OF THE TRANSFORMATION OF THE SOCIAL SECURITY SYSTEM IN TURKEY

As a part of the general transformation in social policy global wide, social policy understanding in Turkey has been transforming in line with these general tendencies from the 1990s onwards. However, this process has been accelerated in the 2000s under the AKP governments in Turkey in line with the Party's political and ideological inclinations towards conservative-liberalism, which can be identified as "an amalgam of neoliberalism with social conservatism" (Buğra and Keyder, 2006: 213). Although in this process, for some scholars, social policy debate has been shaped between two edges, which are on the one hand criticizing the understanding of social policy based on charity; on the other hand approaching the issue on the basis of a universalistic and rights-based understanding; nevertheless, the evolution of the social security reform has been towards the former approach that reduces social policy to charity as a result of the government policy shaped under the pressures of the IFIs, the EU and the representatives of national capital (See Buğra and Keyder, 2006).

As is seen from the arguments of Buğra and Keyder (2006), the debate on the transformation of the social security system in Turkey has been discussed generally on the basis of institutionalist point of view, emphasizing the "inegalitarian-corporatists" and exclusionary nature of the Turkish welfare regime and the lack of objective poverty alleviation mechanisms in the system without taking into consideration class relations in the formation of the social policies.

According to the view of Buğra and Keyder, recent reform endeavors on the social security system has brought into question the inadequacies of the system and has created a chance to change this structure. Therefore, this view sees the social security transformation process as an opportunity to restructure existing unequal system and to formulate it in accordance with the rights-based social policy approach (Yalman, 2011). In a sense, this approach plays a legitimizing mechanism in the process of the

transformation of the social security system in Turkey through perceiving neoliberal changes as an opportunity to change this employment-based “inegalitarian-corporatists” social protection system (Yalman, 2011).

The literature on social policy has also shaped towards an increased concern on the Southern European welfare regime and similarities/differences of the Turkish welfare regime with/from it. In this respect, a lot of studies has been produced making the comparison of the Turkish welfare regime with those South European countries and examining that whether Turkey can be classified in the Southern European welfare regime properly (See Buğra and Keyder, 2006; Grütjen, 2008).

In the light of the above, this chapter is an attempt to fill the gap in the literature on the transformation of the social security system in Turkey through focusing on the effects of the processes of new constitutionalism and Europeanization as well as national political class struggle embedded to this process. In this regard, the chapter will try to examine the social security reform process with an emphasis on internal and external actors in the making of the reform and evaluate the consequences of the reform in terms of class relations, in particular labor. Previous chapter’s analysis on new constitutionalism and Europeanization will provide significant insights to this chapter because these processes have affected Turkey through the channels of the IFIs and the EU before and during the transformation process of the social security system. Although the view of the institutionalist approach that in analyzing impact of the European integration process on social policy, internal (national) actors and institutions have been more influential in shaping the social policy formation, the thesis will embrace an approach which put both internal and external actors on an equal footing.

As social policy is a comprehensive discipline, this chapter will focus on the main cornerstones of the social security reform particularly. To do this, while in the first part of the chapter, the development of the social security reform and the impact of the internal and the external factors in the reform process will be elaborated; in the second part of the chapter, an evaluation of the results of the reform will be analyzed with a critical point of view.

In the first part of the thesis, the role of the IFIs and the EU as well as the stance of the big business and the labor organizations in Turkey will be examined in order to reveal underlying dynamics throughout the social security reform process and class struggle as a

result of which the reform process has been shaped. Before going into details of the reform process, features of the Turkish welfare regime, social security system in particular, will be examined; then, reasons, components and targets of the social security reform will be elaborated with an emphasis on the pension system.

The second part of the thesis will analyze the results of the reform especially on labor with a critical point of view and will try to reveal that what these transformations represent, how this process can be read in terms of class relations, and to what extent Turkey has been a part of this global change in social policy.

5.1. The Way towards Social Security System Transformation in Turkey

As the recent features of the social policy in the world and in Europe particularly during the last thirty years has been set out, it can be said that the transformation of the Turkish social security system cannot be thought separately from these pressures towards neoliberal restructuring of the system. Generally, the social policy understanding has been shaped in the world under the pressures of the process of new constitutionalism in general, and in Europe, under the Europeanization process and the Lisbon Strategy, which have also been a part of new constitutionalism.

As the analysis of Bieling (2011) shows, there has been a general shift in the pension systems in the countries of Europe towards multi-pillar pension schemes as a result of these processes. In the transformation process of social policy, the EU acts according to the principles of the Lisbon Strategy, and endorses the same social policy changes to the member and candidate states including Turkey regarding the social security system. On the other hand, in this process, national business organizations in Turkey have asserted similar reform proposals with those of IFIs and of the EU and have promoted the reform process since it serves to the interests of capital as a whole. As a result, the proposal of the government for reforming the social security system has been shaped under the auspices of national and transnational capital as the AKP government has remained adherent to the arguments of capital towards neoliberal restructuring of the social security system as it has been seen as a financial burden both by governments and the representatives of capital. Therefore, it is possible to say that the neoliberal restructuring of social policy has accelerated during the AKP governments due to its political stance that harmonize conservatism and neoliberalism.

In this process, “the EU [has] provided both a model and a means for all political groups (elites, interest groups such as trade unions, and the general public) to establish a vision of their preferred future, and to grasp the means of realizing the vision in both procedural and substantive change” (Manning, 2007: 497). This impact is called as “cognitive Europeanization” (Guillen and Alvarez from Manning, 2007: 497). Therefore, it is legitimate to say that while the EU has affected the transformation of the social security system in Turkey through endorsing the requirements of the *acquis communautaire* and formal EU policies, it has also influenced the process indirectly through creating a vision on the different sections of the society. In this respect, the adoption of the EU norms and standards in the preparation of the social security reform draft text proves the effects of “cognitive Europeanization”. For example, the representatives of the AKP government have frequently referred to the EU standards and implementations of the EU member states regarding social policy and have drawn attention to the necessity of the social security reform to be a member of the EU (Duyulmuş, 2009). Also, Murat Başesgioğlu (the Minister of Labor and Social Security in the AKP government in 2005, 59th government) stated that they were “seeking a reform package that is in accordance with the European Social Model” (Duyulmuş, 2009). Besides, TUSIAD made direct references to the EU standards on social policy and the necessity to fulfill the requirements of the EU membership. It was frequently stated by TUSIAD that the policies of Turkey should be in coherence with the Lisbon Strategy. In this regard, it was argued that a financially ‘sustainable’ social security system was not only the target of Turkey but also the EU in the context of the Lisbon Strategy. These are the manifestations of the influence of Europeanization on political discourses and elite ideologies that is also identified as “cognitive Europeanization”. Moreover, TUSIAD’s and the government’s precision on constraining the budget deficit with the 3% of the GDP, which is one of the requirements of the Maastricht Criteria, proves their commitment to the EU accession process and its requirements; as a result of which a proposal was launched necessitating the reduction in the social security spending so as not to endanger the economic indicators of the country. This is one of the manifestations of the effect of new constitutionalism and Europeanization on the transformation of the social security in Turkey. Therefore, it is possible to state that, the impact of the interrelated processes of new constitutionalism and Europeanization could be seen both in the policy preparation process and in the policy implementation.

The processes of new constitutionalism and Europeanization have been welcomed and embraced by the AKP and as a one-party government, it has been easier for it to reshape the economy and the social sphere in line with these processes. Therefore, it is to be said that the 2006 reform has differed from the 1999 reform on the grounds that it has represented more comprehensive and full-fledged transformation of the social security system. Throughout this process, the AKP government has benefited from the rule of law discourse and the accession requirements of the EU to legitimize the introduction of harsh neoliberal policies and restructuring of social policies according to the requirements of neoliberal globalization. For example, in a government meeting, Cemil Çiçek (The Justice Minister and Government Spokesman in 2008) said, “the social security reform proposal that is discussed in the Turkish Parliament is related for alignment with the EU *acquis communautaire* as well as our long term economic program” thus framing the reform measures (Duyulmuş, 2009). Also, both the AKP government and the representatives of capital in Turkey have made direct references to the IMF conditionality, which necessitates certain adjustments in the economy and in social policy in accordance with the recommendations of the IMF to benefit from the loans; in this way this reference has eased the ground for the government to introduce harsh changes to the society and the economy when the government has faced domestic opposition. In this process, the AKP governments have promoted the social security reform as if it is good for the whole society through depoliticizing the class character of the changes that is, indeed, in favor of capital. In this regard, it has acted as if autonomous from class interests. In fact, the government has been serving the interests of the capitalist class implicitly through enacting the social security reform that prioritizes market solutions and brings commoditization.

In this regard, it is important to acknowledge that the welfare state is a product of capitalism, it is an instrument of capitalist oppression and it is designed to stabilize capitalism. As Marxist theory argues, the state is a capitalist state; it is not neutral, and it works in the interests of the capitalist class as a whole in the long run. However, the state has a degree of autonomy; otherwise, it cannot act on behalf of the interests of the capitalist class in the long run.

Nevertheless, labor has always been against the policies that bring commodification, aim the shrinking of the social sphere or the welfare state in general. Post-war Keynesian welfare national state was a result of this opposition, the degree of this opposition has produced generous welfare regimes in Scandinavia, for example; residual welfare regimes

in the Anglo-Saxon world. Today, the welfare state has lost its legitimacy as a result of the decreasing importance given to the working class in the global political economy and of the rising neoliberal hegemony. However, pressures of labor against neoliberal policies still become effective in changing some policy outcomes that are against labor. The social security reform process in Turkey in the 2000s has developed similar to that scenario through the pressures of the Labor Platform and has been influential on making some amendments on the reform proposal, which will be explained later.

This part of the chapter will examine this process through touching upon the features of the Turkish welfare regime and evaluating the social security reform process from the 1990s with an emphasis on the role of the internal and external actors in the formation of the reform process.

5.1.1. Features of the Turkish Welfare Regime

Before going into details of the social security reform in the 2000s, it is convenient to have a look at the main features of the Turkish welfare regime in general, and the social security system in particular.

Turkey inherited a social security understanding from the Ottoman Empire based on charity and benevolence, which includes limited and traditional security mechanisms (Gökbayrak, 2010: 144). Also, it is proper to say that social bases of the new Republic of Turkey was constituted with a view of paternalist state approach (Yakut-Çakar, 2007: 104) inherited from the Ottomans, which can be explained as social rights have been the result of “government fiat rather than societal demand” (Aybars and Tsarouhas, 2010: 751).

For the establishment of social security system, workers had to wait until 1946. In that year, the law of Labor Insurance Institution was prepared and following that year social rights of labor were extended including conditions of working accident, illness, old age, disablement and death (Yakut-Çakar, 2007: 104). In 1950, the Retirement Chest was established for civil servants and previous private retirement chests were removed (Gökbayrak, 2010: 145). In 1972, social security system extended to include self-employed. Nonpremium part of the system was established at the end of the 1970s with the acceptance of Social Disability and Old-Age Pension, aiming to give poor people above 65-age monthly pay in 1976, which was a first means-tested social assistance

scheme. The establishment of the General Directorate for Social Services and Child Protection in 1983, Social Assistance and Solidarity Fund³⁹ in 1986, and the Green Card service in 1992 was other improvements in the field of social security. Although the establishment of the Social Assistance and Solidarity Fund in 1986, it failed to provide “rule-based, systematic, transparent and universal social assistance” (Yakut-Çakar, 2007: 107).

In the 1961 Constitution, Turkey was identified as a “social state”. The development strategy of this period, which was ISI, affected the social character of the state positively. Some kind of class alliance made it possible, “where all employees and employers benefited from high wages, high profits and the expansion of domestic demand and the domestic market” (Yakut-Çakar, 2007: 105). These policies were in line with the virtuous circle of the Fordist accumulation regime on the world scale as explained in the previous chapter. Although the enactment of the 1961 Constitution after the military junta in 1960, this period has been seen as relatively including generous social and collective rights. The Constitution of 1961

specified the mode of unionization and collective bargaining and granted the right to strike. The new legal framework for capital-labor relations in Turkey socially embedded the emerging working class right from the beginning. (Grütjen, 2007: 34)

However, these improvements in the social policy was not gained as a result of class struggle as in the most of the European countries; but granted from above as a part of industrialization process in the 1960s’ ISI era (Keyder from Grütjen, 2007: 34). In this regard, it is important to denote that this fact further proves the paternalist approach in the grant of social rights.

The 1982 Constitution (still in effect) was enacted after the 1980 *coup d’état*, which represents the transformation of state-society-economy relations. The constitution of 1982 is more regressive than the 1961 Constitution regarding the social issues, and labor representation. The 1982 Constitution’s suppression of labor rights insulated the authority from societal pressures and excluded organized labor from the political sphere (Sakallıoğlu from Grütjen, 2007: 38). All labor union confederations, strikes, and labor

³⁹ In 2004, this Fund was incorporated into the General Directorate for Social Assistance and Solidarity.

unions' support of political parties were prohibited. In other words, a depoliticization process has been realized, which has still impacts on social, economic and political life.

Social dimension of the state is identified in the Constitution as “everyone has the right to social security. The State shall take the necessary measures and establish the required organizations for the provision of social security” (Article 60)⁴⁰. In accordance with this premise, three main social security institutions (SSIs) operate, which are the Social Security Administration (SSK with Turkish acronyms) for workers, the Retirement Fund (ES with Turkish acronyms) for civil servants, and the Social Security Institution for the self-employed, tradesmen, artists and other independent individuals (BAĞ-KUR with Turkish acronyms)⁴¹. Therefore, an employment based social security system has prevailed “which covered only the formal sector as contributions were mandatory for employees and employers in both public and private sectors, whilst there occurred in due course a partial extension of the system to the self-employed” (Huber and Haggard & Kaufman from Yalman and Bozkurt). This system has been called as pay-as-you-go (PAYGO) meaning that providing pension benefits in return for compulsory participation in retirement. In addition, considering health-care services, the Green Card works as a health insurance program for people excluded from health coverage (Yakut- Çakar, 2007: 107).

It is proper to say that social protection system in Turkey mostly relies on the social insurance especially until the 1980s, as there has been no anti-poverty mechanism (Arın, 2002: 75). Also, the system lacks social assistance mechanisms directed to dependents. While the ES has offered relatively privileged social security services, large percentage of the population has been excluded from the coverage (Aybars and Tsarouhas, 2010: 752). Under this structure, in order to contain social tension as a result of unemployment and poverty, informal mechanisms and clientelistic relations have developed (ibid.). For example, recently, the AKP governments' social policy orientation is criticized by many on the grounds that its distribution of social assistances are based on traditional support mechanisms, informal and clientelistic relations, and networks (See Öniş, 2009; Buğra

⁴⁰ The Constitution of the Republic of Turkey (Downloaded from <http://www.sgk.gov.tr> on 30 July 2012.)

⁴¹ These institutions have operated until their combination under a single social security institution in 2006.

and Keyder, 2006) rather than providing objective and institutionalized social services. Also, family, for instance, plays an important role⁴². The family acts as

a proxy for welfare institutions for individuals who fall outside the coverage of formal social security schemes, assuming reliance on either their family, some extended forms of kinship or other social networks such as neighbours (Mingione and Saraceno from Yakut-Çakar, 2007: 107) ... [and it acts] as a social clearing house where one member attached to formal employment can provide access to health services for informally employed members of the family as dependents (Yakut-Çakar, 2007: 107-108).

In a reciprocal way, the Turkish state has taken “very little responsibilities” for services provided by the family (Grütjen, 2007: 68).

In the light of these components, the welfare regime in Turkey has been identified as “indirect and minimalist” (Arın, 2002: 75) like many other less developed capitalist countries compared to advanced capitalist countries. In Turkey, relatively high ratio of the population works in the informal sector and agriculture, and there is a lack of “tradition of full employment” and there exist low rates of labor participation and employment. There is a lack of “objective and institutionalized” social rights; instead, they “dependent on ad hoc discretionary administrative decisions”. For “dependents of the actively insured”, there exist “partial social insurance systems”. As a result, there are different coverage of benefits for formal wage earners, professionals and self-employed; there is a lack of unemployment insurance but temporary or limited social assistance “directed to the worst cases of dire need and poverty” exists. Shortly, “indirectness, minimalism and discretionary nature” are main features of the less developed capitalist countries’ welfare regime (Arın, 2002: 75).

Similarly, according to Buğra and Adar (2008: 2, 11), Turkish welfare regime is a “dualistic welfare regime”, meaning that on the one hand a “well-developed corporatist social protection system” exists; on the other hand, large percentage of the population is excluded from this system. Buğra and Adar (2008: 2) identify Turkish welfare state as “unmature” because peasant agriculture and informal sector take important share in the labor market. Therefore social protection lacks “rule-bound contractual character”. Also,

⁴² See, Grütjen, 2007: 63-68.

the role of the family is significant in providing compensatory social benefits and clientelism exists as an important factor in social policy.

Recently, with the impact of the school of historical institutionalism, a lot of studies have been flourished on the issue of whether the welfare regimes of less developed, post-communist and the new EU-candidate countries can be classified under the Southern European welfare regime introduced by Ferrera (1996). (See Arın, 2002; Buğra and Keyder, 2006; Grütjen, 2007) Turkey has been a contested subject of this issue.

Grütjen (2007: 112) argues that in the Turkish welfare regime social responsibilities are divided between the state, market and the family. So, one cannot speak of the existence of universalistic social rights in Turkey as it has been in the Scandinavian countries. For Buğra and Keyder (2006), and Grütjen (2007; 2008), the welfare regime of Turkey carries important features of the Southern European welfare regime; therefore can be classified under this category. According to Buğra and Keyder (2006: 212) Turkish welfare regime resembles to the Southern European welfare regime due to fragmented and corporatists character of the social security system; prevalence of informal, self-employed and unpaid family work; adequacy of social assistance schemes and important role of the family. For some scholars, Turkey stands between Middle Eastern and South European welfare models and represents a “hybrid” model sharing the characteristics of both models (Aybars and Tsarouhas, 2010). This issue deserves more detailed analysis and open to multi-dimensional discussion, thus the thesis only draws attention to the issue and leaves this discussion out of scope.

As a conclusion, it can be said that social security system in Turkey provides different benefits to different sections of the society according to their employment status (Güzel, 2005: 65). The contributions of and the benefits from the system are not equal for citizens. While the ES provides relatively generous benefits to civil servants, BAĞ-KUR lacks this generosity. Also, not all the population is covered by the social security system. In order to be covered by the system, having a job in the formal sector is set as a requirement. Similarly, the unemployment insurance scheme provides benefits to one having worked in the formal sector. Therefore, this system excludes, for instance, seasonal or casual workers (Adaman, 2003: 28). Considering the welfare regime in Turkey, as Grütjen (2007: 68) states, although social provision has been shared between the state, market and family thus far, after the recent changes in the social security system

that will be elaborated in the following parts, “actors beyond the state and the family will gain more significance”.

5.1.2. Reasons and Background of the Social Security Reform

The restructuring of social policy in Turkey, particularly the social security system, is a part of the general transformation in the world towards neoliberal restructuring and the workfare state. In other words, as Elveren (2008: 212) argues, “Turkey is not independent of the retrenchment of the welfare state in the world in general and in Europe in particular”. Therefore, it is proper to examine the transformation of the social security system in Turkey, in the light of the political economy of transformation of social policy worldwide, which has been shaped along with neoliberal principles. The previous chapters have constituted a basis for this analysis.

It has generally been agreed from the different sections of the society that the social security system of Turkey has significant structural problems, which necessitates the restructuring of the system. However, the problems of the social security system in Turkey do not stem from reaching of the limits of the welfare regime in Turkey as a great deal of the literature on this issue put it. On the contrary, the problems originate from the employment-based protection of the social security system; structural problems of labor markets; changes in the employment forms; and weaknesses in the management understanding of the system (Gökbayrak, 2010: 143). In other words, the problems of the system originate from the lack of a comprehensive and efficient social security policy from the beginning (Güzel, 2005: 68).

The reasons of the reform was explained by the government as aging population; the inability of the existing system to provide protection against poverty; negative impact of the social security institutions’ financial deficits on the economy; and the insufficiency of the existing system in covering all population under the social security system.

Since the 1990s, the lack of financial sustainability of the social security system has been seen as the main reason for a comprehensive reform by different sections of the society. According to the Prime Ministry of Turkey (2007), financial problems of the social security system affects the economy negatively through putting pressure on public finance and through increasing the public sector borrowing requirement, interests rates, inflation, unemployment; while decreasing investments and deteriorating income

distribution. It is very clear that the reasons of the reform from the beginning have been set in a financial point of view prioritizing financial issues.

Although the thesis focuses on the social security transformation in the 2000s, it would be inappropriate to separate the processes and reasons of the 1999 reform from the 2006 reform. Therefore, the 2006 reform is examined in this thesis as a continuation of the reform process began in the second half of the 1990s and symbolizes the same understanding on the social security system.

The recent financial problems of the system, for many scholars, have been mainly the result of some populist policies such as eliminating the minimum retirement age, which has weakened eligibility requirements and has created some problems accelerated in the period of 1986-2002 (Brook and Whitehouse from Griffiths, 2008: 4). Also, governments' use of the social security funds to finance government expenditures further exacerbated the deficits of the system (Buğra and Keyder, 2006: 215).

For example, Alper et.al (2004)⁴³ explains the reason behind the 'crisis' of the social security system as

growing social security deficits caused an alarming increase in the public sector's borrowing requirements, proving to be unsustainable by the end of the 1990s and necessitating a major pension reform and a rehabilitation of social security system at large.

The reason of decreasing active-passive ratio of the Turkish pension system was another reason and "the fall in this ratio in Turkey was [identified] due primarily to exceptionally low entitlement ages for pension benefits⁴⁴ (minimum retirement age)". Also, for Alper et.al (2004),

the mismanagement of pension funds resulting from actuarially unsound entitlement ages and other populist practices introduced by policy makers gave rise to the pension crisis of the 1990s, although Turkey still had a predominantly young population.

⁴³ Downloaded from <http://www.bilkent.edu.tr/~sayan/Research/TUSIAD/ExecutiveSummary.pdf> on 27 July 2012.

⁴⁴ The 49th government decreased the retirement age limit to 55 for women and 60 for men, so called "Super Pension", which has been seen as one of the significant reasons of the social security system crisis.

In addition to the acknowledged problems of the system, a study dated 1995 under the financing of the WB with the conduct of the ILO, which puts existing problems of the system further facilitated the reform endeavors. The report of the WB, *Averting the Old Age Crisis*, in 1994, and the study of TUSIAD, *Restructuring in the Turkish Social Security System*, in 1999, which shows certain parallels with the *Averting the Old Age Crisis*, also affected the social security reform discussions through proposing a three-pillar social security system. According to the report of TUSIAD, first pillar of the system would ensure a minimum social protection to all; then the second pillar would provide compulsory private insurance and the third pillar would provide voluntary private insurance schemes. Health services would be supplied by the General Health Insurance covering all population and a Health Finance Insurance would establish. (Gökbayrak, 2010: 146).

In the light of the reasons above, the need to extend the average contribution period or shorten the benefit collection period was put in the pension reform proposal in 1999 foreseeing the incrementation of the entitlement age to 63 for women and 65 for men. However, the proposal was soon modified with the entitlement ages lowering to 58 for women and 60 for men as a result of pressures of trade unions and opposition groups.

The reasons of the 2006 reform were similar with the 1999 reform. Because the changes in the 1999 reform were parametric and did not bring structural changes to the system (Güzel, 2005). Also, as it will be explained in the following parts, the 1999 changes were not seen adequate to solve the problems of the system from different sections of the society.

The WB's 1994 report, *Averting the Old Age Crisis*, forms the basis of the reason of the social security reform in many countries, as well as the 2006 reform in Turkey, which is aging population. For this report, the most important increase in the old age, or the old age crisis, will occur in the developing countries that have young population (World Bank, 1994). This argument constitutes a crucial reason for the social security system reform in the world. Similarly, for Turkey, the government identifies the situation in Turkey as a potential problem for the social security system due to increasing aging population and oncoming inadequacy of active population to compensate the pensions in the future. Also, the high dependent ratio in the system, meaning that the increase in the ratio of beneficiaries without paying premium, has been asserted as another reason of reform.

The insufficiency of the existing system in covering all population under the social security system has been specified as another reason, which has been portrayed by the government as a result of the use of the social security institutions' funds for financing the deficits of the pension system; therefore channeling of these funds to the retired people rather than poor. More importantly, financial problems of the social security system affect the economy negatively; therefore constitutes the main reason of the reform for the proponents of the social security reform.

The Ministry of Labor and Social Security⁴⁵ similarly specified the reasons of the 2006 reform as follows: 1) Change in the structure of the population (aging population) 2) Financial problems (deterioration in the active-passive ratios as a result of early retirement; decrease in the premium incomes; high level of the informal employment; high level of income replacement rate; low level of premium payment) 3) The lack of standard unity between the rights and responsibilities of social security institutions.

In the 2000s the ground was heated again with the interventions of the IFIs and the arguments of the interests groups on the need for a reform; thus the social security reform has remained for a long time on the agenda as one of the most debated topics both in the politics and the academics. Especially, the IFIs and TUSIAD have been pressing for the adoption of a new social security regime that would give private sector an important place and alleviate the financial problems of the system. A lot of studies, and projects were conducted; as well as press releases; journals and bulletins gave considerable place to this topic published from the different sections of the society during this process. The following part of the thesis makes an analysis of the views and the role of the IFIs, the EU, business associations and union confederations in the light of these materials during the reform process that began in the mid of the 1990s and has continued in the 2000s.

5.1.3. External and Internal Actors in the Social Security Reform Process

5.1.3.1. External forces in the making of the social security reform:

The transformation of social policy in Turkey, especially the social security reform process that reached its climax in 2006, is not a sudden and uncalculated process; but it is

⁴⁵ Downloaded from http://www.alomaliye.com/2008/sosguv_getirilenler.pdf on 27 July 2012.

a part of continuing process from the mid-1990s under the surveillance of international financial institutions, mainly the IMF and the World Bank (WB from here on), and supranational institutions, namely the EU. Specifically, the year 1999 signifies the increase of the importance and the weight of the EU and the IMF since in that year Turkey's EU candidate status was granted and a three-year stand-by agreement was approved with the IMF. As Öniş (2004) states,

The Turkish economy in the post-1999 era has, in fact, been confronted with a double external anchor, namely simultaneous IMF and EU discipline, which has clearly been pushing Turkey rapidly in the direction of institutionalizing reforms and greater fiscal discipline.

As the EU acknowledged, its structural reform program was in line with the prescriptions of the IMF and the WB and “the standard bearers of the neoliberal agenda” (Yalman, 2008) and as it has been desired, it represented a “transition from previously short-term oriented *ad hoc* policy decisions towards a more medium-term-oriented and rule-based policy approach” (EU 2004 from Yalman, 2008).

Elveren (2008: 217) asserts that

the “neoliberal paradigm” and the “European paradigm” in social policies are not “two different alternatives for Turkey and that the country is [not] switching from the former to the latter. They are slightly different faces of the same economic and social philosophy. This fact can be seen easily in the previously mentioned institutions' reports on Turkey, in which the EU encouraged Turkey to follow agreements and stabilization programs with the IMF and to follow reforms and programs supported by the WB and in which the IMF and WB advised Turkey to continue reforms in its EU accession process.

Therefore, it is convenient to say that in this process Turkey has been under the external influence of two actors: the international financial institutions (the IMF and the WB) and the EU.

5.1.3.1.1 The IMF

Turkey's relationship with the IMF dates back to old times; but it is appropriate to consider post-1980 period as it marks a shift from an inward-looking, import-substituting economic regime to a certain extent a slightly different version of it in practice, which is

outward-looking, market-oriented and liberal economic regime for Turkey. In other words, this process can be read as a radical shift for Turkey in terms of state-society-economy relations. In this period, macroeconomic instabilities were followed by a series of economic crises, as a result the IMF got on the stage with its ‘stand-by agreements’ and the World Bank with its structural adjustment programs. The thing is that, these institutions were not only interested with Turkey’s fiscal and financial conditions but they have also been very influential in shaping Turkey’s pension reform, restructuring of health services and social assistance (Aybars and Tsarouhas, 2010: 753). Actually, the IMF’s and WB’s insurances on social security reform for Turkey have been a part of their economic and financial policies aiming to decrease public expenditures. It is clear from the loan agreements in 1999, 2002, and 2005 that “at the outset of each of these loan agreements, pension reform has been among the economic reforms required by the IMF, and most if not all of the Fund’s statements and reports have mentioned it as an ongoing priority” (Griffiths, 2008: 8). It was put in the IMF stand-by agreement text that main component of reform efforts aiming the improvement of public finance was a comprehensive social security reform that was consolidated by short-term measures directed to budget balance. Also, benefiting from the credits was related with the enactment of the reform (Erdoğan, 2006: 214-215). Therefore, the transformation program was realized under the IMF surveillance while the WB provided necessary loans and grants (ibid.).

Turkey clearly states in the *Memorandum of Economic Policies* in 1998 prepared for the IMF, before the 1999 reform, that

A sweeping reform of the social security system is obviously needed ...The government will continue its efforts to forge a consensus for major reforms that would eliminate the deficit of social security within a relatively short period through appropriate increases in the minimum retirement age and minimum contribution period, and an expansion of the reference period for calculating pension benefits coupled with an increase in the ceiling on wages subject to contributions. As a first step, the government will request early parliamentary approval for raising the minimum retirement age for existing workers to 50 for women and 55 for men, and to 57 for women and 60 for men for new entrants to the labor force, while requiring that new entrants contribute a minimum of 7,200 days for women and 9,000 days for men to be eligible for full benefits. Also, before the end of 1999, improved cost

controls and wider application of user fees will be introduced in the health care system.⁴⁶

Although both the IMF and the WB have been calling for social security reform for years due to imbalances of the system, the launch of structural reform had to wait until 1999. Most of the changes mentioned in the Memorandum were realized in 1999 and others in 2006 reforms, which proves the key role of the IMF in directing the Turkish state towards restructuring its social security system.

However, the 1999 changes on social security system did not satisfy the IMF; thus, the IMF's emphasis on a full-fledged reform has continued. In *IMF Executive Board Completes First and Second Reviews Under Stand-By Arrangement for Turkey* dated 2005, the IMF states, "ensuring the long-run viability of the social security system will require fundamental changes to the pension system. While delays in this area are unfortunate, the authorities' commitment to accelerating social security reforms is welcome" (Press Release No: 05/271, 2005).

In 8th *Letter of Intent* to the IMF, Turkey specifies his intent to go on implementing the structural reform program to improve Turkey's fiscal performance (Letter of Intent, 2004). Turkey continues with stating the targets of

unification of the existing three pension institutions and an objective to place the pension deficit on a firm downward path by 2007 and to reduce it to 1 percent of GNP over the long term. In the area of health insurance, [Turkey] plan to have a phased introduction of universal health coverage with any additional expenditures covered by compensatory measures.⁴⁷ (Letter of Intent, 2004)

These statements show that the IMF has been a determinant factor before and during the transformation period of social security system through expressing the necessity of social security reform. Obviously, the social security reform has been put as a condition to benefit from the IMF credit, as this target has been one of the components of the IMF structural reform program. In this respect, the IMF conditionality could be evaluated as manifestation of new constitutionalism in the process of social security reform in Turkey.

⁴⁶ Downloaded from <http://www.imf.org/external/np/loi/062698.htm> on 24 July 2012.

⁴⁷ Downloaded from <http://www.imf.org/external/np/loi/2004/tur/02/index.htm> on 24 July 2012.

5.1.3.1.2 The WB:

In 1994 report, *Averting the Old-Age Crisis: Policies to Protect the Old and Promote Growth*, the WB enthusiastically defends privatization of social security systems as an alternative to the PAYGO system. With this publication, the WB has begun to promote a new pension reform scheme worldwide. The WB's pension reform proposal is based on three pillars:

- 1) a publicly managed system with mandatory participation and the limited goal of reducing poverty among the old; 2) a privately managed, mandatory savings systems; and 3) voluntary savings (World Bank, 1994).

This scheme has been interpreted (Fine, 2009: 7) as flexible, giving opportunity to mix these reforms with existing social security systems in many countries, especially in Latin America and Central and Eastern Europe, not to forget Turkey. Therefore, the reform proposal has spread all over the world and accepted in 26 countries in addition to Chile in the years between 1992 and 2004 (Fine, 2009: 7). In other words, as Fine identifies (2009: 7) the reform proposal allows combining financial participation of the private sector and state support for social reproduction, which has eased spread of the reform throughout the world.

As a part of this transformation, the WB has supported the transformation of the social security system in Turkey. As Turkey Country Director Andrew Vorkink has stressed, the WB has always been ready to help Turkey and support the social security reform through loans and grants as well as thorough recommendations and predictions based on best practices worldwide⁴⁸ (Vorkink from TISK). Under the guidance of the WB, a two-stage process was foreseen for Turkey including short-term measures and longer-term (administrative) perspectives (Aybars and Tsarouhas, 2010: 754; Yakut-Çakar, 2007: 120). For the first stage, the reform included increases in the minimum retirement age and increases in the minimum contribution period. Both changes were realized in the 2000s. For longer-term perspectives, the reform aims to build a sustainable system. This period started in 2004 and included administrative reforms based on four pillars: the pension reform, the unification of the existing social security organizations, the restructuring of social assistance and the establishment of universal health insurance system (Aybars and

⁴⁸ Downloaded from <http://www.tisk.org.tr/yayinlar.asp?sbj=ic&id=1448> on 24 July 2012.

Tsarouhas, 2010: 754), which are in line with the recommendations of the WB. The three pillars of the reform have been realized in the 2006 reform process aside from the third pillar, social assistance, which has never been discussed in the Parliament (Yakut-Çakar, 2007: 126).

5.1.3.1.3 The EU:

On the other hand, the EU strongly appeared as another external actor especially with the beginning of Turkey's accession negotiations in 2005. As Yalman (2008) puts it, "the EU emerges as a key player which changes the rules and the structures of policy making for the member states as well as for others aspiring to be full members". Related with that, "many new and prospective members of the EU are faced with the dual tasks of political and economic development and adjustment to a rapidly changing international environment" (Yalman, 2008). Social policy has been one of the areas of this transformation in which the EU as well as the IMF and the WB have been trying to change "institutional structures established for different purposes to fit the rules of the game" (World Bank from Yalman, 2008).

EU accession process is a long process that necessitates the adoption of regulations, standards or body of EU law, which constitute the *acquis communautaire*. Basic criteria for convergence, the Copenhagen criteria, comprise political and economic requirements such as stable democratic institutions, the rule of law, human rights, a functioning market economy and capability of withstanding the competitive pressures of the union economy. Therefore, the influence of the EU on candidate countries is very remarkable.

Some scholars argue that the EU has been less influential on Turkey's social (policy) issues in comparison with the IMF and the WB (Yakut-Çakar, 2007: 126). However, the influence of the EU is very evident considering especially the labor market regulations in Turkey, which is a product of the EU accession process (Aybars and Tsarouhas, 2010: 753). However, I do not have space to provide details about labor market regulations. Also, the stress on the necessity of a financially sustainable social security system in nearly every progress reports of the EU proves non-negligible role of it in the transformation process of the social security system in Turkey.

Although privatization of social security system is not directly mentioned in the membership criteria⁴⁹ of Turkey, current scheme's need for reform has been always on the agenda during the accession process. In this ongoing process, since 1998, "financial instability" and reform requirement have been emphasized in every "Regular Report on Turkey's Progress toward Accession" and Council Decisions of the EU (Elveren, 2008: 216).

The regular progress reports and accession partnerships show the EU's emphasis on social security reform indirectly within the framework of the issue of "financial sustainability". For example, in 1998 progress report, the EU draws attention to "growing deficit in the social security system (3% of GNP)", and points out the convenience of the IMF stabilization program in terms of its "aims to restructure the budget and restrict the money supply to the economy, launch the reforms needed to strengthen public finances (above all the social security accounts - health and pensions)" (European Commission, 1998). In 1999 report, also, the EU repeats its stance on the pension system that constitutes a heavy burden on public finance due to generous provisions of the system (European Commission, 1999: 21). Furthermore, in 2000 report, the EU once again states that a social security reform is "urgently needed" and remarks that "the social security system continues to be in serious financial difficulty". (European Commission, 2000: 49). In 2001 report, the EU states that "some basic preparatory work has taken place with respect to co-ordination of social security" but it "needs to continue and the necessary administrative capacity in this area will need to be built up". (European Commission, 2001: 68).

In each of the Accession Partnerships (2001, 2003, 2006, and 2008) it has been stated as a target that Turkey should "continue to implement appropriate fiscal and monetary policies with a view to take adequate measures to preserve macroeconomic stability and predictability [and] implement a sustainable and effective social security system" (EU, 2008).

⁴⁹ Requirements of accession are as stated in the Copenhagen Criteria: Any country seeking membership of the EU must conform to the conditions set out by Article 49 and the principles laid down in Article 6(1) of the Treaty on EU. To join the EU, a new Member State must meet three criteria: political: stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities; economic: existence of a functioning market economy and the capacity to cope with competitive pressure and market forces within the Union; acceptance of the Community acquis: ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union. (European Union Official Web site)

The most important problems for the social security system are the lack of financial stability due to general macroeconomic imbalances, the presence of an informal sector and administrative and management problems. Turkey should take the necessary measures to ensure financial stability of the social security system and effective co-ordination among the different social security institutions (European Commission, 2002: 95).

It has been stated that “inefficiencies, deficits and cases of irregularities in the pension system and social security institutions [are related with] insufficient administrative capacity” in the 2002 regular report. Furthermore, it has specified that Turkey should continue its efforts to streamline and co-ordinate its social security institutions in accordance with EC guidelines.

Obviously, the approach of the EU to the social security reform has been limited with economic and financial aspects; there is no mention of possible consequences of the social security reform on the society. In this respect, the effects of the EU’s pro-market and financial-based understanding of the social security on Turkey will be evaluated in the last part of this chapter.

5.1.3.2. Internal forces in the making of the social security reform:

Considering internal forces in the transformation process, one can easily say that the EU (or the process of Europeanization), as an external anchor, has come out to be a legitimatization mechanism for ruling elites, in other words, the “whip of external necessity” compelling Turkey to fulfill necessary criteria for membership (Diez et al. from Yalman, 2008). Put differently, the EU has been seen as providing “the critical external anchor” to support internal democratization efforts, meaning that the rule of law and defeating the Turkish state that has long been seen as an impediment to capital accumulation and democratization by the Turkey’s elite (Yalman, 2008). Similarly, the IMF loans, given under the condition of making necessary adjustments in the economy in accordance with the recommendations of the IMF, eases the ground for the government to introduce harsh changes to the society and the economy when the government faces domestic opposition in the reform process. Drazen (2002) explains that

conditional lending plays a positive role when a government faces domestic opposition and the IMF's lending affects the welfare of the opposition group in question. That is, an IMF loan that is conditional on a country passing certain reform

legislation eases the passage of that reform when the loan in question positively alters the welfare of those who oppose the reform.

The fact is valid for the Turkish case, as the AKP government has faced severe domestic opposition related with its policies in the process of social security reform.

In this process, labor unions and business associations have exercised considerable power and shaped the reform process given a decline in the labor unions' power as a result of anti-labor regulations in the 1982 Constitution and subsequent deregulation of the labor market.

5.1.3.2.1 Business Associations and Employer Confederations as the Representatives of Capital (TUSIAD and TISK cases):

This part will focus on the arguments and the role of TUSIAD particularly in the process of social security reform as well as TISK as they were involved in the process intensively and shaped it at the same time. In this process, TUSIAD, one of the main representatives of the private sector in Turkey, emerged as the important carrier of the social security reform. It has played a significant role in the promotion and consolidation of the reform in accordance with the interests of the capital group that it represents. It has been the adherent advocate of the transformation in Turkey's political and economic conditions through endorsing the process of liberalization and 'democratization'. At the same time TUSIAD has seen social security reform as a necessary part of this process. In the second half of the 1990s, TUSIAD began to emphasize the need for social security reform. It urged the governments to take the necessary steps in order to overcome budget deficits which social security payments created; otherwise, the country would experience macroeconomic instability and problems in social security. It stressed social security deficits as one of the main contributors to instability of the economy (various TUSIAD documents).

The comprehensive publication of TUSIAD (1996), *Retired and Happy*, on problems of and proposals for Turkish social security system shows TUSIAD's endeavors to encourage and support the social security reform. In this report, TUSIAD defines the problems of the system and criticizes the social security funds (SSK, Bağ-Kur, ES) being inefficient for implementing "pay as you go system" (PAYGO) and creating financial imbalance. Furthermore, TUSIAD portrays the Chilean social security reform in this report as an example and defends privatization of the system by describing the Chilean

case as a success story⁵⁰. It clearly states that the existing system needs a structural change. Instead of state-directed public pension scheme, it suggests that there is a need for private pension schemes, which offer individuals to choose between competitive institutions for their savings. TUSIAD states that switching pre-defined (compulsory) contribution pension schemes increases both individual welfare and the performance of the economy.

The reform proposal (“New Pension System”) of TUSIAD, aiming to diminish the involvement of the state but attribute a new role to it as an actor, has been composed of three pillars:

The first pillar to be run by the state is meant to complement the individual retirement plans to be purchased from private companies providing funded retirement benefits to each worker through the second pillar. In other words, the first pillar is intended to provide minimum coverage to every worker who contributed to the system at pre-determined rates so as to make sure that even those who get the lowest returns on their second pillar-retirement plans will have some subsistence level of income. The third pillar will essentially preserve currently available alternatives for the voluntary purchase of individual retirement plans from private companies under the current set up. (TUSIAD, 2004: 8)

In 1999, social security reform was launched including the extension of the average contribution period and shortening of the benefit collection period through increasing the minimum entitlement age. The reform proposal was in line with the suggestions of TUSIAD (1996, 2004, and 2006) towards the establishment of the social security system on a financially sustainable basis in order to ensure the macroeconomic stability and the continuity of the system. However, TUSIAD (2004) does not see the 1999 reform sufficient to eliminate the problems in the social security system.

TUSIAD’s demands also reflect its commitment to the EU norms and the perpetuation of the IMF-World Bank-led structural adjustment policies. Haluk Tükel, the general secretary of TUSIAD in that period, stated the importance of the beginning of the EU accession process for Turkey and stressed Turkey’s responsibilities throughout this process in his speech dated 28th April 2005. It emphasized the requirements of the Lisbon

⁵⁰ “Full” privatization of social security system (i.e., to replace PAYGO with a private system) in Chile in the early 1980s under the Pinochet dictatorship is one of the most important cases in the history of privatization of social security system that has frequently been criticized.

Strategy and the necessity of Turkey's policies to be in coherence with them. Parallel to that, in her speech dated 9th November 2004, Arzuhan Yalçındağ, member of the board of directors and the former president of the commission of social works in TUSIAD in that period, had already stated that a 'sustainable' social security system was not only the target of Turkey but also it was the target of the EU in the content of the Lisbon Strategy. In her speech, she stated that one of the specific targets of the Lisbon Strategy intended for 2010 was the smoothing the way of investment to retirement funds and facilitating investment to the integrated market, which was significant for the deepening of the capital markets. She clearly stated that it was of great importance to restructure the social security system in Turkey in a way so as not to endanger economic indicators of the country. Parallel to that, in its press release dated 12th May 2006, TUSIAD remarked that transfers from the budget towards social security institutions to finance its deficits had reached 4.8 per cent of the national income, which exceeded the relevant requirement – 3 % of the GDP- of the Maastricht criteria. This statement further proves TUSIAD's pro-EU and pro-capital attitude regarding social security.

It can be said that, throughout the process, TUSIAD has become an important interlocutor and a non-negligible partner for the policy-makers in the social security reform process with its direct contacts with the government and through its publications and the media by conveying its proactive stance towards private pension system. The policies of the WB on social security system have been welcomed by TUSIAD in its reports. Also, the arguments of TUSIAD considering the social security reform have been in line with the views of the AKP Government.

TISK has also supported the social security reform and has stressed the necessity of more effective social security system due to financial crisis of the social security systems in the world and has positioned Turkey in this general atmosphere necessitating a comprehensive reform (Pirler, 2008). TISK identifies non-autonomous social security institutions exposed to populist policies of governments; active-passive imbalance as a result of, for example, early retirements; high premiums paid by employees and employers; and increase in informal employment as problems necessitate a structural reform. TISK argues that, the reform should consider reducing the cost for employer through decreasing rates of premium paid for employee, which will eventually enable employer to hire more employees (Pirler, 2004). Therefore, TISK also encourages individual private insurance system.

TISK has also supported the reform process through referring the EU accession process and the requirements of it. In this respect, TISK has asserted that the Maastricht Criteria necessitates the reduction in the social security spending; therefore, a reform is needed, which considers financial and economic constraints (TISK from Duyulmuş, 2009).

However, TISK has not found the reform proposal of the AKP government sufficient. The reason for TISK is that, the reform proposal was not adequate to solve the existing problems and did not provide norm and standard unity (TISK, 2005). Furthermore, TISK criticized the proposal due to its negative stance towards employers and regulations increasing the premium rate of employer (TISK, 2005).

5.1.3.2.2 Union Confederations as the Representatives of Labor (DISK, KESK and TURK-IS):

This part will focus on DISK, KESK and TURK-IS and their arguments throughout the reform process. First of all, during the reform process of the social security system in Turkey, capital has faced with relatively weak organized labor compared to pre-1980 period. The 1982 Constitution's "denial of the class character of the labor" (Yalman from Yücesan-Özdemir and Özdemir, 2008: 169), increasing unemployment, flexible employment forms and the changing conjuncture of the world (the dissolution of the USSR) have been some of the main reasons behind the weakening of the organized labor (Yücesan-Özdemir and Özdemir, 2008: 169).

Labor unions, mainly DISK, KESK AND TURK-IS, opposed the social security reform proposal and argued that the reform proposal did not properly refer structural problems of the social security system therefore it was insufficient to solve the problems of the current system. In the report prepared in collaboration with DISK, KESK, TMMOB and TTB (2006) they argued that, through the social security system, social policy understanding is tried to be reduced into a mere social assistance dimension. For them, this reform treated social rights as commodity goods. Obviously, these organizations proposed that the Law of Social Security Institution (Law No: 5487) and the Law of Social Insurance and General Health Insurance (Law No: 5489), which constitute the social security reform were prepared according to the policies of both the IMF and the WB on the social security system and they are against to the concept of the "social state" existent in the Turkish Constitution.

DISK et al (2006: 11, 12) criticize the argument that the main reason of poverty has been the result of the transfers from the general budget to the social security institutions, identified as “black holes”. Indeed, DISK et al (2006: 11, 12) argue that the problem of the financing of the social security system has stemmed from unemployment and informal employment; therefore, without coping with these problems, it is unrealistic to tackle the problem of social security financing. DISK et al (2006) argue that, in this way, the reform proposal “enables the legitimization of the restriction of social security rights and tries to veil the use of social security funds in line with the needs of capital accumulation”.

DISK et al (2006: 15) argue that there are inconsistencies between the targets and the possible results of the reform proposal. For instance, the reform proposal predicts that the scope of social security will become widespread; but it is a fact that when the scope enlarges, financing becomes harder, which contradicts with the aim of decreasing transfers from the general budget to the social security institutions.

In another report published in 2004, DISK et al argue that, the reform proposal associates social security and poverty, in this way reduces social security to protection against poverty (DISK, 2004 and DISK et al, 2004). Conspicuously, DISK claims that through the social security reform, “the society would become a society equalized at the poverty level” (DISK et al, 2004: 20).

The arguments of KESK are similar with DISK. In a paper published in 2004, KESK criticizes the privatization of Chile’s social security system, which has been portrayed by the IMF, the WB as well as TUSIAD as a success story. Also, KESK points out that the social security reform processes of both Turkey and Chile carry certain similarities with each other (KESK, 2004).

TURK-IS bases its analysis to economic and financial issues, in particular active-passive balance of the system, in this way TURK-IS differs from other (DISK and KESK) confederations. TURK-IS (2006) mostly agrees with the arguments of the reform proposal that economic instabilities have affected actuarial balance of social security institutions negatively. In addition, TURK-IS admits that populist policies of governments such as decrease in the retirement age have deteriorated actuarial situation of these institutions further. However, TURK-IS rejects restriction of social rights through showing deficits of these institutions as a reason of reform and putting on the

burden of mismanagement to labor and employer. As it is understood from the argument of TURK-IS, the deficiencies of the system are related with mismanagement of the institutions. For TURK-IS, similar with DISK and KESK, it is apparent that the reform cannot solve the problems of the system with this proposal. As a matter of fact, 1999 reform could not solve the problems of the system according to TURK-IS; on the contrary, it has made worse the conditions today.

5.1.4. Components and Targets of the Social Security Reform

Turkey launched its first social security reform in 1999⁵¹ with the Unemployment Insurance Law (Law No: 4447) to fulfill the IMF requirements in order to benefit from the loan. Entitlement age was increased to 58 for female workers and 60 for male workers and an 8-year transition period was foreseen. Also, the indexation period for calculation of pension benefits was extended and increases in the pension payments were indexed to consumer price inflation (CPI). The law was criticized by the reason of putting civil servants beyond the scope of the changes. Besides, in order to reduce reactions to the changes, the Unemployment Insurance Law was enacted (Gökbayrak, 2010: 147). In 2001, as a result of pressures from labor unions and opposition parties, main opposition party in the Parliament appealed to the Turkish Constitutional Court with the reason that the law violated the equality principle and rights of workers due to increases in the entitlement age. As a result, the transition period was extended to 2020. This change, especially, as the result of the annulment was seen as making the reform ineffective; thus necessitates a further reform (Alper et al, 2004).

Clearly, the 1999 reform was not seen adequate to eliminate problems of the system and more radical changes were desired from the proponents of the social security reform argument. As a result, in the 2000s, new reform quests have been on the agenda in line with the general transformation in the social security systems in many countries worldwide.

In 2001, private pension system was introduced as a second pillar (Law No: 4632). The aim of this privately funded pillar in the pension system was “offering a variety of

⁵¹ The 57th coalition government headed by Prime Minister Bülent Ecevit of the Democratic Left Party (Turkish acronym DSP); Nationalist Movement Party (MHP); and Motherland Party (ANAP).

additional coverage schemes without impacting the financial bottom line of the public coverage”. Also, the voluntary scheme is expected to contribute to increased savings (and thus the capital market), while providing opportunities for better pensions for individuals” (Adaman, 2003:30-31). This system is based on voluntary participation; therefore it is complementary and it does not constitute an alternative to public social security system (Gökbayrak, 2010: 147). To incentivize private pension system, with the Law No: 4697, tax advantages were introduced, which includes reducing premiums from the income tax base (Gökbayrak, 2010: 147). For Gökbayrak (2010: 147), this change did not represent privatization of the individual pension system; but it worked as an incentive for future changes in the field of individual pension. Also, as she states, increased limitations put on the social rights provided by the state further support this incentive (Gökbayrak, 2010: 147).

Reform studies accelerated in the period of the 58th government⁵², the AKP government, in the content of Emergency Action Plan⁵³ in 2002. Various IMF documents during several years have stated the necessity for Turkey to complete the pending reform process; as a result, the 2005 loan agreement triggered the reform process as a condition to make use of the loan.

A four-pillar restructuring was foreseen by the reform proposal: institutional structure, pension, health and social assistance. In other words, the components of the reform was presented as follows⁵⁴: 1) constitution of new institutional structure (unification of the three social security institutions) 2) construction of a single pension system in which the rights and the responsibilities are equalized and which is financially sustainable 3) constitution of the general health insurance system 4) construction of the General Directorate of Nonpremium payments and Social Assistance.

Targets of the reform has been set as

enabling the uniformity of norm and standard in terms of insurance rights and responsibilities; constructing the regime of general health insurance system that will

⁵² The one-party regime of the AKP for the period of 18.11.2002-14.03.2003

⁵³ Emergency Action Plan (Downloaded from http://www.belgenet.com/eko/acileyem_161102.html on 28 July 2012.

⁵⁴ The Ministry of Labor and Social Security (Downloaded from http://www.alomaliye.com/2008/sosguv_getirilenler.pdf on 27 July 2012.)

provide equitable and just [health] service to all citizens; and providing more efficient protection to poverty (ibid.).

In addition, with the reform, it has been foreseen that transfers from the general budget to the social security institutions will be eliminated, budgetary deficit will decrease and the goal of attaining primary surplus will be achieved (Güzel, 2005: 73). Also, as it is stated in the 8th Letter of Intent, if the social security institutions will merge, the deficits of these institutions will continuously decrease, and these deficits will be limited with %1 of the GNP in the long run (Güzel, 2005: 73).

The Law of Social Security Institution (Law No: 5502) entered into force on 20.05.2006 and the three social security institutions were unified under the name of Social Security Institution. Then, the Law of Social Insurance and the General Health Insurance (Law No: 5510) was published in the Official Gazette dated 16.06.2006. However, the Republican People's Party, the main opposition party, and Ahmet Necdet Sezer, the 10th President of the Republic, annulled the law, which resulted with the cancellation and the suspension of execution of the some of the articles of the law. The President Sezer indicated the reason of the annulment as the infringement of the principle of "social state" in the Constitution and restructuring the social security system merely on the basis of actuarial balance⁵⁵. The decision of the Constitutional Court was pointing out the loss of social rights for civil servants due to the related articles of the reform bill. The enforcement date of the law was delayed to 01.06.2008. Finally, with the Law of Amendments on Social Security and the General Health Insurance Law and Some Decree Laws (Law No: 5754), some articles of the Law No: 5510 that had been cancelled by the Turkish Constitutional Court were reconsidered and a lot of changes were made in the Law No: 5510, which eventually entered into force on 01.10.2008⁵⁶.

With the reform, the retirement age has been set at 58 for women and 60 for men until 2035 and a gradual increase has been foreseen until 2075 to reach 68 years for both women and men to become eligible for retirement. The income replacement rate has been arranged to 2,5% for the period of 2006-2015 and 2% for thereafter. The premium level has been raised from 7000 days to 9000 days first, and then decreased to 7200 days as a

⁵⁵ President Sezer did not want annulment reasons to be published. The report prepared by DISK, KESK, TMMOB and TTB gives place to the reasons of veto. See DISK, KESK, TMMOB, TTB, (2006) "Sosyal Sigortalar ve Genel Sağlık Sigortası Yasası'na İlişkin Görüşlerimiz", *DİSK'in Sesi Dergisi Özel Eki*, 86-53.

⁵⁶ Downloaded from <http://www.isvesosyalguvenlik.com/anasayfa/dosya11.htm> on 27 July 2012.

result of the opposition of the Labor Platform. Considering health services, a transformation have been realized under the influence of the World Bank's *Transformation of Health* project. In accordance with that, universal social health insurance has been introduced by the establishment of an autonomous Health Fund. Also, the reform has brought a minimum package of health services, a public-private mix of service provision, family physicians in the primary level services, and performance criteria. (Yakut-Çakar, 2007: 123-124)

The reform process has not been smooth but a lot of opposition has been raised, especially from the labor side. Labor organizations have reacted negatively during the reform process. DISK, KESK, TMMOB and TTB have argued that the Law of Social Insurance and General Health Insurance has ignored the rights and demands of workers and poor, has lacked social compromise and has infringed the principles of 'equality', 'social state' and 'social security right' in the Constitution (DISK et.al, 2006: 2). For DISK et al (2006), the reform process is a part of the transformation of the social state. Through this reform, the state leaves the individuals to the hand of financial markets.

Various labor organizations and main labor union confederations have constructed the Labor Platform⁵⁷ and organized many strikes and protests to oppose the social security reform because of the government's ignorance of their demands in the preparation of the draft bill of the reform. Labor platform clearly objected to the reform, which consists of the prescriptions of the IMF and the WB (Koç, 2001). For example, on 15 March 2008, the Labor Platform organized a two-hour warning strike to protest the reform (Griffiths, 2008: 7). As a result of these reactions, the government decided to bargain with the labor unions (BSB, 2008: 252). Indeed, the government's recourse to the Labor Platform was a "tactical" and "cynical" attempt in order to be seen in favor of social consensus (Coşar and Yeğenoğlu, 2009: 41, 42).

Out of 19 headings of the Labor Platform, 11 were included in the Law No: 5754. For example, slight changes were made in the articles about retirement age, premium payment, income replacement rate and updating factor as a result of the demands of the Labor Platform. However, the Law No: 5754 did not include all the demands of the labor;

⁵⁷ Labor Platform consists of TÜRK-İŞ, HAK-İŞ, DİSK, KESK, KAMU-SEN, MEMUR-SEN, Türkiye İşçi Emeklileri Cemiyeti, Tüm İşçi Emeklileri Derneği, Tüm Bağ-Kur Emeklileri Derneği, TMMOB, Türk Diş Hekimleri Birliği, Türk Eczacılar Birliği, Türk Tabipleri Birliği, Türk Veteriner Hekimleri Birliği, and TÜRMOB. See Koç, Y. (2001) Emek Platformu, Türk-İş Eğitim Yay. No.72, Ankara.

therefore did not satisfy the expectations of the Labor Platform. Changes were very limited⁵⁸: with the Law No: 5510, period of premium payment was foreseen to be increased gradually from 7000 days to 9000 days for SSK pensioners to equalize with other two social security institutions. As a result of the bargains between the AKP government and the Labor Platform, payment of premium was decreased to 7200 days. Also, with the Law No: 5510, new regulations came into place in the replacement rate, which is an important parameter in the calculation of the retirement pay. With the current legal regulations and implications in 2008, the replacement rate for a social insurance holder was 3.5% for the first ten years, 2% for the following 15 years and 1,5% for every consecutive year cumulatively. For example, the retirement pension of a covered employee was determined with a rate of 65%. However, the new social security bill was decreasing the replacement rate as 2% and suggesting a social insurance contribution payment for 9000 days. According to the new regulation, an employee contributor who paid contributions for 30 years was going to receive a retirement pension with a total replacement rate of 50%. As a result of agreement between Labor Platform and Government, a replacement rate of 3% for first ten years and 2% for every consecutive year cumulatively was accepted. Another debated issue was updating factor. Before the draft law, updating factor was composed of Consumer Price Index (CPI) and %100 of the growth in the Gross Domestic Product (GDP). However, after the bargaining of the Labor Platform with the government, %30 of the growth in the GDP was accepted compared to the proposal of the government, which was only %25. The result prevents pensioner to get increase from the growth in the GDP.

Different sections of the society, including scholars, labor unions as well as some business organizations have share the idea that the social security reform has not produced appropriate solutions to the structural problems of the system (See, Gökbayrak, 2010; Güzel, 2005; DISK et.al, 2006; TISK, 2006). The argument has propounded yet in the formation of the reform proposal as well as after the reform has come into force. However, the government did not take into consideration to the demands of the labor organizations because of the government's anti-labor stance throughout the formation of the reform process and the process has lacked social dialogue and social compromise although the AKP government's claim that, especially via the Economic and Social

⁵⁸ Posta, 26 March 2008, "Emek platformu ile Hükümet uzlaşmasından ne çıktı" (Downloaded from http://www.resulkurt.com/artikel.php?artikel_id=386 on 29 July 2012).

Council, social dialogue mechanisms have been used. In fact, the Economic and Social Council has been criticized by labor unions and academicians due to the fact that it has been dominated by the government and has eliminated the representatives of the civil society from the decision-making process (Glynos et. al from Duyulmuş, 2009).

Interests groups from the capital side have generally appreciated the social security reform concretized with the Law of Social Insurance and General Health Insurance (Law No: 5510) and have seen the Law as an important step in the process of the restructuring of the social security system. Yet, some representatives have not been satisfied with the Law and have not seen the reform in some ways sufficient to solve the problems of the system radically. For example, TUSIAD criticized the Constitutional Court due to its annulment decision on civil servants, which for TUSIAD; create discrimination in favor of civil servants (TUSIAD, 2006).

Also, TISK criticized the Law based on the similar argument with TUSIAD that the reform is not sufficient. TISK argued that the new law brought new financial and administrative responsibilities for employers and in this way promoted informal employment due to increased premium burdens on employers⁵⁹.

5.2. A Critical Analysis of the Transformation of the Social Security System in Turkey in the 2000s

If the social security means, in the widest sense, recognition of everybody as an independent individual, “being in security” under the circumstances of such as unemployment, old age, illness and occupational accident, then in recent years, a gradually increasing social insecurity has been observed in Turkey (Yücesan-Özdemir and Özdemir, 2008: 159).

As the above statement has described, both the definition and the content of the social security have been changing in the world as well as in Turkey. Recent changes in the social security system in Turkey should be evaluated as a part of this general neoliberal transformation process. Therefore, it is important to apprehend the retrieved meaning of social policy and to analyze its reflections on social classes, especially on labor, as it has been the disadvantaged party from the consequences of the reform process.

⁵⁹ Downloaded from <http://www.tisk.org.tr/hukuk/guncel.asp?id=14> on 28 July 2012.

The term 'social' has been redefining through getting rid of the original meaning it was gained in the post-war Keynesian economic and social order; instead, the term has been reducing to a mere sociologic meaning through decontextualizing it from the state-society relations and prefixing it to certain notions such as capital in order to produce a trendy terminology, which is "social capital" (Özuğurlu, 2003). The notion of 'social' has always implied an antagonism to liberalism and individualistic ontology. However, with decontextualization of 'social' through neoliberal restructuring, the notions such as 'social security' and 'social policy' have produced contradictory implementations with their original meanings (Özuğurlu, 2003). For example, while the term 'social' originally purports decommodification through intervening into the free market system and guaranteeing certain rights; today, "social capital" has been the leading representative of the neoliberal change in the social policy understanding through linking together the two opposite words ('social' and 'capital') and producing the most salient implementations of recommodification as it has been the result of an understanding that sees labor as a commodity that should be improved through life-long learning mechanisms for the nation state to be a competitive actor in the world (Özuğurlu, 2003). In this respect, there is nothing 'social' in the original sense of the word in the current social policy.

Under the reconceptualization of social policy, social security systems throughout the world have been experiencing a transformation that constrain the social security system by economic parameters and decrease the social dimension. Therefore, the social sphere has been subordinating to the economic sphere.

It is important to reveal that whether recent transformations of the social security system in Turkey has intended to solve the structural problems of the existing system, or it has been the transformation of the system in line with the principles of neoliberal globalization. It can be convenient to analyze the results of the social security reform referring to the reasons of the reform set by the government, first; then to apprehend what these changes represent especially in terms of class relations and to what extent Turkey has been a part of this global transformation in the social policy.

The negative impact of the financial deficits of the social security institutions on the economy has been the leading argument in favor of reform during the social security reform process. As it has been discussed above, the government sees these deficits as a significant factor that raises the public sector borrowing requirement, interest rates and inflation while decreasing investments and employment. However, such kind of analysis

gives priority to economic issues in the conceptualization of social policy. In fact, as Gökbayrak (2010: 154) states, the reason of the budget deficit has not been increased social spending. Based on the study of Çelik, between the years 1994 and 2004, social security spending only constituted 10% of the budget whereas interest payments constituted 43% (Çelik from Gökbayrak, 2010: 153). For Gökbayrak (2010: 153), real reason of the financial crisis of the system has been the lack of state contribution to the social security system until the 1990s; as a result, the configuration of the structure of the system has evolved towards inegalitarian and employment-based structure. Also, increased unemployment and informal employment have been other reasons of the lack of financial sustainability because these factors together with low labor force participation rate have been narrowing down income premiums while as a result of these factors; utilization from the system has been increasing. Therefore, it is proper to say that the alleged financial problems of the system have not been stemmed from the social security institutions' deficits but structural problems of the economy, such as unemployment.

In fact, the discourse that the financial problems of the system constitute problems both in terms of the sustainability of the social security system itself as well as the economy has played a role as legitimizing mechanism during the reform process to introduce harsh regulations on social policy and the social security system in particular. This discourse has been largely embraced by the IFIs, the EU and the representatives of the Turkish business and the necessity of the reform has been emphasized in this way. The IMF has conditioned the social security transformation as a necessary step to benefit from the stand-by loans while TUSIAD perpetuated the necessity of the reform signifying it as a necessity in terms of being a stable and competitive economy as well as to be a member of the EU. Therefore, the interests of the transnational capital have once again coincided with the interests of the national capital. On the other hand, capital has faced a suppressed organized labor compared to pre-1980 era, which has facilitated the transformation of the social security system further.

Throughout the reform process, both the AKP governments' and the capitalist class' usages of the rule of law discourse have facilitated the launch of the reform through constituting an alibi to restructure the social security system in line with the requirements of the competitive market economy; in other words, to restructure it in a way which would not endanger the macroeconomic and financial targets to be achieved stated in the Maastricht Criteria or in the IMF stand-by agreement. This shows the commitments of both the state and the representatives of capital to the processes of new constitutionalism

and Europeanization explained before. Possible consequences of the reform have presented as if good for the whole society and restructuring of the social security system based on financial purposes has promoted as the only solution to the problems of the system. As the social security systems throughout the world have been reshaping under this alibi as a reflection of the processes of new constitutionalism and Europeanization, the transformation in Turkey, therefore, is to be said that in line with the transformation worldwide.

Although one of the main reasons of the reform has been aging population throughout the world as well as in Turkey, this fact does not constitute a notable reason for reform. In this sense, Gökbayrak (2010) opposes the argument of the WB that the most rapid increase in the old population will emerge in the countries which has excessive young population such as Turkey. For her, this argument is more valid for advanced welfare states, which will face the deterioration of the ratio of active/passive due to rapid increase in the old population in the future. Such kind of scenario concerns Turkey only in the long-run but for now and in the next twenty years, Turkey will experience a period of excessive employable young population, which is called as the period of “opportunity window”. Therefore, to benefit from this “opportunity window”, it is important to increase employment opportunities (Gökbayrak, 2010: 151, 152). However, there has been nothing on the agenda of the government on the issue of increasing employment opportunities. Therefore, it can be said that the social security reform have not really directed to the structural problems of the socio-economic system.

Another reason of the reform set by the government has been the deterioration of the active/passive ratio, which is to a certain extent related with the old age problem. The fall in this ratio has been identified primarily as a result of low entitlement age limits and populist practices of previous governments. However, as Gökbayrak (2010) and Güzel (2005) state, consistent solution to the problems of the system cannot be on the basis of actuarial calculations such as increase in the retirement age. It has been seen that the result of this kind of actuarial-based changes in the 1999 reform has proven to be inadequate to solve the problems of the system radically.

Also, the high dependency ratio of the system has been pointed out as a problem, which further necessitates transformation of the system. However, as Gökbayrak (2010: 152) states, the Prime Minister’s discourse that “every Turkish family should have at least

three children” highly contradicts with the proposals and the targets of the social security reform, which will eventually increase the dependency ratio.

In addition, the three social security institutions has been unified as a result of the reform on the purpose of enabling standard unity but this change will not bring expected improvements in the system as the system still keeps three different status unchanged and lacks autonomy from political influences (Gökbayrak, 2010: 158). Moreover, this unity has been achieved through taking minimum common denominator (“the worst regulation”) as a norm to standardize the system (Erdoğan from Yılmaz, 2011).

Another reason for the reform has been the inadequacy of the existing system to provide protection against poverty and to cover all population. The government’s excuse for this problem has been the inefficient use of public resources although social security spending in Turkey has been high. Also, for the government, these resources have been used especially to meet the deficits of the pension system; therefore has been used for active workers and retirees. However, as Gökbayrak (2010: 153) states, real cause of this problem is not the social security system itself; but inadequacy of the population to reach the income level to pay the premiums in the face of unemployment and poverty. However, with the reform, instead of extending the scope of the protection, the most needy part of the population has once again been excluded from the system. Also, the reform has brought a voluntary-based insurance system for employee and employer in the flexible employment forms. In order to benefit properly from this kind of insurance scheme, a certain amount of premium should be paid; but the thing is that this section of the society generally does not have the conditions to pay the necessary premiums. In other words, the reform has introduced coverage for flexible employment in theory whereas in practice, it has excluded this section of the population once again (Gökbayrak, 2010: 153). Also, these changes has made “prudentiality” and “calculation” a current issue that requires every individual to be responsible for “calculating his/her own future risk and taking necessary measures against it” (Yılmaz, 2011).

All in all, as explained, the requirements of the reform have not been adequate to explain why a radical reform has been needed in a way that has aimed the elimination of the existing system (Güzel, 2005: 72-73). Without identifying the structural reasons that create problems in the social security system, it is impossible to solve the problems of the system, especially with a financial and actuarial-based point of view. Otherwise, in such a

perspective, the real reason for the social security reform can be identified as to channel people to individual pension schemes and to open social security funds to capital market.

Clearly, the changes in the social security system show that, the reform has been away from introducing satisfactory solutions to the problems of the system. Although in Turkey, social security reform process has been seen by some scholars (See Buğra and Keyder, 2006) as an opportunity to discuss and change the system's inegalitarian and exclusionary structure, recent changes in the social security system as well as in social policy prove the opposite. Rather than reorganizing the employment-based and fragmented structure of the system towards egalitarian and inclusionary schemes around the rights-based social policy approach, the scope and the benefits of the public pension system have been restricted to create an initiative towards private pension schemes. The retirement age has been increased while the premiums have been raised. In short, these signify the commoditization of social rights.

All these changes could have been made remaining within the boundaries of the system (Güzel, 2005: 69). For example, although the three social security institutions have been merged in order to obtain standard uniformity, still the three different statuses related with employment prevail in the system. Therefore, the fragmented structure of the system together with the inadequacy of social assistance schemes and the inexistence of objective and institutionalized social rights still remain. In this point, it is important to denote that the policy proposals of the IFIs directed to the reform of the social security system have not realized radical changes even in some developed countries whose social security system have provided more generous benefits (Güzel, 2005: 69). These countries have reformed their social security systems through remaining within the boundaries of the system (Güzel, 2005: 69). Some examples of reform based on the elimination of the existing system resulted with significant opposition from the society and revised with solutions, which did not necessitate the elimination of the existing system (Güzel, 2005: 69). However, although the Turkish social security system cannot be identified as "generous", the reform has brought more radical changes to the system compared to countries with generous welfare regimes. Weak organized labor thus insufficient opposition from the society, and the one-party AKP government, which has eased the launch of a full-fledged social security reform, might be important factors for the reason of the realization of such a reform in Turkey.

Especially, the 2006 reform has brought ‘structural’ changes compared to the ‘parametric’ 1999 reform, which remained in the boundaries of the system. Indeed, contrary to the arguments propounded by the Liberal-individualist and institutionalist literatures, the problems of the social security system do not stem from the reaching of the limits of the welfare state as a result of for example ageing population like in the advanced capitalist countries; but the problems of the social security system originate from the problems of the social and economic structure (Gökbayrak, 2010: 159).

While the changes in 1999 aimed “to improve social security...system by strengthening its finances or/and tightening its entitlement conditions”, (therefore it is identified as parametric), the 2006 reform has aimed “radically [to] transform a public system by replacing, creating an alternative to or supplementing it with a private” system” (Mesa-Lago from Yılmaz, 2011); therefore brought a ‘structural’ transformation in the social security system. With this reform, the role of the market in the provision of social services has extended while the public sector has lost its importance in the provision of social security (Gökbayrak, 2010: 159). In this respect, although the reform is identified as a structural reform by many scholars, it has not identified the structural problems of the system indeed and has not produced any solutions. What is more, the reform has deteriorated the social rights of workers. People in the informal and paid-employment have not been recognized as poor and needy although they have been unable to pay the premiums to benefit from the social security system. The reform has made social rights such as pension a commodity that can be bought and sold in the market, therefore has commodified wage labor once again.

In the light of the regulations that the reform has brought, it is proper to say that the social security reform is a reflection of the transformation of the welfare state in line with the neoliberal principles. Therefore, the real aim of the social security reform is to decrease the public provision in social policy and to enable the marketization of the social services. The transformation in the social security system is a result of the Fundamental Law of Public Administration⁶⁰ (Law No: 5227) from another point of view, which is a reflection of the “regulatory state” aiming to marketize social sphere (Güler from Gökbayrak, 2010: 150). In line with the change in the role of the state towards regulatory or competition state, the state is not responsible with the direct provision of social services now. The

⁶⁰ Downloaded from <http://www.belgenet.com/yasa/k5227.html> on 4 August 2012.

state should privatize pension system, in this way to open pension funds to capital market and should only regulate the market instead of intervening it or smoothing the negative consequences of the market economy using redistributive social policies.

Indeed, the transformation in the social security systems as a whole has been a result of the general transformation from the 1970s onwards towards neoliberal ideology, which has brought individualism and the reduction of the role of the public sector. In this regard, in the recent socio-economic structure, it is possible to speak of two main shifts, which are from society to individual and from state to market (Yücesan-Özdemir and Özdemir, 2008: 169). These transformations are also valid for the current restructuring of the welfare state and social policy. The reflection of these has been concretized in the workfare state the motto of which has been “no rights without responsibilities” as explained in the previous chapter.

Generally, the welfare state has been questioned from the 1970s onwards on the basis of some changes in the national and global conditions. In the micro (or national) level, “aging population, increase in the cost of medical care technologies, and changes in the structure of family” have been some of the changes in the developed countries. Also, the welfare state in the developed countries has been critically examined on the basis of the “dependency culture”⁶¹ argument. In the macro (or global) level, “problems stemming from the reduction in the global employment level, losing power of the labor unions, which were a determining factor in the development of the welfare state, and the seeing of the welfare state implementations as an obstacle for nation states in the integration process with global markets” have been other factors causing the questioning of the welfare state, and the social security systems in particular (Gökbayrak, 2010: 143).

The increase in the financial deficits of the social security systems in many countries has facilitated the search for alternatives to the existing social security structures and the legitimization of the receipts of the IFIs, which in fact do not take into consideration economic and social conditions of the countries (See, World Bank, 1994) and propose the same receipts as a condition to benefit from the loans.

⁶¹ According to this argument, generous welfare provisions create the culture of dependency. It is argued that welfare provisions encourage people to become dependent on welfare benefits and lessen their desire to find a work. For this argument, the welfare state only administrates the existing inequalities and does not enable the excluded citizens to participate in economic and social life.

For Turkey, in this process, besides the pressures of the IFIs, the EU has acted as a key player through setting the rules and changing the structures of policy making (Yalman, 2008). Therefore, the IFIs and the EU have not said different things regarding social policy. The prescriptions of the IMF and the membership criteria of the EU have been in line with the standard bearers of the neoliberal agenda.

In the process of European integration, the EU initiates changes in the institutional structures of the member as well as the candidate states, including social policy, to fit the rules of the neoliberal globalization driven by competitiveness. In this respect, the EU's Copenhagen convergence criteria can be read as a reflection of the process of new constitutionalism, which redefines possible limits of politics in line with the neoliberal process of capital accumulation through redefining the relationship between the 'political' and the 'economic'.

While the Copenhagen Criteria is referring the principles such as the existence of the rule of law, democratic institutions, human rights, a functioning market economy capable of withstanding the competitive pressures of the EU economy as conditions to be a member state, it implicitly lays the ground work for investors through pre-commitment mechanisms to insulate economic forces from politics; hence to make governments more responsive to the discipline of market forces and correspondingly less responsive to popular-democratic forces and processes (Gill, 1998: 5).

Recently, faced with competitive pressures of the MNCs towards low-wage and low-cost production, the Lisbon Strategy, set out as a solution to the social and economic problems of the EU, has been redirecting the policies of the member states as well as others aspiring to be full members. However, rather than bringing solution to the problems (especially social problems such as social exclusion), the Strategy reproduces the discourse and politico-economic order of "disciplinary neoliberalism", which promotes the interests of capital "through extension and deepening of market values [as well as] disciplines in social life, under a regime of free enterprise" (Gill, 2002: 47). Especially putting economic and financial stability as well as economic growth on the top of the list, the Strategy, supported by the transnational capital, has attributed social policy a limited role as a "productive factor" and has assumed that the social policy is only functional for economic policy. In this respect, it is important to reveal that the EU, with the agency of transnational capital, has used the aim of the articulation of social cohesion with economic growth under the Lisbon Strategy only to legitimate the neoliberal restructuring

process. This understanding of social policy of the EU has affected considerably the social security reform process in Turkey as an important actor imposing the same social policy understanding to Turkey in the accession process. More concretely, the EU has been redirecting Turkey to restructure its social security system in line with the pre-commitment mechanisms defined in the Copenhagen Criteria and the targets set by the Lisbon Strategy. In other words, under the conditions of globalization and competitive pressures, which were deemed unavoidable, the EU has indirectly pushed in each of its regular progress reports Turkey to shape the social security and social protection systems in accordance with the needs of market forces through referring the lack of financial sustainability of the existing social security system. In this way, the EU has been the carrier of the processes of new constitutionalism and Europeanization.

Turkey's alleged 'generous provisions' on social security have been seen as an obstacle by the EU. In fact, what has been aimed is to reduce the tax and premium burden on employers; hence to enable the flexibilization of the labor market, to reduce the levels of the public provision and to extend private pension schemes. The rigidity of the labor market has been put forward as a reason for high unemployment and informal employment, which necessitates a rearrangement in employer premiums to make the labor market more flexible in the wake of competitiveness. Indeed, high unemployment, which reaches the rate of nearly 50% combined with informal employment, has been the result of the capitalist class' endeavors to "make money through money, refusing to make investments in the production of either goods or services" (Coşar and Yeğenoğlu, 2009: 46).

These transformations can be read as the deterioration of the conditions for labor via restrictions of social rights and putting the burden of structural problems of the social security system on labor. With the reform, existing inequality and insecurity among the workers has deepened. Through increasing the premiums, social rights have become commodified and the citizens have been turned into customers.

In the light of the above, it is possible to argue that the underlying reason for the social security reform in Turkey is to facilitate investment to retirement funds through limiting the benefits of public provision. To do this, it has been of great importance to restructure the social security system in a way so as not to endanger economic indicators of Turkey. As it has been explained, this aim is consistent with the process of new constitutionalism. However, this aim has not been realized in an explicit manner. Through identifying

financial difficulties of the social security institutions, the old age and the poverty etc. as problems to be eliminated, the social security reform has enabled the legitimization of the restriction of social rights and has tried to veil the use of social security funds in line with the needs of capital accumulation. In other words, the restructuring of the social security system has been conducted by an entrepreneurial mentality through converting the lives of people into a fund and trying to reap profit from them.

These changes under the new law on social security have been realized under the mask of equality, democracy and liberty promoted both by the state and the capitalist class. In this point, it is important to state that law appears neutral in neoliberalism. However, it is a result of class struggle and represents the interests of the dominant (capitalist) class; thus it has a class character. As each law, the law on the Social Security Institution and the General Health Insurance carries class relations and reflects the interests of the capitalist class, which reduces the social policy to social assistance directed only to the most needy people and the pension funds as an instrument of investment to be added into capital market.

The concrete result of the new social security law is inarguable triumph of capital. Put differently, the transformation of the social security system represents the interests of capital. In this point, as Coşar and Yeğenoğlu (2009: 48) argue, it is crucial to ask, “Whose security is it?” It is very clear that it is not the security of labor, poor and disadvantaged but the security of capital and “the security of those who are able to afford it”.

CHAPTER 6

CONCLUSION

This study was an attempt to analyze the recent changes in the social security system of Turkey in the context of interrelated processes of new constitutionalism and Europeanization. To do this, the thesis has assumed a critical political economic point of view in the examination of the transformation of the social security system of Turkey in line with the transformations in the world through touching upon the change in the regime of capitalist accumulation and the role of the state from the 1970s in the world, as well as evaluating the transformation of the welfare state to workfare state and the subsequent changes in the social security systems throughout the world, in Turkey particularly, as a reflection of this general change. These changes in the global environment have been explained to provide a historical and theoretical framework to examine the Turkish case. The thesis has argued that the change in the role of the state, the neoliberal restructuring of state-market and state-society relations and the consolidation of the gains of capital through the process of new constitutionalism to constrain economic as well as social policies within the boundaries of neoliberal globalization have affected the social policy understanding profoundly.

This last chapter aims to conclude the thesis in the light of the previous chapters and to integrate the arguments of these chapters to reveal multi-dimensional character of the social security reform process in Turkey.

It would be defective to examine the changes in the social security system of Turkey without taking into consideration changes in the global environment from the 1980s onwards. As the transformation of the social security system in Turkey has been realized under the neoliberal hegemony, it has been important to analyze the reasons that lead to the emergence of neoliberalism and its consolidation worldwide. Therefore, in Chapter Two, the neoliberal restructuring in the 1980s has been analyzed through addressing the change in the Fordist regime of accumulation and in the accompanied mode of economic regulation. It has been explored that to overcome the crisis of the 1970s and to continue

the social and economic reproduction of capitalism, neoliberalism has emerged to reestablish the conditions for capital accumulation. This analysis has contributed to the thesis through displaying that the neoliberal restructuring has affected formulation and implementation of economic and social policies significantly. As a result, a reordering of policy priorities took place that gives priority to growth objectives and competitiveness of the country. In accordance with that the role of the state has changed so as to deliver expected functions. In this regard, the change in the role of the state from KWNS to competition or regulatory state has been explained in the thesis.

In this period, “the counter attack of capital” (Boratav, 2009) has been realized through the IFIs’ neoliberal prescriptions to pave the way for free market ascendancy, especially in the Third World. In Turkey, consistent with the developments in the world, this process started with the 24th January stabilization package and a radical transformation in the state-market and state-society relations has been realized with the help of the 1980 coup d’état, which still take effect in the society. The role of the state has been transformed in line with the transformations worldwide so as to better serve to the needs of competitive markets. In this regard, it can be said that the Turkish state can be identified as a competition or regulatory state to a certain extent on the grounds that the state gives priority to create conditions favorable to invest in the country and to advance economic competitiveness of the nation. For that purpose, the state restructures and creates necessary institutions and regulatory boards in the economy while decreases its responsibilities on social services. For example, as a part of the role of the competition state and the result of the dissolution of the welfare state, the state in Turkey has gradually receded from the direct provision of most of the social services; instead, it has incentivized the private financing of the pension system through enacting the law that allows private pension schemes. In other words, the role of the state has increased regarding the economic issues whereas it has decreased in the field of social policy. Chapter Two, therefore, has been necessary to put forth the impact of the change in the role of the state on social policy.

It has been explained that the main function of the competition state is to create or restructure social institutions and economic agents according to the needs of market forces and to promote competitiveness. The thesis has examined the competition state to shed light on the change in the regulatory landscape at the national and international level to associate it with the rise of new constitutionalism in the following chapter. In this respect, as the functions of the competition state include securing economic growth and

competitive advantages in the national level, it necessitates fixing of certain economic policy issues through constitutional amendments in the national and supranational levels to make them unchangeable, in this way not to make any concessions from the stability of the economy. Therefore, it is convenient to say that the functions of the competition or the regulatory state are in line with the process of new constitutionalism.

One of the manifestations of the competition state is the importance given to rules-based economic policy, which is to a certain extent a preliminary step to the process of new constitutionalism. The emancipation of finance capital through deregulations has necessitated regulation at the national, international and even supranational levels; therefore, some binding rules have been adopted to limit governments' maneuverability as fiscal discipline and monetary stability are supposed to be achieved if the state does not engage in discretionary deficit spending. The construction of the central banks throughout the world as an independent body and the disengagement of the state apparatus from direct management of economic issues are the result of the competition or the regulatory state. This regulatory landscape based on rules-based economic policies provides governments an escape from political consequences of conducting anti-inflationary policies by using the discourse on the requirements of 'external commitments' and global competitiveness. As a result, economic functions have acquired the dominant place and public services have been redefined in a market-driven way. The thesis has aimed to reveal that the transformation of the social security systems worldwide is a result of these processes and pressures.

An analysis of the functions of the competition state has also been important to associate the priorities given to economic issues in the competition state with the transformation of the welfare state. Decreasing importance of full employment compared to the priority given to supply side policies to promote employability and flexibility are some manifestations of the transformation of the role of the state, as a result of which social issues have become the zone of sacrifice to achieve economic growth.

An evaluation of the change in the role of the state has been important to comprehend this transformation process taking into consideration the relation between the state and social classes and state and market together; in other words, to consider the relational character of the state rather than taking into consideration state-society-market relations as distinct units of analysis. The thesis acknowledged that only with such an analysis the multi-dimensional process of neoliberal restructuring could be apprehended in a way that

examines the change in the role of the state as a result of the change in the mode of accumulation and the political class struggle.

All in all, Chapter Two has been important to reveal the relation between the neoliberal restructuring of capital and the state, which would prepare the conditions for the rise of new constitutionalism. In a word, while the neoliberal restructuring laid the foundations of this transformation where capital has gotten rid of fixed position in the Keynesian era, preservation of the value of money and the economic growth are prioritized at the same time, which necessitates restructuring of the functions of the state and redirecting of global politics to fix necessary economic policies through constitutional arrangements to prevent destabilization. What follows is the rise of new constitutionalism, which Chapter Three has focused on.

The processes of new constitutionalism constitutes the backbone of this analysis as it is “the political/juridical” form of “disciplinary neoliberalism”, which promotes the interests of capital “through extension and deepening of market values [as well as] disciplines in social life, under a regime of free enterprise” (Gill, 2002: 47-48). As the thesis has asserted, the process of new constitutionalism “redefines possible limits of the politics” in order to eliminate political challenges to neoliberal globalization through depoliticization mechanisms (Gill, 2002: 48). Through, rules-based economic policies and technocrats in the key state institutions; it seeks the separation of the economic from the political to insulate economic forces from political accountability.

One of the manifestations of disciplinary neoliberalism is the separation of economic institutions from political influence as in the case of European Monetary and Economic Union (the EMU). The construction of the EMU necessitated the development of common economic policies in the EU level to achieve a sound money. To accomplish this, the EU has required from the member as well as candidate states to fulfill the requirements of the Maastricht Criteria. The Maastricht Criteria is also a part of new constitutionalism that aims to institutionalize fiscal discipline to obtain credibility and give confidence to investors. The requirements of the Maastricht Criteria or the *acquis communautaire* in general have affected the positioning of social policy in the EU level, as well as, this positioning and understanding of social policy has reshaped social policy in Turkey during the accession process. This process has affected social policy in a way that has constrained it with the requirements of the economy and has even sacrificed it to achieve economic goals. In this process, the requirements of the EU membership and of

the IFIs that give priority to fiscal discipline have been significant manifestations of new constitutionalism. The thesis examined that throughout this process, these institutions have pushed Turkey, and many other countries, restructuring of economic and social policies and institutional structures to fit the requirements of global neoliberalism. The restructuring of the social security system, therefore, has been approached with an emphasis on its fiscal and economic effects. In other words, the transformation of the social security system has been a requirement of the IMF's loan agreement for achieving fiscal discipline in Turkey. This is the manifestation of new constitutionalism that gives priority to fiscal and economic issues and subordinates social policy to achieve success in these fields. Therefore, it is possible to say that the impact of new constitutionalism is seen both in the policy preparation process and in the policy implementation. More clearly, the restructuring of institutional structures and the reorganization of international governance framework show the impact of new constitutionalism process in the policy preparation in line with global competitiveness. For example, the preparation of the social security reform in Turkey has been affected from new constitutionalism as the IFIs and the EU have pressed to restructure it in line with the requirements of global neoliberalism. On the other hand, prioritization of economic and fiscal policies and constraining of social policy with these policies are the manifestation of the process of new constitutionalism on the policy implementation. In this regard, priority given to financial sustainability in reforming the social security system is the effect of new constitutionalism on social policy.

The contribution of the analysis of new constitutionalism to the main argument of the thesis was to reveal that behind the constitutionalization endeavors of neoliberal economic policies through a series of pre-commitment mechanisms, it aims to create a protected 'domain' for capital and to 'lock-in' the interests of the capitalist class. Also, to "make governments more responsive to the discipline of market forces and correspondingly less responsive to popular-democratic forces and processes" (Gill, 1998: 5). As a result, it aims to restructure social policy according to the needs of market forces.

In this process, the robustness of a country's commitment to the rule of law has been seen as an important determinant of its development (Trebilcock and Daniels, 2008: 4). In this regard, Chapter Three has put the arguments of the liberal philosophers to explain the relationship between capitalism and the rule of law and to constitute a background to the current usage of this notion. Also, an evaluation of the theories on the autonomy of the state has been made to provide a theoretical framework for arguing that in the social

security reform process, the state has acted as if it is autonomous from class interests and presented the transformation of the social security system as the general interests of the society and as a necessity of global competitiveness. In this regard, the thesis has explained that, the AKP government as well as the capitalist class, in some instances during the social security reform process, has resorted to the rule of law, the EU accession criteria, to legitimate the changes in the social policy through indicating the economic and fiscal requirements of globalization, generally concretized in the prescriptions of the EU and the IMF, as an alibi. By doing so, the capitalist class has universalized its interests as the ‘ruling ideas’ while the state has legitimized the politics of austerity and the transformation of the social security system. For example, the AKP government has frequently stated that the social security reform is necessary for the harmonization with the EU *acquis communautaire* (Duyulmuş, 2009). Also, both the AKP government and the representatives of capital in Turkey have made direct references to the IMF conditionality, which necessitates certain adjustments in the economy and in social policy in accordance with the recommendations of the IMF to benefit from the loans; in this way this reference has eased the ground for the government to introduce harsh changes to the society and the economy when the government has faced domestic opposition.

From the 1980s, as the neoliberal hegemony has affected the policies of nation states through various mechanisms, it has created to a considerable extent convergence of social policies in accordance with neoliberal principles throughout the world, as well as in Turkey. Social policy, throughout this process, has been reshaped under the auspices of neoliberal globalization and new constitutionalism, which prioritize market ascendancy, and fiscal and monetary policy and tries to guarantee the interests of capital through binding rules. Social policy has been limited with policies compatible with market competitiveness and market efficiency. Specifically, member states of the EU as well as others aspiring to be have been constitutionally constrained by the ‘supremacy’ of all European rules of economic integration, liberalization and competition law. In particular, the Lisbon Strategy has aimed at confining social policy within the boundaries of the EMU and the EU economic policy. Similarly, the policies of EU candidate countries have been reshaped under these pressures; as a result, the welfare regimes and social policies of the candidate countries, including Turkey, have been restructured in accordance with the EU’s economic goals that reflect to the membership requirements.

In other words, social policy has been subordinated to the needs of the economy. In this regard, Chapter Four has examined the transformation of social policy within the broader

context of the transformation of the welfare state. In other words, the change in the social policy has been addressed in the thesis in terms of a shift from welfare state tradition to workfare state where social policy has changed in a way to better serve the needs of the market. An examination of the workfare state has been made to reveal the relation between the workfare state and commoditization. Also, the change in the social policy has been discussed in the thesis within the scope of globalization. It has been argued that globalization provides politicians and the capitalist class a convenient rationalization as an external constraint and economic necessity; therefore, plays a legitimizing role through constituting an argument that there is no choice out of making necessary changes in the economic and social fields. Competitiveness discourse has also contributed to the linking of social policy to the demands of competitive economy through constituting a legitimizing mechanism.

As it has been explained in the thesis, the processes of neoliberal globalization, increasing competitiveness, new constitutionalism and Europeanization are all interlinked processes affecting the transformation of the welfare state and social policy. In the current environment, globalization and competitiveness pressures have been pushing the competition state to put into place necessary regulations and economic and social policies in line with neoliberal globalization. Parallel with that, the international governance framework has been reshaped in a way that has brought new legal, institutional and constitutional arrangements in the national, international and supranational levels to lock-in neoliberal economic policies. The Europeanization process and the Lisbon Strategy have been the version and the results of these pressures and processes that confine social policy within the boundaries of the EMU and affect the policies of the member and candidate countries. As a result, social policy options have become limited with “their potential distorting effects on market integration and competitiveness” throughout the world (Daly, 2006: 468). Turkey has been affected from this process through enacting the social security reform in line with the neoliberal principles and finance-led restructuring under the surveillance of the IMF and the EU.

Related with that, Chapter Four has given place to the Lisbon Strategy and its methodology, the OMC, to explain the current social and economic policy understanding of the EU with an emphasis on its consequences in terms of the restructuring of social policy and the welfare state. The thesis has discussed the notion of “asymmetrical regulation” to draw attention to the EU’s positioning of social policy in the lower tier within the regulations of the EU. The OMC has been criticized regarding its elimination

of social policy from the supranational regulation and regarded as political and deliberate choice of the EU to facilitate “the adjustment of social protection systems to market forces and fiscal constraints” (Scharpf, 2002) rather than to achieve social inclusion or the harmonization of social protection systems in the EU.

The thesis has argued that although the Lisbon Strategy has aimed to promote competitiveness and social cohesion as mutually beneficial goals, with the aim of “modernizing social protection”, the EU has manifested its ‘modernization’ understanding, which is ensuring financial sustainability of social benefits (in particular pension system). In that sense, the thesis has argued that the social policy understanding of the Lisbon Strategy, hence of the EU, has gotten stuck in economic and financial priorities of the system. Also, through policies such as investment in human capital, training, and lifelong learning, social policy has been reduced to a mechanism that serves markets. In other words, social policy is seen as an investment rather than a right. Therefore, increasingly more parts of the social sphere have been reorganized in line with the market.

As a result of these processes, collectivist social protection systems have been transformed into more individualist systems, entitlements have been narrowed down, universal access to basic services has been undermined, and pension system has been privatized in many countries to open new financial fields for capital. Also, social protection has been reshaped to leave the people in the mercy of the marketplace, and a self-financing saving system in the social insurance has been provided and has locked in with legal frameworks on a world scale. In accordance with that the social security system in Turkey has realized similar transformations with the most of the countries in the world. In this respect, it is proper to say that social life has been disciplined by market forces in a way forcing them to accept the rules of markets. In this process, the state has functioned as a “commodifying agent” as activities pursued by the state have been increasingly left to market solutions.

An analysis of the Europeanization process, the Lisbon Strategy and its methodology (the OMC) have been necessary to establish the relationship among the effects of these factors on social policy understanding of the EU and the influence of the EU on the social security system of Turkey. It means, with a social policy understanding based on confining social policy within the boundaries of the EMU and the EU economic policy in general that has been affected significantly from new constitutionalism and the goals of

the Lisbon Strategy, the EU has affected the social policy formation of Turkey and the transformation of the social security system profoundly as an important external actor in the accession process. Therefore, examining the features of Europeanization, the Lisbon Strategy and the OMC have contributed the thesis to reveal the indirect impact of the process of Europeanization on the social security reform in Turkey. In this respect, Chapter Four has made use of the Copenhagen Criteria, the Maastricht Criteria and the Accession Partnerships as the manifestations of this impact. For example, the EU has been pushing Turkey rapidly in the direction of institutionalizing reforms and greater fiscal discipline through stating in the 2008 Accession Partnership that Turkey should “continue to implement appropriate fiscal and monetary policies with a view to take adequate measures to preserve macroeconomic stability and predictability [and] implement a sustainable and effective social security system”. As it is seen, the EU’s emphasis on the social security reform has been indirect within the framework of the issue of “financial sustainability”. Also, the EU has pointed out the convenience of the IMF stabilization program in terms of its “aims to restructure the budget and restrict the money supply to the economy, launch the reforms needed to strengthen public finances (above all the social security accounts - health and pensions)” (European Commission, 1998). Hereby, it is legitimate to state that the IFIs and the EU have not proposed different alternatives for Turkey; instead they have urged Turkey as important external actors to institutionalize neoliberal reforms including fiscal discipline and to reshape the social policy understanding in line with these ‘priorities’. Therefore, the “neoliberal paradigm” and the “European paradigm” in social policies are not two different alternatives for Turkey (Elveren, 2008: 217).

Chapter Five was an attempt to analyze the transformation of the social security system in Turkey taking into consideration internal and external actors that affect the reform process. The Chapter has asserted that the social security reform in Turkey has been a part of the general neoliberal transformation and it has been affected from the processes of new constitutionalism and Europeanization from the channels of the IFIs and the EU. Under these “double external anchors” (Öniş, 2004), the social policy understanding, the social security system in particular, has been evolved in line with the standard bearers of the neoliberal agenda. As explained above, the influence of the EU on the social security system of Turkey has occurred indirectly through the accession process that necessitates the acceptance of *acquis communautaire* and two main convergence criteria, namely the Copenhagen and the Maastricht criteria. The thesis has revealed that these two

agreements have been reflections of the processes of new constitutionalism and Europeanization, which aims to secure the interests of capital through putting a series of binding rules or criteria in front of the member and candidate countries and make them obliged to conform these criteria in their economic policy making. However, these supranational requirements while only seem regulating the economic policies of these countries; implicitly, they make social policy subordinated to and bounded with these rules. Social policy is allowed to maneuver within the boundaries of the neoliberal economic policy and is taken into consideration only as a 'productive factor' for the economy.

The thesis has showed that throughout the EU accession process, the EU has pressed indirectly to reform the social security system of Turkey through insisting on the issue of financial instability. Chapter Five has displayed the stance of the EU through making use of the regular progress reports and the accession partnership reports. For the EU, Turkey should take the necessary measures to ensure financial stability of the social security system in order not to endanger the macroeconomic indicators of the country. Specifically, for example, the budget deficit should not exceed 3% of the GDP according to the criteria of Maastricht in order for Turkey to be eligible for the EU membership. Therefore, the criteria has been used both by the Turkish government and the EU as a legitimizing mechanism to restrict budget spending; hence to decrease the benefits of the social security institutions, which has long been seen as a 'black hole' meaning that creating substantial transfers from the general budget to the social security institutions; in this way threatening macroeconomic stability of the country, which the latter is assumed crucial in the current competitive environment.

In addition, the IMF conditionality has been another manifestation of the impact of new constitutionalism in the process of social security reform in Turkey. From 1999, "at the outset of each of these loan agreements, pension reform has been among the economic reforms required by the IMF, and most if not all of the Fund's statements and reports have mentioned it as an ongoing priority" (Griffiths, 2008: 8). Also, it was clearly stated in the stand-by agreements that a comprehensive social security reform was needed to benefit from the loans, which would eliminate the deficit of the system.

Chapter Five has also focused on the arguments of the business associations and, employer and union confederations in the process of the social security reform from the end of the 1990s. Especially, the thesis has displayed the role of TUSIAD in this process

as one of the main representatives of capital, which has played a supporter role through conveying its proactive stance towards private pension scheme and resorting to the requirements of the EU accession process, the financial sustainability has been one of them. Also, the representatives of capital has embraced the arguments of the IFIs and the EU on the necessity of a social security reform and has used these institutions' requirements as a legitimating tool to introduce harsh changes to the economy and society all in line with the neoliberal principles. In this process, the conditional lending of the IMF and the accession criteria of the EU have also played a positive role both for the governments and the representatives of capital through referring to the necessity to fulfill requirements and in this way easing the legislation and the promotion of the reform. In this way, throughout the process, TUSIAD has become a non-negligible partner for governments. The thesis has argued that TUSIAD's demands reflect its commitment to the EU norms and the perpetuation of the IMF-WB-led neoliberal policies.

In this process, capital has faced with weak organized labor due to the suppression of labor in the 1980s. The thesis has made use of the arguments of DISK, KESK and TURK-IS as they have been influential in shaping the reform process. They have seriously opposed to the social security reform proposal due to its pro-capital stance. In one of the studies prepared by DISK, KESK, TMMOB and TTB, they point out the underlying purpose of the reform, which is to "enable the legitimization of the restriction of social security rights and ... to veil the use of social security funds in line with the needs of capital accumulation" (DISK et.al, 2006).

Chapter Five has displayed that with the enactment of the social security reform, significant changes have been made especially in the pension system: the retirement age and the premium level have been increased while the income replacement rate has been decreased, which signalize the loosing importance of the public provision but the incentivization of the private sector in the provision of the pension system; and the increase in the inequality between workers in terms of social rights and commoditization. In this regard, the thesis has argued that the underlying reason of the social security reform in Turkey has been to facilitate investment to private retirement funds through limiting the benefits of public provision.

Chapter Five has revealed that the reform process has not been smooth but included opposition from different sections of the society, especially labor, on the grounds that the reform does not really aim to solve the structural problems of the system; rather, it aims

to restructure the social security system in line with the neoliberal principles. Therefore, the thesis has revealed that the real aim of the social security reform is to decrease the public provision in the social policy and to enable the marketization of the social services. The Labor Platform has objected to the reform proposal on the ground that the government has not taken into consideration the demands of labor and has eliminated it from the reform process. The Platform organized many strikes and protests; as a result of these reactions, the government decided to bargain with the Labor Platform. Indeed, the government's recourse to the labor was a deliberate attempt to be seen as if it is autonomous as a result of the role of the capitalist state.

In this respect, the thesis has tried to examine the role of the state throughout the social security reform process through making use of the theories on the autonomy of the state. As the thesis has put it, in capitalism, the state and law are of necessity to guarantee the maintenance of the capitalist system. Since, the state is a capitalist state so that it needs the continuation of capitalist relations of production to continue its existence. The state has to distance itself from the interests of dominant classes and act as if autonomous; nevertheless, it remains serving to the interests of the capitalist class implicitly. Also, as a dominant class, capitalist class has the ability to represent its own interests as the interests of the 'society' or of the 'nation' (Clarke, 1991; 193-196); in other words, universalize these ideas as 'ruling ideas' (Harvey, 2000: 271). In this way, the state is subordinated to the needs of the capitalist class. Consistent with this analysis, throughout the reform process, the state has tried to embrace a neutral discourse detached from the interests of the social classes although the reform proposal itself was composed of the prescriptions of the IFIs and the eligibility requirements of the EU or it is possible to say that the reform proposal was serving to the interests of transnational capital. While identifying the lack of financial sustainability; aging population; high dependency ratio; and the insufficiency of the existing system in covering all population as the main reasons of the reform, the government has tried to represent these reasons as rational and valid thrusts for everyone therefore to neutralize the class character of the changes. In this regard, it is seen that the theory of the autonomy of the state can be used to analyze the stance and the policies of the AKP government in the process of the social security reform.

The thesis has also evaluated whether these changes represent a significant departure from "inegalitarian-corporatist" (Buğra and Keyder, 2006) or "indirect-minimalist" (Arın, 2002: 75) nature of the Turkish welfare state. The thesis has found that the reform has been inadequate to change this fragmented and inegalitarian nature as some scholars hope

it. The social security reform cannot be seen as an opportunity to go beyond the populist and clientelistic understanding of social policy and to embrace a rights-based understanding of social policy as Buğra and Keyder (2006) propose. Still, the large share of informal employment in the employment structure, the absence of full coverage of the system and the existence of different coverage according to the status of insured, the lack of objective and institutionalized social assistance services and the reliance of family remain main characteristics of the welfare state and the social security system in Turkey.

The thesis has not only elaborated on the reasons of the social security reform and the results of it but also it has addressed the reform process through taking into consideration the arguments of both sides: capital and labor; in this way, it has examined the reform process in terms of class relations. In this regard, the thesis attempted to make an alternative analysis to the existing studies on the social security reform with an emphasis on class relations shaped under the new constitutionalism and Europeanization process. To do this, the thesis not only focused on the results of the reform as most of the studies make but it has preferred to deal with questions such as ‘why/how it is happening’ rather than ‘what is happening’.

To conclude, the thesis has argued that the transformation of the social security system in Turkey in the 2000s is a part of the general transformation of the welfare state under the hegemony of neoliberalism from the 1980s onwards. The processes of new constitutionalism and Europeanization have facilitated this transformation through pursuing the priority of markets and constraining social policy within the boundaries of the neoliberal globalization in a way so as not to endanger the macroeconomic situation of the country. In this process, the pressures of competitiveness have legitimated the adoption of harsh economic and social policies for national states and a series of fiscal and economic criteria have been put in the constitutions of these states as binding rules or pre-commitment mechanisms to eliminate political influences through separating economic from political and in this way to consolidate the interests of capital. In this environment, social policy is subordinated to economic policy and confined with the policies compatible with neoliberal globalization. Turkey has been affected from the processes of new constitutionalism and Europeanization through the channels of IFIs and the EU. Throughout the transformation process of the social security system, the interests of national capital have corresponded with the interests of transnational capital, while labor was suppressed in the 1980s and it is not strong enough to make a considerable impact in this process. As a consequence, the thesis has revealed that the real aim of the

social security reform in Turkey is to decrease the public provision in the social policy and to enable the marketization of the social services. In terms of class relations, these transformations in the social security system in Turkey signifies the triumph of capital and the consolidation of its interest, while labor once again has been defeated under the neoliberal hegemony and has been exposed to further commoditization .

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