

**State, Crisis, Class:  
The Politics of Economic Restructuring in  
Turkey in the 2000s**

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## **Abstract**

This thesis analyses the politics of economic restructuring in Turkey in the 2000s under the governments of the AKP (Adalet ve Kalkinma Partisi – Justice and Development Party) that came to power in 2002. The work contextualises the restructuring of state-capital-labour relations against the background of the military coup in 1980, the crisis-ridden transformations of Turkish state in the 1990s and in particular against the background of the economic crisis of 2001. The thesis assesses the conventional accounts of the AKP government, which see it as the government that successfully overcame the turmoils of the 1990s, led the Turkish economy onto a growth path during the 2000s, and established a rules-based, democratic form of government. In distinction, the thesis argues that the AKP government set upon a market liberalising economic policy that was started in the 1980s. The analysis of the restructuring of labour relations in Turkey under the AKP shows great continuity with earlier policy objectives. In this context, the thesis argues that the success of the AKP government has to do with both the political consequences of the crisis of 2001, which delegitimised the then parties of government, and the economic consequences of credit-driven global economy that supported the Turkish economic growth. The crash in 2008 put a hold on this and the thesis analyses the trajectory of the post-2007 AKP government as crisis-ridden.

The theoretical conception of the thesis problematises approaches that rely on the state-market dichotomy that is inherent in the discipline of International Political Economy (IPE). The thesis develops the approach associated with the Conference of Socialist Economists (CSE), which argued for an internal relationship between state and market, conceiving of both as distinct forms of capitalist social relations. The work, thus, conceptualises the developments of the Turkish political economy as continuous efforts in restructuring labour relations for the purpose of removing barriers to capital accumulation and achieving free economy.

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### **Author's Declaration**

I declare, except where explicit reference is made to the contribution of others, that the work presented in this thesis is the result of my own work and has not been submitted for any other degree at the University of York or any other institution.

Parts of Chapters 7 and 8 were presented as “Crises and the Turkish State in the 2000s: An ‘Open Marxist’ State-Theoretical Approach” at *9th Pan-European Conference on International Relations*, 23-26 September 2015, Giardini Naxos, Sicily, Italy.

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## Chapter 1. Introduction

### 1. Research Rationale

In February 2001, the Turkish economy encountered the most severe financial and economic crisis of its history. As a result of skyrocketing public debt, persistent very high inflation, an almost 6% decline in GDP growth in 2001, double digit unemployment rate and increased poverty, as well as institutional problems in economic policy-making; state managers attempted to initiate a ‘long-delayed’ restructuring of the state and economy in the aftermath of the crisis.

Through an extraordinary general election on 3rd of November 2002, which took place amidst crisis management under a politically precarious coalition government, the Islamist-rooted AKP (*Adalet ve Kalkınma Partisi-Justice and Development Party*) won a landslide victory in Turkey. The party had only been formed in August 2001, after an internal clash within the traditional Islamist *National Outlook Movement (Milli Görüş)*. Since then, the AKP has dominated Turkish politics, winning subsequent local and general elections and forming majority governments.

The political and economic developments following the 2001 crisis and AKP’s 2002 election victory signified a ‘progressive rupture’ for many commentators and observers of Turkish political economy, at least until 2011 – the year this thesis’ period of study ends.<sup>1</sup> For these accounts, the reforms following the 2001 crisis implied a rupture in state-market relations as the International Monetary Fund (IMF), World Bank (WB) and European Union (EU) backed economic programme was seen to establish an ‘effective’, ‘regulatory’ and ‘competition state’ (Keyman and Öniş, 2007).

Under AKP rule, it is argued that Turkey became a model for Middle Eastern states with its fast-growing, stable and sound economy in line with Bretton Woods institutions, democratic polity anchored by the EU, and proactive foreign policy albeit with the principle of “zero problems with neighbours” (Davutoğlu, 2013). The reforms undertaken

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<sup>1</sup> For such accounts, see, among others, İnel (2003), Yavuz (2006), and Keyman and Öniş (2007).

by the AKP in “politics, the economy, foreign policy, and other key areas ... [are] collectively referred to as *the New Turkey*” (Karagöl, 2013, p.115, italics in original; see also Yavuz, 2006). Indeed, the AKP itself defined its ‘democratic reforms’ and the ‘economic and social development’ under its rule as a process amounting to a ‘*silent revolution*’ (Undersecretariat of Public Order and Security, 2012; see also Yavuz, 2006, my italics).

In distinction to these accounts, this thesis argues that, concerning the restructuring and management of labour relations, the policies of the AKP government were in fact similar in direction to those of previous governments since the 1980s. Unlike the coalition governments of the 1990s, however, the AKP enjoyed an uninterrupted period in government. Indeed, I argue later that the 2001 crisis delegitimised the existing political parties and left the AKP electorally unchallenged for the most part of the 21st century. Providing a strong government under single party rule following the 2002 elections, the AKP government set about resolving the contradictions of the crisis-ridden political economy of Turkey through the continuation of authoritarian management of labour relations which aimed to secure deunionisation, flexibilisation, a cheap labour force, privatisation and the restructuring of social policy.

## **2. Conventional Approaches to the 2001 Crisis and AKP: A Progressive Rupture**

Conventionally, the 2001 crisis is seen to be the result of a set of causes such as ‘corruption’ (Aliriza, 2001; cf. Bedirhanoglu, 2007); ‘the fusion of economics with politics’ and a ‘rent-seeking socioeconomic system’ (Derviş, 2005); economic populism (Öniş and Keyman, 2003); and market failure related to the weakness of state capacity and the lack of a sound regulatory state (Çetin and Yilmaz, 2010, p. 395; Öniş, 2009, p.412; Bakir, 2009). In short, in these accounts, the explanation of the origins of the 2001 crisis rely on what Yeldan and Cizre (2005) named the ‘political and economic mismanagement school’. Hence, the crisis was simply seen as a ‘policy failure’.

This understanding was supported by the then technocratic Minister for Economic Affairs Kemal Derviş, who argued that “shifting from a rent-seeking society to a modern, competitive economy with much greater autonomy for the economic sphere, *greater separation of politics and markets*” (Derviş, 2005, p.66, my italics) needed to be achieved

post-crisis. Concomitantly, it is argued that Turkey's infamous 'strong-state tradition'<sup>2</sup> was apparently very weak; had been vulnerable to financial globalisation, and was characterised by corruption, clientelism, discretion, rent-seeking and populism. Hence the crisis meant that the era of the 'strong-state tradition' had come to an end. It is argued that the crisis resolution entailed and initiated the process of its replacement with a market facilitating competition state that was also meant to be effective, efficient, accountable and democratic (Keyman and Gümüşçü, 2014, p.156).

The 2001 crisis was thus seen as instrumental for overcoming the resistance against the necessary restructuring of the state and economy; and provided an environment which would help overcome the above-mentioned problems of the Turkish political economy. Thus it would be a progressive rupture both in the political and economic realm (Kutlay, 2011; Keyman and Öniş, 2007, p.147). More specifically, the crisis of 2001 "provided an appropriate context for a process of rebuilding state capacity and created a basis for the emergence of a kind of 'competition state' which was largely lacking during the previous two decades of the neoliberal experiment" (Öniş, 2009, p.412).<sup>3</sup>

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<sup>2</sup> To clarify, the "Strong State Tradition" thesis is different from the idea of the 'neoliberal strong state' (on this, see Bonefeld, 2010). 'State tradition in Turkey' is an argument about the patrimonial character of Ottoman-Turkish state. This tradition implies a 'weak state' from the perspective of 'neoliberal strong state' which is market-facilitating. Although it is not homogenous, the contributors to this particular reading argue that there is a continuity between the Ottoman Empire and the Turkish Republic in terms of patrimonial state-society relationship. The state, according to this argument, is independent of class contradictions, it is a sovereign subject with a power and logic of its own. It obstructs the market forces and the development of civil society (including the bourgeoisie) as it is blind to societal needs. The main contradictions in the society are thus between the strong state-weak society/market, centre-periphery (of the society), bourgeoisie-bureaucracy (bureaucracy is defined as a class). Hence, the development of the state in the Ottoman-Turkish social formation differs from the West; it is *sui generis* and unique, and cannot be explained through class struggle. The term is coined by Metin Heper (1985). Other prominent representatives (albeit with differences) can be counted as Şerif Mardin, Ahmet İnsel, Ziya Öniş, Fuat Keyman, Ayşe Buğra and Çağlar Keyder. For the Marxist critiques of this tradition, see Dinler (2003), Yalman (2002; 2009), and Bozkurt (2008). For a similar critique in the Middle East context, see Hanieh (2013).

<sup>3</sup> Although the 'Competition State' is a critical concept, introduced to define the changing role of the state under globalisation (Cerny, 1990; 1997), Öniş uses the concept in an affirmative manner in the context of building an effective state; though he also underlines the limitations of the notion as the emphasis is on the regulatory role of the state (promoted by institutions like IMF), thus undermining the role of the state in development and income distribution (Öniş, 2009, p.412). The notion of the 'competition state' is also used by more critical and Marxist accounts in Turkey to define the post-2001 Turkish state, as a 'new form of state' and as a 'new form of class domination'. This interpretation borrows the term from Cerny, and

This orientation, it is argued, reflects the post-Washington consensus form of neoliberalism, which is ‘social and regulatory’, as opposed to the Washington consensus which represents ‘free market neoliberalism’ (Öniş, 2012, p.142; see also Güven, 2008). Some accounts also argued that this process entailed both the Washington and the post-Washington consensus simultaneously (Bakır, 2009).<sup>4</sup> This implies the existence of an ‘ineffective state’ in the pre-crisis era, which then turned into an ‘effective state’, yet this happened through “the retreat of the state to a regulatory role in line with the principles of ‘regulatory neoliberalism’” (Aytaç and Öniş, 2014).

This rupture, it is argued, was achieved through a major ‘reform process’ – called the ‘Transition to Strong Economy Programme’ – introduced post-crisis by technocratic Minister Kemal Derviş. Under a precarious coalition government, however, the fate of the restructuring process would prove to be risky.<sup>5</sup> Hence, AKP’s landslide victory in the elections on 3rd November 2002 would be a crucial development leading to “the radical restructuring of the strong state”, as the “emergence of single-party majority government in 2002 increased the possibility of democratic and economic stability” (Keyman and Gümüüşcü, 2014, p.156). Thus, “the process of reform implementation ... [took] a new and positive shape following the victory of the AKP in the elections of November 2002” (Keyman and Öniş, 2007, p.149).

Commentators have praised AKP’s programme as progressive in terms of its approach to state and economy. Indeed, AKP’s 2002 election manifesto defined the role of the state

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develops it through critical concepts such as ‘authoritarian statism’, introduced by Poulantzas (see Akçay, 2012).

<sup>4</sup> In conventional institutionalist political economy approaches, the post-Washington consensus is understood as the result of a process of criticism, and it reflects the lessons taken by the “crude neoliberalism” of the 1980s and 1990s, which ended up with significant crises in especially peripheral economies. Hence, the post-Washington Consensus, it is argued, represents a progression in the sense that it promotes regulation of the market and good governance (see Güven, 2008; Öniş and Şenses, 2005; cf. Bedirhanoglu and Yalman, 2010).

<sup>5</sup> The reform process was initiated under the ‘weak’ DSP (*Demokratik Sol Parti—Democratic Left Party*) ANAP (*Anavatan Partisi—Motherland Party*) and MHP (*Milliyetçi Hareket Partisi—Nationalist Action Party*) coalition government – representing the centre-left, centre-right and nationalist movement – whose ‘reluctance’ against significant restructuring in line with EU and Bretton Woods institutions was resolved under crisis conditions.

in the economy as to facilitate “the conditions for free competition in the free market, and to remove the obstacles facing private enterprise” (AKP Election Manifesto, 2002, p.43). As put by an academic-turned-AKP politician, “the state should be functioning, small but dynamic, and effective” (Akdoğan, 2006, p.50). This effective state is termed “post-developmental” state (Keyman and Öniş, 2007; Hale and Özbudun, 2010; Nas, 2008, p.112). It is defined as “democratic, transparent, and accountable to society, but at the same time “caring” and not afraid to play a role in overseeing the economy” (Keyman and Öniş, 2007, p.100). The concept of “post-developmental” state is expounded as such:

A post-developmental state is neither the minimal state envisaged in the neo-liberal model of the free market economy nor the overpowering state performing the dominant role in the economy that characterized the earlier era of import-substitution and planned development. It is a state that effectively contributes to the development of a free market economy without actually repressing the market mechanism (ibid., p.100).

Hence, AKP’s assumption of government was seen to continue the ‘progressive rupture’ in state-market relations by institutionalising, in Öniş’s (2012, p.137) view, an effective competition state, with a progressive post-developmental character. This process, through the democratic transformation of the state, would also mean a historical opportunity to exit from the authoritarian 12 September 1980 military coup regime<sup>6</sup> (İnsel, 2003, p.295).

These conceptualisations of the post-crisis restructuring in conventional political economy approaches leave us with different concepts and ‘new forms of state’ (i.e. ‘competition state’, ‘post-developmental state’, ‘regulatory state’) and a ‘radically’ different state-market/economy relationship. This amounts to a “social neo-liberalism” in Öniş’s words (2012, p.137), in line with the so-called post-Washington consensus.

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<sup>6</sup> It refers to the 12 September 1980 military coup’s reframing of the society in an authoritarian manner. Although the military returned to the barracks in 1983, the constitution and various laws regulating social relations remained intact; hence the post-1980 regime is known as the 12 September regime.



Although there is no room for ‘class’ in these analyses of the state, and despite their apparent methodological shortcomings in line with “conventional notions of the capitalist state and the economy as two separate-but-connected ‘things’ impinge upon each other in an external manner” (Kettell, 2004, pp.22-23), these approaches to both post-2001 (competition state, regulatory state) and to the AKP (effective, post-developmental state) imply the ‘neoliberal’ assertion of state-economy relationship: ‘free economy and strong state’ (see Bonefeld, 2010). However, the argument that this reflects a ‘rupture’ or a ‘new form of state’ is dubious. As Gamble (1979, p.5) states, “free economy-strong state is no idle slogan, and marks the continuity of the doctrine with the tradition of liberal political economy, not a departure from it. Nobody in this tradition has seriously suggested that capitalism could do without a strong and active state.” Keyman and Öniş’s (2007) idea that the “minimal state envisaged in the neo-liberal model of the free market economy” or “the overpowering state performing the dominant role in the economy” is far from reflecting the social basis of the state and economy; that is social relations of production. As Bonefeld (2014, p.174) suggests, “the conventional view that neoliberalism has to do with the weakening of the state has little, if anything, to do with the neoliberal conception of the free economy.” Furthermore, in order to come to terms with the argument which asserts that there was a lack of ‘competition state’ in the previous two decades of ‘neoliberalism’ in Turkey, it would have to be argued that there was no “state intervention and regulation in the name of competitiveness and marketization” (Cerny, 1997, p.251) in the pre-2001 crisis – which would prove to be empirically mistaken. In this context, this thesis aims to offer a different account of the restructuring process in the 2000s.

### **3. An Alternative Approach: Class, Crisis and State**

This thesis argues that the post-2001 crisis, and the subsequent AKP rule, does not represent a progressive rupture in the restructuring of state-economy relations. Hence, the emphasis in this research is rather on the “continuous process of restructuring” of state and economy since the 1980 military coup (Bedirhanoğlu and Yalman, 2010, p.118). The aim of the restructuring process was ‘putting an end to class-based politics’ (Yalman, 2009), which was achieved through the military coup, against the background of the turmoil of the late 1970s.

Attempts by the military junta between 1980-1983 in the context of the restructuring of

state-capital-labour relations were followed by the ANAP (*Anavatan Partisi-Motherland Party*) governments after the return to ‘democracy’ in 1983. Following the downfall of ANAP government in 1991, a period of unstable coalition governments started which was marked by various economic and political crises<sup>7</sup>; combined with the return of labour militancy. This led to the delaying and hindering of the various reforms in state and economy, which were the main objects of state restructuring in the 1980s. Hence, the process which started in the aftermath of the 2001 crisis signified the readjustment of the Turkish state to the path introduced in the 1980s. In this sense, the post-2001 crisis and the AKP rule between 2002 and 2011 represent a *continuity* with the (neo-liberal) policy orientation and policy attempts in the 1980s and 1990s in terms of privatisation, labour market flexibilisation, competitiveness in the world market, deunionisation, and depoliticisation of economic policy-making.

Theoretically, the argument of this research draws upon a particular Marxist tradition, the CSE (Conference of Socialist Economists, also known as ‘Open Marxism’) approach to the state, state-market/economy relations and class. This approach rejects the externally conceived state-market dichotomy underpinning the above-mentioned accounts of Turkish political economy and International Political Economy (IPE) in general. As Bonefeld (2008, p.65) puts, “instead of analyses that emphasise either state over markets, or markets over state, it [CSE] understood both – market and state – as forms of capitalist social relations.”

In a similar vein, from the perspective of CSE, the understanding of the capitalist crisis is quite different from the explanations of orthodox positions. As Burnham (2011, pp.494-495) indicates, “the radical tradition questions the market-based assumptions of the orthodoxy and argues that crises are not the result of unsound practices but are ‘inherent in the form of capitalist accumulation.’” In conventional approaches, each crisis is understood as historically unique and specific, thus unexpected and caused by “exogenous” factors (ibid., p.495), as it is explained by different commentators in the Turkish context. However, “capitalist crisis is not some extraordinary thing...[it] is a

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<sup>7</sup> These were the 1994 economic crisis, the 1997 ‘post-modern’ coup d’etat against political Islam, 1999, 2000 and finally the major 2001 financial/economic crises.

necessary form of capitalist social reproduction” (Bonefeld, 2014, p.155). Thus, capitalism is crisis prone, “there is an *inherent tendency towards crisis* in capitalism, which stems from capital’s simultaneous dependence on the reproduction and the destruction of living labour” (Rogers, 2014, p.72, italics in original).

Hence, rather than engaging with the ‘power shift’ argument between the state and the market in the post-crisis era, this research focuses on “the resolution of crisis in terms of the restructuring class relations” which “separates radical from orthodox interpretations” (Burnham, 2011, p.495). This paves the way for a political theory of crisis, stressing the ‘capitalist use of crisis’ as a means for the “violent and decisive reassertion of the fundamental class relation” (Negri, 1988, quoted in Burnham, 2011, p.499). This is in sharp contrast to the approaches that rely on mainstream IPE in the Turkish context, treating the ‘category of labour’ “as external to state-market restructuring” (Burnham, 1999, p.51).

Approaching the post-2001 crisis and AKP rule with the help of the conceptual framework developed by the CSE tradition would also challenge the ‘democratisation’ argument regarding the period in question. For the approaches mentioned earlier (‘The Strong State Tradition’ particularly), the AKP is understood as the agent of the ‘transformation’ and ‘democratisation’ of state-society relations. This argument is sustained “through the denial of class reality” (Yalman, 2012, p.36). However, the restructuring process following the 2001 crisis and AKP’s ‘effective’ statecraft (especially in its first term in power) pursued a technocratic and depoliticised – i.e. insulated from democratic pressures – policy-making approach (on this see Macartney, 2013; Burnham, 2001a). The technocratic minister Kemal Derviş’s emphasis on ‘*greater separation of politics and markets*’ post-crisis would be best understood in this context.

Finally, the CSE’s approach to the capitalist state would offer an account that radically differs from the mainstream IPE approaches and Strong State Tradition. The latter approaches explain the Turkish state with a Weberian sense – presupposing the “analytical autonomy of the political realm” like the majority of the non-Marxian methodologies (see Bonefeld et al., 1995, p.8). In this interpretation, the state is thought to be a ‘thing-like’ institution, autonomous, and independent from the capitalist social relations and society, which has its own rationality. The Turkish state, then, could not be

understood in terms of class, according to the ‘state tradition’ thesis, as the continuity between the pre-modern Ottoman era and the Turkish Republic is emphasised (İnsel, 1999; cf. Yalman, 2002). Clearly, the apparent transformation of the social relations of production is neglected in this account. Hence, this analysis offered by the ‘strong state tradition’ in order to understand the Turkish state and its development throughout the 20th century requires questioning. This research, thus, challenges this particular understanding of the Turkish state, by revealing the dynamics of capitalist development and the class character of the Turkish state, in contrast to the state tradition argument.

Hence, as its starting point is social relations of production and class struggle, the CSE approach offers a different approach to the state, which will be used in this research as the conceptual foundation. According to this approach, the state is not understood “as a thing in itself, but as a social form, a form of social relations” (Holloway, 1995, p.116). Hence, with this conceptualisation, alternative notions of class, class struggle and social relations of production are used for an alternative approach to the state. In contradistinction to the ‘strong state tradition’, this research follows the CSE approach which argues that “the essential feature of the state is its class character; its autonomy is the surface form of appearance of its role in the class struggle” (Clarke, 1983, p.115).

From this perspective, rather than explaining the AKP rule as a progressive rupture, this thesis reveals that the AKP’s policies in the areas of restructuring labour markets reflect the continuation of the Turkish state’s authoritarian management of labour power. And I argue that this restructuring was made possible by the 1980 coup that created the conditions of what has been called neoliberalism; i.e. free economy and the strong state (see Bonefeld, 2010).

#### **4. Research Questions**

The main research questions of this study can be summarised as follows: What can account for the political economic transformations in Turkey in the 2000s? In particular, how can an alternative theoretical approach – framed within the notions of class, capital, crisis, capitalist state and depoliticisation/politicisation – make sense of these transformations, set against conventional theoretical approaches? What are the dynamics behind the rise of political Islam in Turkey and the AKP’s rise to power? How were the AKP governments, unlike the crisis-ridden 1990s under coalition governments, able to

achieve political stability in the 2000s, and to what extent was it ‘successful’<sup>8</sup>? What are the characteristics of the AKP’s management of labour power regarding the debates on discontinuity in the political economy of Turkey under AKP governments?

## **5. Research Design**

### **5.1. Research Focus and Empirical Background of the Thesis**

The main focus of the research is therefore the ongoing process of restructuring of state-capital-labour relations. It attempts to bring class back in, in distinction to conventional accounts. Hence, in order to substantiate the ‘continuity’ argument, the main focus of this research will be the restructuring of the labour market and/or state’s management of labour from the 1980s until 2011<sup>9</sup>. Each chapter firstly focuses on the general economic policy of the period in question (i.e. import substitution industrialisation, export-oriented growth, financialisation) and their limits, contradictions and crisis-prone nature, then deals with the aspect of the state’s management of labour power in that period in question; and resistance/containment of labour.

As Bonefeld et al. (1995, p.12) suggests, “[r]eforms in the area of social policy, industrial relations legislation, law and order, and labour market policy all fall within this category”, namely the state’s management of labour power. Also, these areas are “a permanent site of class conflict” (ibid., p.12). Hence, specifically, this thesis deals in detail with the restructuring of these areas since the 1980s, and shows how the 2001 crisis accelerated –

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<sup>8</sup> ‘Successful’ here refers to the ‘state of affairs’ of the form of politics of economic management in a capitalist state; i.e. depoliticised or politicised. The form of management in the aftermath of the 2001 crisis and subsequently under the first two AKP governments (2002-2011) were framed around a depoliticised strategy – although there have been ambiguities following the 2008 global crisis. It is possible to assess the ‘success’ of this strategy by looking at how smooth the political economic restructuring process was; i.e. providing a certain degree of legitimacy to state managers, and preventing a possible significant unrest which would potentially unravel the class character of the state (Burnham, 2014). For example, in a different context, Kettell (2008, p.631) assesses the ‘success’ of the depoliticisation strategy of the Conservative government in Britain in terms of ERM membership, and he suggests that “ERM membership provided the Conservatives with a credible framework for economic management and an effective means of displacing political responsibility for economic affairs, enabling them to deal with a variety of governing problems with fewer difficulties than would otherwise have been the case.”

<sup>9</sup> The year 2011 is the end of AKP’s second term in office. The purpose of selecting this year as the end of this thesis’ period of study is to research two completed terms of AKP government.

and AKP governments sustained and further institutionalised – flexibilisation, competitiveness, privatisation, and deunionisation in order to remove what state managers perceived as the blockages in the flow and accumulation of capital. It empirically shows how labour has been affected through policies in those areas by looking at trade union density, informality in the labour market, wages, productivity levels and labour costs, employment and unemployment, the legal framework of union legislation, and privatisation under different governments. It draws a particular attention to the crisis resolution, and shows empirically that “labour is directly implicated in financial crisis resolution” (Marois, 2012a, p.5), by looking at the indicators above.

## **5.2. Research Methods**

This research mainly uses secondary analysis of existing data for information gathering. In this context, official statistics are widely used for the empirical substantiation of the thesis and its subject matter. Official statistics refer to the data collected by the state and its agencies (May, 2001, p.72), and some international organisations such as OECD, World Bank, IMF, and the EU (i.e. Eurostat) (see Harrison, 2001, p.59). These statistics cover, but are not limited to, the areas of the economy, labour markets, strikes, and welfare (Bryman, 2008; May, 2001, p.73, Harrison, 2001, p.58).

I have mainly used data collected by various Turkish government agencies in order to document the dynamics of capitalist development in Turkey. These include TurkStat (TÜİK - Turkish Institute for Statistics) data on the main indicators related to economy and labour (i.e. Household Labour Survey); as well as other governmental bodies’ data such as Central Bank statistics, Ministry of Development indicators, Ministry of Labour and Social Security’s strike and collective bargaining data.

I have also widely benefitted from reports and data produced by international organisations such as the IMF, World Bank and OECD. These are mainly related to labour productivity and trade union density, and also to the loan agreements and negotiations between these institutions and the Turkish government.

However, “both the production of official statistics and their secondary analysis are not unproblematic enterprises” (May, 2001, p.73). This is due to questions around reliability

and validity, and their social construction. Despite these limitations and problems, as Tim May (2001, p.86) suggests:

...they are still useful for research purposes. Contrary to some critics... official statistics produce interesting findings on contemporary society which, despite their shortcomings, have been used by radical and realist researchers alike. ...[A]nd they still provide useful empirical data for the production of knowledge about society and social relations.

Another secondary analysis which has been employed in this thesis was the analytical reading of some documents (Hakim, 2000, p.56) including newspapers and party resources of the AKP (e.g. election manifestos and party programme) in order to grasp and interpret the party's policy proposals and transformations. Despite their limitations, reliability, accuracy issues (Burnham et al., 2004, p.172) and apparent bias, newspapers "have great value in presenting up-to-date political information" (Harrison, 2001, p.107), and "manifestos provide the fullest official statement of each party's policy proposals" (Norris et.al., 1999, quoted in Harrison, 2001, p.110). Although this research is not primarily based on these resources, I have used them when they provide significant information. Other secondary resources include publications by academics, journal articles, research papers, reports, and announcements and documents produced by government bodies. Although sometimes limited when researching the Turkish case, the "increasing availability of official government documents on-line" made my task easier as a political researcher (Burnham et al., 2004, p.196).

Secondary analysis offers some advantages to the researcher. According to Bryman (2008, p.296), it allows the researcher to spend more time on the analysis and interpretation of data. Furthermore, reanalysis of the existing data may offer new interpretations (ibid., p.299), and generally secondary analysis offers an opportunity to employ high-quality data sets that are based on a large and reasonably representative sampler (ibid., p.311).

Finally, the issue of objectivity and subjectivity, and its relation to the theory needs to be raised. "As most qualitative researchers believe complete objectivity is impossible" (Vromen, 2010, p.257), so do I. Also, there is a strong connection between the theoretical assumptions and the framing of the research (Burnham et.al., 2004, p.277). My theoretical

approach (CSE) draws on Marxism and it is not neutral in critique of political economy. Furthermore, “a number of Marxist researchers have also questioned the validity and ‘objectivity’ of dominant research methods” (ibid., 2004, p.275). Nevertheless, rather than proving the veracity of my theoretical approach and allowing the theory to determine research findings (ibid., p.276), I have used the data objectively to support my argument empirically within the conceptual framework provided by my theoretical approach. What is meant by ‘objectively’ here is that I have not ‘ideologised’ the data. That is to say, I have not interpreted the data from a specific ideological standpoint. Rather, my approach entails discovering what is hidden within or inside the facts and economic data.

### **5.2.1. A Note on Periodisation**

The form of presentation of this research implies the periodisation of capitalist development and the state in Turkey, although within this periodisation structure I intend to follow a coherent thematical/conceptual framework. This would rather resemble conventional accounts which this thesis aims to challenge. I in fact employ this method for the purpose of interrogating the conventional accounts of Turkish political economy and their approach to distinct periods; and provide an alternative understanding of these particular periods from my theoretical perspective. Such a counter-heuristic approach with a similar logic in a different context, for example, is employed by Simon Clarke in his contribution to ‘Open Marxism’ (1992).

## **6. Structure of the Thesis**

The thesis consists of eight chapters. The next chapter (Chapter two) is the theoretical chapter which will help to develop the conceptual foundation of this thesis. It first discusses the mainstream IPE accounts, and then attempts to expound their conceptualisation of state-market relations against the background of ‘globalisation’. The chapter discusses how conventional accounts of IPE, critical or not, take state-market dichotomy for granted and discuss these concepts as externally related entities, thus offering non-class based explanations. The chapter then discusses how Marxist accounts attempted to offer alternative conceptualisation on state-market/economy and debated the state in class terms. It first discusses the Miliband-Poulantzas debate on the capitalist state. It then deals with the German State Derivation debate of the 1970s against the background of the Miliband-Poulantzas debate. The chapter then moves on to more



contemporary debates in Marxist IPE and their understanding of state, economy, and class against the background of ‘globalisation’ of capitalism. First, the Neo-Gramscian IPE is introduced and discussed. Then the CSE approach – the theoretical backbone of this thesis – is developed as a critique of both mainstream IPE and of above-mentioned Marxist accounts. The CSE approach emphasises the internal relation of the state and economy and argues that class is the constitutive category of this relation through the world market and nation state.

Chapter three is the historical background chapter. It summarises the capitalist development of Turkey since the foundation of the Republic in 1923 until the 1980 military coup. The focus is on the 1960-1980 period, a period when class struggle and labour militancy reached its peak. It particularly highlights the 1977-1980 period, which was crisis-ridden, politicised, and ended with a military coup.

Chapter four discusses the restructuring of the state and economy in the 1980s. It explains the role of the military regime in ‘putting an end to class-based politics’, the introduction of export-oriented growth, authoritarian practices and the restructuring of the legal and constitutional framework. This chapter argues that the restructuring in the 1980s is key to understanding the contemporary Turkish political economy and rise of political Islam.

Chapter five provides the dynamics of the crisis-ridden 1990s in the context of financialisation, instability, and the resurgence of labour. It then explains the basis of the rise of political Islam against the background of the crises of neoliberalism and socialist alternatives in Turkey. The chapter then focuses on the state managers’ attempts to overcome the crisis-ridden political economy by adopting an IMF-based disinflationary programme and the restructuring of the state and economy.

Chapter six analyses the 2001 crisis and its political significance. It discusses the responses from the capital and labour, and how the crisis was attempted to be overcome in a quasi-technocratic manner, and through the institutionalisation of depoliticised economic policy-making. It also discusses the process through which the Islamist movement underwent a transformation while the Turkish state was dealing with the crisis, and how this provided an appropriate ground for AKP’s rise to power.

Chapter seven is on the politics of restructuring in the AKP's first term in power – the 2002-2007 period. This period is described as a success story by Turkish liberal intelligentsia, international commentators and institutions, as the EU-backed 'democratisation' process gained momentum and the externally anchored 'rules-based' policy provided unprecedented economic growth and performance. However, the chapter discusses this period in the context of the restructuring of state-capital-labour relations, and elaborates how post-crisis economic policy was sustained and the labour market was attempted to be flexibilised further for the sake of competitiveness; and how resistance to privatisation decreased under coercive crisis-resolution policies.

Chapter eight discusses the AKP's second term in power – the 2007-2011 period. It discusses the developments that led to the AKP's consolidation of power against the background of domestic political crisis (clashes with the army and judiciary), and global economic crisis. It discusses the management of the economic crisis, the limits and contradictions of depoliticisation strategies, and how the crisis was once again used for further competitiveness and flexibilisation of labour power. This chapter also discusses the elements of a possible rupture in Turkish political economy in the context of AKP's consolidation of power post-2007.

Chapter nine is the conclusion. It summarises the trajectory of the Turkish political economy since the 1980s, and returns to my research questions and research findings. I will argue that the AKP was the agent of an uninterrupted neoliberal restructuring process in the 2000s through its management of labour. I will further argue that the 2008 global crisis, in the Turkish context, led to the further authoritarianisation of Turkish capitalism against the background of the end of the easy growth years and the AKP's consolidation of power.

## Chapter 2

### Conceptualisation of State and Market in an Era of ‘Globalisation’: From Mainstream IPE to CSE Debate

#### 1. Introduction: Beyond the ‘Transatlantic Divide’

The introduction argued that conventional approaches to the Turkish political economy conceived of state and market as externally related ‘things’. This chapter analyses the theoretical roots of this understanding in contemporary state theory and International Political Economy (IPE) approaches.

The debates in IPE have recently been framed around increasingly popular dichotomies such as ‘American IPE’ and ‘British IPE’ (see, among others, Cohen, 2008; Blyth, 2009; cf. Cammack, 2011). According to this interpretation of ‘transatlantic divide’, ‘American IPE’ – albeit with differences amongst them – reflect the principles of positivism and empiricism, normative concerns are undermined, and grand theorising is generally eschewed. Also, IPE is understood of as a sub-discipline of the International Relations (IR), emphasising the importance of interactions between sovereign states within the context of the world economy (Cohen, 2009, p.23).<sup>10</sup>

On the other hand, British IPE is argued to be a ‘critical theory’ which would ‘challeng[e] orthodoxies of all kinds’ (Cohen, 2008, p.62; cf. Worth, 2011). In distinction to the American school, the British school is defined as post-positivist, interpretative and normative, and “has become more historically focused and more open to a variety of perspectives than its American counterpart” (Blyth, 2009, p.9). Susan Strange is portrayed as the foundational scholar of British IPE with a ‘foundational’ 1970 article “International Economics and International Relations: A Case of Mutual Neglect” (Cohen, 2008; cf. Clift and Rosamond, 2009, p.95). Also, authors like Phil Cerny and

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<sup>10</sup> The works of Robert Keohane, Joseph Nye, Robert Gilpin, Peter Katzenstein and Stephen Krasner are thought to be the origins of a distinct American school (Cohen, 2009., p.24).

‘neo-Gramscians’ Stephen Gill and Robert Cox are added to the list<sup>11</sup> (Cohen, 2008, p.59).

Indeed, this dichotomy of British IPE *versus* American IPE quickly started to dominate the debates in the IPE discipline. For example, the journals *Review of International Political Economy* and *New Political Economy* published special issues on the debate in 2009, assessing their relative merits and the accuracy of Benjamin Cohen’s characterisation of them (Cammack, 2011, p.151). However, the debate is constructed on problematic assumptions and divides, and it is “so structured as to exclude the greater part of the critical literature on the international political economy, including all of it that stems from Marxist or ‘neo-Marxist’ perspectives” (ibid., p.150).

Therefore, this chapter rather problematises a more fundamental characteristic of the discipline of IPE: the state-market dichotomy that views state and market as distinct and opposing forms of social organisation. This is stamped upon the character of the IPE discipline and inherent in the majority of IPE approaches, ‘critical’ or not. As Ian Bruff (2011) asserts, this is because of the problematic separation of politics and economics which is the intellectual legacy of political science’s capture of IR for even ‘critical’ IPE. Therefore, as Bruff (ibid., p.84) puts “it is not just the more mainstream contributions that deploy a state/market dichotomy, but also more self-professed critical perspectives”. Indeed, as Watson (2005, p.19) asserts, “while most IPE scholars pay lip-service to the artificial nature of that dichotomy, in practice their studies serve merely to reinforce it.”

Within this epistemological background, developments in the world market since the 1970s have been discussed in the context of whether the national democratic state lost its power and sovereignty *vis-à-vis* the market, or whether this was a mere fantasy and the state still had the power to control the markets and meet the demands of ‘domestic’ society (the sceptics argument). A number of conceptualisations have been developed in this context, from a crude ‘withering away of the state’ thesis to more analytical ‘competition state’ and ‘internationalisation of the state’ theses. Except for the latter developed by

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<sup>11</sup> This taxonomy is criticised by Owen Worth (2011, p.123): “it [British School] has moved to a broad church that includes neo-Gramscianism at one end and traditional IR at the other, and, as a result, has watered down any Marxist or radical component that was previously seen as critical.”

Robert Cox and neo-Gramscians, the IPE as a discipline “eschews a study of social relations” (Burnham, 1994, p.221).

The chapter thus starts with a critical review of the various positions in the ‘IPE’ and globalisation debate reflecting the above-mentioned state-market dichotomy. In order to overcome this ‘false dichotomy’ (Radice, 2010), the chapter then moves to the Marxist state debates of the 1970s and their handling of the capitalist state and capital (Miliband-Poulantzas debate and the German state derivation debate). The neo-Gramscian approach is then assessed, which offered a class-based account to the problem of ‘global’ capital and the changing *form* of the ‘state’. Finally, the Conference of Socialist Economists (CSE) approach is introduced against the background of all the debates mentioned. This forms the theoretical backbone of the thesis. This debate offers a different account of state-market relations through the form analysis of the capitalist state and emphasised the class struggle in understanding the state, as well as various governing strategies employed by state managers. It also expounded Marx’s notion of ‘world market’ which is “the categorical imperative of capitalist wealth” (Bonefeld, 2014, p.155).

### **Part One: State-Market Dichotomy as a ‘Common Denominator’ in IPE: From Globalisationists to Globalisation Sceptics**

As introduced above, in modern IPE, the ‘state’ and the ‘market’ are understood as “two opposed forms of social organisation” (Gilpin, 1987, p.4). Hence, accordingly, the global political economy is defined as “the interaction of the market and such powerful actors as states, multinational firms and international organisations” (Gilpin, 2001, p.17). Here the emphasis is on the different social phenomena such as the state and the market, ‘*interacting*’ externally, hence “their autonomy at the point of constitution” is emphasised by IPE scholars (Watson, 2005, p.21). This conceptualisation implies that “states and markets contain impersonal properties intrinsic to themselves, as relatively self-organizing components of society” (see Bruff, 2011, p.82).

Against this background, the developments in global political economy have been discussed within this framework of ‘interaction’ and ‘balance of power’ (see Strange, 1996) between states and markets. Although there are considerable differences, it could be observed that this above-mentioned understanding is the ‘unifying factor’ of competing accounts of IPE, in discussing the effects of globalisation on states and

markets.

In this context, the next section discusses the first stream in the debate on globalisation: the ‘new global order’/ ‘withering away of the state’ thesis. From ‘hyper-globalisationist’ Kenichi Ohmae and Robert Reich to the more critical Susan Strange, this approach emphasises “how globalisation gives the market ‘power over’ the state with a resulting loss of ‘sovereignty’ and national autonomy” (Burnham, 1997, p.150).

### **2.1. The Globalisation Orthodoxy and ‘Withering Away of the State’**

According to this approach, transformations in the world economy meant that the nation state is withering away and is in retreat, because of the increasing power of markets. This ‘business school’ globalisation thesis (as coined by Watson and Hay, 2003) argued that “the nation-state has become an unnatural, even dysfunctional unit for organizing human activity and managing economic endeavour in a borderless world. It represents no genuine, shared community of economic interests; it defines no meaningful flows of economic activity” (Ohmae, 1993, p. 79). According to Ohmae, the underlying reasons for the end of the nation state are the transformations in what he calls the four ‘I’s: *Investment, Industry, Information technology and the Individual consumers*. He thus argues that “the investment is no longer geographically constrained”, “industry is also far more global in orientation today than it was a decade ago”, the information technology “facilitates the movement of investment and industry and makes it possible for a company to operate in various parts of the world without having to build up an entire business system in each of the countries where it has a presence”, and the last, namely individual consumers “have also become more global in orientation” (Ohmae, 1996, pp. 2-4). In this ‘borderless world’, there is no need for the state, as “global markets for all the I’s work just fine on their own” (ibid, p.4). This implies a ‘logic of no alternative’ politically for governments (cf. Watson and Hay, 2003), according to Ohmae (1996, p.12):

[A]s the workings of genuinely global capital markets dwarf their ability to control exchange rates or protect their currency, nation-states have become inescapably vulnerable to the discipline imposed by economic choices made elsewhere by people and institutions over which they have no practical control.

A similar yet more critical approach is developed by Susan Strange. According to her, states are “increasingly becoming hollow, or defective, institutions” (1995, p.56). The underlying reason identified by Strange is radical changes in the international financial system since 1973, which led to the emergence of what Strange calls *Casino Capitalism* (1997). The uncertainty and instability in the financial markets makes it impossible for states to govern and regulate the markets. Consequently, she argues, “the impersonal forces of world markets... are now more powerful than the states... Now it is the markets which, on many critical issues, are the masters over the governments of states” (1996, p.4).

As Peter Burnham asserts, here “we are presented with a view of the state as powerless and external to the market” (1997, p.152). In Ohmae’s analysis, the region states – although they would not be managed by political authorities – are thought to be the natural economic zones that would replace the nation state; so the end of the nation-state would not mean a state of chaos (1993, p.79). Susan Strange, on the other hand, is pessimistic about the regulation of this new state of affairs. The developments in the financial markets led her to argue that, “at the heart of the international political economy, there is a vacuum, a vacuum not adequately filled by inter-governmental institutions or by a hegemonic power exercising leadership in the common interest” (Strange, 1996, p.14). This is in sharp contrast with the previous system of ‘inter-state relations’, based on a more stable and orderly world where the territorial borders of the world meant something (1996, pp.3-4).

This section presented the argument that the process of ‘globalisation’ changed state-market power relations fundamentally, putting the states in a powerless position. The next section deals with more ‘critical’ state-centric approaches to globalisation. First, the concept of ‘competition state’ is discussed. Then the globalisation sceptics’ or ‘progressive nationalist’ (Radice, 2000) approach is discussed. It is argued that this second line of argument again relies on the ‘false dichotomy’ of state-market and national-global.

## **2.2. State-Centric Approaches: Competition State and ‘Bringing State Back In’ Thesis**

The concept of ‘Competition State’ was coined and developed by Phil Cerny (see Cerny,

1990; 1997; 1999; 2010).<sup>12</sup> This concept offers a more refined and analytical tool in expounding the process of ‘globalisation of capitalism’ and the changing role of the state.

According to Cerny, the state is not simply a victim of ‘globalisation’ process and ‘withering away’. Rather, “the state as a ‘competition state’ plays a fundamental role in promoting globalization” (Cerny, 1999, p.5). Nevertheless, the very form of national welfare state is changing, and some of its role and functions are eroding. As Cerny (2010, p.6) argues: “[t]he paradox of the Competition State is that at one and the same time, the state is being both undermined and “hollowed out”, on one hand, and yet strengthened and made more powerful, on the other.”

In this formulation, the ‘hollowed out’ aspect of the state is its “holistic role of representing the highest, mostly all-encompassing goal of the common good or the public interest or the material and/or moral prosperity and health of the citizens” (ibid., p.6). The strengthened and more powerful aspects of the state, on the other hand, are explained through increased “state intervention and regulation in the name of competitiveness and marketization” (Cerny, 1997, p.251). In contradistinction to the previous era of ‘welfare state’, “the underlying aim of state intervention is therefore not to replace the market, but to make it work more efficiently” (Cerny, 2010, p.8). That is, the end of the ‘decommodifying role’ of the welfare state, which is replaced by the ‘market opening’ and ‘commodification’ role of the ‘competition state’ under globalisation (Cerny, 1997, p.266; 1999, p.13).

There are a number of significant points in the analysis of ‘competition state’, which would advance the understanding of the process of globalisation and the role of the state therein. However, the role attributed to the state prior to 1973 – namely a role of ‘insulating the national economies from the global economy’<sup>13</sup> (Cerny, 1997, p.259) – implies the exteriority of the ‘national’ and the ‘global’ and a qualitative change in state-capital relations. Hence, the national welfare state had a significant degree of ‘state autonomy’ *vis-à-vis* the economy, replacing the market (as mentioned above). The result

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<sup>12</sup> From rather a more ‘radical’ perspective, Joachim Hirsch (1997) uses the term in a similar manner.

<sup>13</sup> As we shall see later, this point overlaps with Robert Cox (1981; 1983).



of the transformations in world economy means the loss of this autonomy, and giving up to the ‘market’ forces. Hence, Cerny’s approach is firmly based on state-market dichotomy, which excludes social relations of production. Furthermore, as Werner Bonefeld (2008, p.70) put it, the concept of ‘competition state’ is a “highly dubious concept since it suggests that capitalist states’ primary occupation in the past was not to ensure economic competitiveness.”

A more critical approach and fundamental opposition comes from the state-centric political economy and IPE literature arguing for a ‘progressive nationalism’ through the state *against* market power. In contrast to the first two positions, this line of argument criticises the idea that there have been ‘qualitative transformations’ in the world economy since the 1970s. Consequently, claims of a ‘power shift’ from states to the ‘globalising markets’ are not credible. According to Hirst and Thompson (1995, p.424), “nation states, and forms of international regulation created and sustained by nation states, still have a fundamental role in providing governance of the economy.”

In order to discredit the globalisation orthodoxy, sceptics empirically challenged conventional arguments through indexes of capital flows, FDI’s, trade levels and attempted to indicate that “there is nothing particularly new about a global economy, in that many indicators of transnationalisation have in recent decades only recovered the levels reached already before 1914” (cf. Radice, 2000, p.6). In this context, a broad body of literature from Linda Weiss (1998) to Peter Evans (1997) and Hirst and Thompson (1995) argued that states remain powerful but have been restructured through the neoliberal ideology of globalism. For that reason the state has to be ‘reclaimed’ for a progressive agenda of development, and it is the only way of ‘taming the markets’.

Although this line of argument has strengths insofar as it challenges the ‘myths’ of the globalisation orthodoxy, it still remains locked in a debate on the question of states *versus* markets. As Hugo Radice (2000, p.9) asserts, the ‘progressive nationalists’ “separate out and counterpose state and market, national and international. Adopting the ‘state-centred’ approach... they take for granted that, in the last analysis, *either* the market *or* the state regulates economic development.” Furthermore, in this line of argument “labour is conspicuous by its absence” (Bonefeld, 2006, p.45). Hence, as with Cerny and the ‘competition state’ argument, the study of social relations is absent in this approach.

The following sections of the chapter thus deal with alternative readings and interpretations of state-economy and state-society relations from Marxist perspectives. The aim is to bring class back in to the debate, and offer a better understanding, which will provide the conceptual foundations of this thesis.

## **Part Two: Marxist Theories of the State since the 1960s**

### **3.1 State, Class, Power: Miliband-Poulantzas Debate**

In late 1960s, there was a revitalisation of the debates on the nature and character of the state by Marxist authors, who felt the need to challenge mainstream and orthodox accounts of state and make better sense of state-economy and state-class relations in capitalist society. The two important figures in these debates were Greek Marxist Nicos Poulantzas and British Marxist Ralph Miliband. Before dealing with the debate between these two theorists, a contextualisation is needed.

In late 1960s, Nicos Poulantzas attempted to develop a theory of the state drawing upon structural Marxist Louis Althusser, who argued for the “*relative autonomy* of politics and ideology from the economic base” (Carnoy, 1984, p.90, italics in original). In Althusser’s model of capitalist society, there are three distinct structures or levels – the economic, the political and the ideological – which are combined under the mode of production, with ‘the economic’ being determinate in the last instance (ibid, p.90). Hence, Poulantzas followed this model which was developed by Althusser and “sought to provide the hitherto missing theory of the political level, to complement Marx’s *Capital*, which Poulantzas regarded as providing only the theory of the economic level” (Clarke, 1991, p.17).

The manifestation of Althusser’s influence on Poulantzas can especially be observed in his early structuralist work on the capitalist state, i.e. in *Political Power and Social Classes* which was published in 1968. In this work, Poulantzas’ starting point was “the formal separation of the political from the economic sphere, which established the relative autonomy of the state and the function allocated to it of securing social cohesion” (Martin, 2008, p.10). Hence, the state is relatively autonomous from the economy, and it is also relatively autonomous from the class struggle in the sphere of production, which is the presupposition of its role as a class state (Carnoy, 1984, p. 98). This interpretation

presupposes the specificity of the political, and negates the attempts to relate the capital and the state in an unmediated form; and it was the theoretical basis on which Poulantzas developed his critique of Miliband's work.

On the other side, in the late 1960s, Ralph Miliband developed a framework of the state that was a critique of liberal "post-war Anglo-American political science", which viewed the state as a 'neutral' terrain that manifests the needs and demands of the pluralist society (Martin, 2008, p.12; Miliband, 1969, pp.2-4). Thus, he "was interested in confronting liberal theorists of democracy with the "facts" about the social background, personal ties, and shared values of economic and political elites" (Jessop, 1990; quoted in Rogers, 2012, p.36).

Concomitantly, against the early contributions on the British State by *New Left Review* circles (e.g. Perry Anderson and Tom Nairn) which dismissed the role of 'capitalist class' in the British state and emphasised the power of 'landed aristocracy' within the 'power bloc', Miliband argued that the ruling class was *capitalist* (Clarke, 1991, p.19). That 'ruling class', according to Miliband in his 1969 book *The State in Capitalist Society* – drawing upon the classical Marxist scheme – "is that class which owns and controls the means of production and which is able, by virtue of the economic power thus conferred upon it, to use the state as its instrument for the domination of society" (p.23). Hence, in *The State in Capitalist Society*, Miliband empirically documented the means by which capital achieved and reproduced its domination over the state in depth in order to challenge the above-mentioned accounts of the state (Clarke, 1991, p.19). The definition of the ruling class in this manner and the understanding of its political relation to the state in a rather direct form "was originally the cornerstone of what came to be called the 'instrumentalist' theory of the state" (Barrow et al., 2008, p.11).

Hence, these two conceptual foundations and the debate between the two protagonists has been characterised as structuralism *versus* instrumentalism<sup>14</sup>. The debate centred on

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<sup>14</sup> Nevertheless, Carnoy (1984, p.104) notes that it would be a mistake to view Miliband as an instrumentalist. According to him, the debate between Poulantzas and Miliband was rather related to issues of 'method' and 'the individual as a source of change versus the individual as determined by structure'.

Miliband's above-mentioned book *The State in Capitalist Society*, and began in the pages of *New Left Review* in 1969. Poulantzas penned a critical review of Miliband's book, and emphasised the epistemological differences between the two positions, or the lack of (explicit) epistemology in Miliband's work (Poulantzas, 1969, pp.67-69). According to Poulantzas, "the procedure chosen by Miliband—a *direct* reply to bourgeois ideologies by the immediate examination of concrete fact" was the "source of the faults of his book" (ibid., p.69). Hence, rather than developing a Marxist theory of the state, Miliband, according to Poulantzas, attacks "bourgeois ideologies of the state whilst placing himself on their own terrain" (ibid., p.69). Instead of rejecting the very notion of 'elite' – for concepts and notions are never innocent – for example, his critique was "reduced to an exposé of the empirical presence of class interests among elites" (Martin, 2008, p.12).

The immediate consequence of such a methodological fault is manifested in Miliband's understanding of classes and state, according to Poulantzas. In a structuralist parlance, Poulantzas argued that Miliband's methodology led him to have difficulties "in comprehending social classes and the State as *objective structures*, and their relations as an *objective system of regular connections*, a structure and a system whose agents, 'men', are in the words of Marx, 'bearers' of it" (Poulantzas, 1969, p.70, italics in original). Thus, rather than grasping the state in this manner, Miliband emphasised *inter-personal relations*, and treated political power as a matter of inter-personal ties which would be fitted into a 'subjective' rather than 'objective' set of relations (Martin, 2008, p.12).

In this context, Poulantzas criticised Miliband's position on the relation between the state and the ruling class; in which Miliband, against the background of 'bourgeois ideologies', attempted to show the participation of members of capitalist class in the state apparatus and in the government. Having established this relation, Miliband then emphasises the similar *social origins* of the members of the state apparatus and the ruling class, and the *personal ties* between these two groups in terms of influence, status and milieu (Poulantzas, 1969, p.72). Poulantzas argued that this emphasis on the direct relation of members of the capitalist class with members of elite groups in the state apparatus is 'undue' (Carnoy, 1984, p.105), and it is not the important side of the matter. Hence, according to Poulantzas (1969):

The relation between the bourgeois class and the State is an *objective relation*. This means that if the *function* of the State in a determinate social formation and the *interests* of the dominant class in this formation *coincide*, it is by reason of the system itself: the direct participation of members of the ruling class in the State apparatus is not the *cause* but the *effect*, and moreover a chance and contingent one, of this objective coincidence (p.73, italics in original).

Thus, Miliband's approach replaced the economic reductionism of orthodox Marxism with a class reductionism, "according to which the dominant class stamped its character on the state" (Clarke, 1991, p.20). Against this, by emphasising the *objective relations*, Poulantzas insisted on the *relative autonomy* of the state in relation to the economy and ruling class. Thus, relying on Marx's conceptualisation of Bonapartism – which is 'characteristic of *all* forms of the capitalist state' according to Poulantzas – "State can only truly serve the ruling class in so far as it is relatively autonomous from the diverse fractions of this class, precisely in order to be able to organize the hegemony of the whole of this class" (Poulantzas, 1969, p.74).

In Miliband, then, there was no theoretical explanation on the *structural* relationship between the state and society (Clarke, 1991, p.19). Miliband did not conceive the state as "*the factor of cohesion of a social formation and the factor of reproduction of the conditions of production of a system* that itself determines the domination of one class over the others" (Poulantzas, 1969, p.73, italics in original). The implication of the lack of such an explicit theoretical position and the existence of an instrumentalist methodology in Miliband was his apparent dismissal of the inherent class character of the state in its form; hence an understanding of the state inserted into capitalist society, not a capitalist state from the start (Martin, 2008, p.12).

Miliband replied to Poulantzas' critique and defended his own 'empiricist' position as he believed it was the only way to show the shortcomings of a dominant democratic-pluralist view of the state; and he also argued that the apparent underdeveloped 'study of the concrete' in Poulantzas (as well as Althusser) was problematic (Miliband, 1970, pp.54-55). Miliband then moved to the critique of Poulantzas' structuralist position and his emphasis on the 'objective relations'. He argued that Poulantzas used the notions of

‘objective structures’ and ‘objective relations’, and this is simply a substitute for the notion of ‘ruling class’. However, this does not allow Poulantzas to move away from the ‘instrumentalist’ position, as the ruling class is a dominant element of the system. Hence, “the state is not ‘manipulated’ by the ruling class into doing its bidding: it does so autonomously but totally because of the ‘objective relations’ imposed upon it by the system” (ibid., p.57).

Hence, according to Miliband, Poulantzas’s account could be defined as ‘structural super-determinism’ as “the state élite is... totally imprisoned in objective structures”, which leads to suggest that “there is *really* no difference between a state ruled, say, by bourgeois constitutionalists, whether conservative or social democrat, and one ruled by, say, Fascists” (Miliband, 1970, p.58, italics in original). Consequently, especially in his second reply<sup>15</sup> Miliband attempted to show the limits of Poulantzas’ notion of the relative autonomy of the state and argued that actually “Poulantzas had effectively presented his own instrumentalist account of the state” (Martin, 2008, p.13).

Bob Jessop defined the debate between Miliband and Poulantzas as ‘the dialogue of the deaf’ as these two theorists “conceived the capitalist state in such radically different and fundamentally incommensurable terms that they were actually discussing two different types of theoretical object” (2008, p.153). However, the importance of the debate stems from its role in showing the limits of Poulantzas’ early structural approach, and the contradictions of the notion of ‘relative autonomy’ of the state. As Jessop suggested later, “the concept of ‘relative autonomy’ as a principle of explanation can be consigned to the theoretical dustbin” (Jessop, 1990; quoted in Rogers, 2012, p.38).

Against all the differences, however, there are important commonalities intrinsic to the epistemological and methodological positions of these two state theorists. First of all, they both treated the state as an entity standing outside the market/economy, and both implied

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<sup>15</sup> The Miliband-Poulantzas debate continued with another detailed reply by Miliband in 1973 over the English translation of Poulantzas’ above-mentioned book. Later, in 1975, Ernesto Laclau wrote a critical account of the Miliband-Poulantzas debate. In 1976, Poulantzas replied to both Miliband and Laclau. This later reply also reflects the evolution of Poulantzas’ thought from 1968 to 1976, and the loosening of his structuralist stance. However, the concept of relative autonomy of state managers remained important in his work (Jessop, 2008; Martin, 2008).

that the power can change between the two (Rogers, 2014, p.118). Furthermore, as Werner Bonefeld (2008, p.65) puts,

[t]he Poulantzas/Miliband debate only touched the surface. Instead of the Marxian conception of the social relations of production, the two protagonists were seen to operate within the traditional confines of bourgeois social theory, according to which social theory is either a theory of structures or of social action.

Hence, they both – either explicitly (Poulantzas) or implicitly (Miliband) – interpreted Marx’s critique of political economy (specifically *Capital*) as an analysis of the economic level that needed to be complemented in the political level through new ‘political’ concepts, which were developed through another ‘autonomous and specific object of science’: the political (Holloway and Picciotto, 1978, p.4).

In this context, what has been known as the German state derivation debate offered a possibility of going beyond the structuralist-instrumentalist polarity of Poulantzas and Miliband, through an analysis which draws upon Marx’s critique of political economy and rejects both ‘politicist’ and ‘economistic’ positions. It is argued that such an approach would give a better understanding of the relation between the ‘economic’ and the ‘political’ – or the state and economy – and rejects approaches which take the separation of the two for granted. The next section, thus, discusses the German State Derivation debate against the background of the Miliband-Poulantzas debate.

### **3.2. The German State Derivation Debate**

Although it was not a direct response to the Miliband-Poulantzas debate, the German state derivationists addressed the questions which were not adequately theorised by this debate. The aim of the derivationists was to adequately theorise the relation between the economic and political as discrete forms of capitalist social relations (Holloway and Picciotto, 1978, p.3).

The German debate came to the fore in a particular German context, which was related to the so-called West German economic miracle and increased state intervention as a response to its crisis, the limits of social democratic reformism, and the failure of the

radical student movement. These developments raised important questions on the limits of state action and the power of the state which were dealt with by the German debate (Holloway and Picciotto, 1978, pp.15-16; see also Clarke 1991).

In distinction to the Poulantzas-Miliband debate, the German debate focused on fundamental social relations in order to conceptualise the capitalist state (see Clarke, 1991, p.9). As Clarke (*ibid.*, p.9) points out in his assessment of the state derivation debate:

The constitution of the ‘economic’ and the ‘political’ as distinct spheres of social existence, which defines the capitalist form of the state, is not a universal feature of human societies, ... it is a feature specific to capitalist societies, to be explained on the basis of the social form of capitalist production. Thus, the state derivation approach sought to ‘derive’ the state, logically and historically, from the categories developed by Marx in *Capital*.

Thus, the derivation debate was also named the ‘capital logic’ school (Barrow, 2000; Carnoy, 1984). The derivationists argued that there is a need to return to fundamentals in order to understand the form of the state, i.e. the critique of political economy developed by Marx in *Capital* and *Grundrisse*. Put differently, the ‘political’, analysed by derivationists, “draws its inspiration less from Marx’s overtly political writings than from *Capital* and the *Grundrisse*” (Holloway and Picciotto, 1978; quoted in Barrow, 2000, p.96). In that vein, the contributors to the German debate did not read and interpret Marx’s *Capital* “as a theory of the ‘economic’ but as a theory of the social relations of capitalist society as a whole” (Clarke, 1991, p.9). Since they interpreted the *Capital* in this manner, the argument is that the social relations of capitalist mode of production do not only give rise to the economic form and the categories of political economy, but they also give rise to the political form of social relations (Holloway and Picciotto, 1978, p.18).

Hence, Marx’s theory of value provides the starting point for a historical materialist critique of the state, and it gives rise to the economic and political categories. The bourgeois theories of the state, and even more radical accounts discussed above, however, “fetishise the differentiated forms of capitalist social relations by detaching them from one another and treating them as though they were distinct and independent social relations” (Clarke, 1991, p.10). However, derivationists emphasised the *internality* of



these relations, and thus the internality of the economic and political. According to this approach, “economy and politics are autonomous from each other, but autonomous as moments of a *contradictory unity*, not as subsystems of a total social system with external relations” (Altvater and Hoffman, 1990, p.141, italics in original). This interpretation is crucial to refrain from the reductionist and politicist accounts of economic base and the political superstructure, in which the economic base is the decisive factor, even it is claimed to be decisive ‘in the last instance’.

Consequently, in the state derivation debate, “the investigation of the relation between the economic and the political begins not by asking in what way the ‘economic base’ determines the ‘political superstructure’ but by asking: what is it about social relations in bourgeois society that makes them appear in separate forms as economic relations and political relations?” (Holloway and Picciotto, 1978, p.18). Put differently, the German state derivation debate dealt with the question of the form of the state, following Soviet legal theoretician Eugen Pashukanis’ (1951, quoted in Holloway and Picciotto, 1978, p.19) often quoted formulation of this question:

Why does the dominance of a class not continue to be that which it is - that is to say, the subordination in fact of one part of the population to another part? Why does it take on the form of official state domination? Or, which is the same thing, why is not the mechanism of state constraint created as the private mechanism of the dominant class? Why is it disassociated from the dominant class - taking the form of an impersonal mechanism of public authority isolated from society?

Hence, the contributors to the derivation debate attempted to explain this basic question, namely the *form* of the state, which would be derived from the social relations of capitalist production developed by Marx in *Capital*. The derivation had to be both logical and historical, i.e. to show that the economic-political differentiation was a necessary result of the social form of capitalist production, and to show how this differentiation emerged historically (Clarke, 1991, p.11).

Within this broad framework, there have been three streams in the German state derivation debate that address the question above. The first and most dominant approach was developed by Müller and Neusüss (1978), Elmar Altvater (1978; 1990) and Blanke

et al.(1978) who defined the state as the ‘ideal collective capitalist’<sup>16</sup>. According to them, the separation of state from civil society is a consequence of generalised commodity production, and this separation is not only *possible* but also *necessary* for securing the conditions of capital accumulation (Jessop, 1977, p.362). To be more precise, “...due to the existence of an autonomized state standing above the fray that the social relations of an otherwise anarchic society are reproduced and the general interest of total social capital thus established” (Holloway and Picciotto, 1978, p.19). What is meant by total social capital is the “combination as a whole in the sense of the real average existence of the many individual capitals, whose subjective actions, according to the conditions at any given time, result in the creation of average conditions as the conditions of total social capital” (Altvater, 1978, p.40). Therefore, according to this approach, capital requires a specific (political) institution which is ‘alongside and outside bourgeois society’ (a definition borrowed from the Marx and Engel’s *German Ideology*, Altvater, 1978, p.41; Müller and Neusüss, 1978, p.36) which would not be subject to and bounded by its limitations like capital, and therefore could maintain the ‘general interest of total social capital’ against both the working class and the individual capitals. Müller and Neusüss (1978, p.37) explain the character of the ‘welfare state’ in this context; since capital logic, by imposing a brutal competition which tends to destroy its own basis – the labour power of the workers – the ‘welfare’ state by protecting the health of the workers thus sustain the general conditions of the reproduction of labour power (Holloway and Picciotto, 1978, p.20).

Blanke, Jürgens and Kastendiek, by sharing this approach, imply the regulative character of the state in social relations of production (the state being positioned ‘alongside and outside bourgeois society’) by means of law and money (ibid., p.20). Hence, “a relationship of ownership between the subjects of exchange and their commodities, ... requires a legal system to codify and enforce property rights, and so an ‘extra-economic

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<sup>16</sup> This conceptualisation is introduced by Friedrich Engels in *Anti-Dühring*: “...the modern state, too, is only the organisation which bourgeois society provides itself in order to maintain the general external conditions of the capitalist mode of production against encroachments either by the workers or by individual capitalists. The modern state, whatever its form, is an essentially capitalist machine; it is the state of the capitalists, the ideal collective body of all capitalists” (Engels, 1972; quoted in Barrow, 2000, p.100).

coercive force’, which is the basis of the historical development of the state” (Clarke, 1991, p.11).

The second stream is represented by Flatow and Huisken, by asking “how it is possible for the state, a form of class rule, to appear nevertheless as an institution standing ‘alongside and outside bourgeois society’” (Holloway and Picciotto, 1978, p.23). Hence, they attempted to understand how the state is conceived and perceived as a neutral institution, by the working class. For this purpose, they refer to the ‘trinity formula’ (capital: profit, land: ground-rent, labour: wages) which is introduced by Marx in volume three of the *Capital*, and “argue that all members of society have a (superficially) common interest by reason of their common status as owners of a source of revenue” (ibid, p.23). Therefore, an autonomous state appears to reflect the common interest of the property owners, not any other institution, and therefore they realise their interests through the state, which is seemingly neutral (ibid, p.23).

These first two streams represented theoretical advancement compared to earlier approaches to the state. For example, the first stream challenged and criticised the reductionist ‘state monopoly capitalism’ thesis of the fusion of monopoly capital and the state, and they were able to show the separation of capital and the state and emphasised the capitalist nature of the state through this separation (Carnoy, 1984; Holloway and Picciotto, 1978). However, the functionalist position of the first stream has been criticised in many accounts. As Simon Clarke puts it, this stream “endows the state with an independence, an omniscience and an omnipotence, on the basis of which it can formulate and implement the ‘general interest’ of capital, which it manifestly does not have” (1991, p.11). Second, since this approach is focused on the antagonistic relations between individual capitals, the development of the state as a form of class domination, and its relation to the working class is missing (Holloway and Picciotto, 1978, p.22). Consequently, there is little or no room for class struggle in this stream of the debate, which makes it a-historical (ibid., p.22).

The second stream also has significant fundamental weaknesses in terms of developing a historical materialist theory of the state. The weakness was inherent in their starting point of the “fetishized appearance presented by the surface of bourgeois society” which led them to “cut themselves off from an historical understanding of the state” (ibid., p.23).

In this context, a more rigorous analysis was developed by Joachim Hirsch among the derivationists, which represents the third stream in the debate. Hirsch's approach is especially important as he reversed the *form* and *functions* of the state against the first stream. According to him, "the 'functions of the State' cannot be discussed so long as there is a lack of clarity about the character and the conditions for the constitution of the specifically bourgeois form of political domination" (Hirsch, 1978, p.58). In that vein, the capitalist state cannot be derived from the necessity of establishing the general interests of capital as a result of the anarchic competition among individual capitals or groups of capital, but from the nature of the social relations of domination in capitalist society (Holloway and Picciotto, 1978, p.24). Hence, Hirsch's account focuses on the class nature of the state and relation of exploitation of labour by capital, in contrast to earlier streams. Consequently, the form of the bourgeois state must be understood in the context of abstracting relations of force from the immediate process of production and locating in an instance standing apart from the direct producers (*ibid.*, p.24); that is "the creation of formal bourgeois freedom and equality and the establishment of a state monopoly of force" (Hirsch, 1978, p.62).

Having established the state as an autonomous body, attributed to the use of monopoly of force, Hirsch develops the functions that the state can take on within the limits of its form (Clarke, 1991, p.13). In this account by Hirsch, the state is not identified with the general interest of capital, because it entails "a power and a knowledge that it cannot possess—it cannot carry out the function assigned to it, since it cannot possibly know what the general interest of capital is" (Carnoy, 1984, p.141). Put differently, in Hirsch's words, "[t]he function of the bourgeois state can never be more than the creation of the 'external' conditions for the social reproduction process which regulates itself on the basis of the law of value" (1978, p.64).

However, although the state cannot represent and pursue the general interest of capital, it needs to fulfil its above-mentioned 'general and external conditions of reproduction' function, which is of vital importance as "the bourgeois state as an instance raised above the direct production process can only maintain its form if the capital reproduction process is guaranteed and its own material basis thus secured" (Hirsch, 1978, p.66). Hence the form of the state depends on the reproduction of the capital accumulation process. This also shows the limits to the autonomy of the capitalist state, which must rely on the

expanded reproduction of capital as a condition of its own reproduction (Clarke, 1991, p.14).

However, the capital accumulation process is not without problems. It is contradictory and crisis-prone. In this context, Hirsch relies on Marx's analysis of the tendency of the rate of profit to fall (TRPF), which, according to Hirsch, is "the dynamic force behind the development of the process of accumulation and hence the development of the state itself" (Holloway and Picciotto, 1978, p.25). Since the crisis-tendencies in the accumulation process would have immediate implications for the continued reproduction of the state, the state reacts and needs to develop counter-tendencies against the TRPF. The TRPF is not seen as an economic law, i.e. the result of the inexorable logic of capital accumulation. Rather, it is seen as the effect of a failure to maintain the domination of capital over labour because of the intensified class struggle (Jessop, 1977, p.365; Holloway and Picciotto, 1978, p.26). Since it is seen as the manifestation of a social process of class relations and class struggle, it needs to be counter-balanced by the reorganisation of production and relations of surplus extraction on a constant basis, and in this reorganisation the state plays an increasingly important function (Carnoy, 1984, p.144).

Nevertheless, "the forms of intervention and the specific policies of the state cannot simply be reduced to the needs of capital to maintain the rate of profit" (Clarke, 1991, p.14). It is important to emphasise the role of the class struggle here, as the struggle of the working class is attempted to be contained through the 'welfare state' functions. This is required to safeguard the bourgeois domination through keeping capital accumulation in motion and class struggle latent (Carnoy, 1984, p.145). However, the provision of these welfare state concessions depends on the steady growth of production and further state intervention for sustaining capital accumulation. The crisis-ridden economy leads to the intensification of class struggle on the one hand, while it affects the possibilities of sustaining welfare concessions on the other (legitimacy problem as it depends on accumulation) which leads to the use of direct repression in order to secure state's political reproduction (Clarke, 1991, p.14).

Hence, in responding to the crisis-tendencies, state intervention "is rarely directed towards the actual needs of capital and generally reflects a response to the political repercussions of accumulation" (Jessop, 1977, p.365). This is a contradictory process and

it is not unequivocal. The state apparatus is open to the conflicting capitalist interests involved, hence the strategy adopted by the state will depend on the political resolution of the conflicts between particular capitals and fractions of capital. The state apparatus therefore has no overall rationality, it only reproduces in a political form the conflicts of interest which mark civil society. This might appear as a bureaucratic and administrative failure, but it only manifests the contradictions of the capitalist mode of production and of the class struggles within the state apparatus (Clarke, 1991, p.15).

Within this framework, the state derivation debate in general, and Joachim Hirsch's contribution in particular, provided valuable theoretical advantages. The debate as a whole made it possible to discuss the state as a moment of the totality of social relations of capitalist society (Holloway, 2002). However, as discussed above, earlier derivationists had problematic elements. Hirsch's contribution attempted to overcome these and explain the form of the state better and bring the class struggle back in the explanation of the form of the state and its relation to economy. His starting point was "the antagonistic relation between capital and labour in the process of accumulation, ...[which] provides us with a framework for an historical and material analysis of the state" (Holloway and Picciotto, 1978, p.26). Likewise, Werner Bonefeld and Simon Clarke praised his work for making it possible "to see the historical existence of the capitalist state as a process, the historical form of which is a concrete reality of class antagonism" (Bonefeld, 1992, p.94), and "indicating a way of reconciling the institutional autonomy of the state with its necessary subordination to capital" (Clarke, 1991, p.15). In that sense, Hirsch's contribution was also important for the development of the CSE debate on the state.

However, it is also aptly noted that Hirsch's work did not completely fulfil its theoretical promises. Clarke criticises Hirsch for his lack of explanation of the necessity of institutional separation of the economic and political on the basis of class struggle. He also failed to show how this separation happened historically (1991, p.15). Also, Bonefeld's criticism based on Hirsch's failure to follow through the inner relation between structure and struggle (which is reminiscent of Poulantzas), and the importance of class struggle in the historical development of the state remained underdeveloped

(1992, pp.94-95).<sup>17</sup> Concomitantly, the ‘struggle’ which is meant to be between capital and labour “turns out in Hirsch’s work to be primarily the struggle between particular capitals and ‘fractions’ of capital, a struggle which has to be resolved by the state on the basis of its need to secure its own reproduction” (Clarke, 1991, p.16). These theoretical problems lead Hirsch’s work to be closer to the ‘structural-functionalist politicism’ of Offe; and this tendency was reinforced in his later work which overlapped with Poulantzas and the French Regulation School (ibid., p.16).

Nevertheless, the debate raised important questions and formulations on the relation of the political and economic, which is conceptualised *internally*; and the political is understood as a particular form of social relations. Hence, it offered a possible way of overcoming the economism and politicism of earlier debates, and inspired the CSE debate in Britain, which will be discussed later in the chapter.

This line of discussion introduced radically different notions and concepts for a different understanding of the capitalist state and its relation to the economy, in contrast to the approaches developed in Part One of this chapter. Drawing upon the critical approaches to the state, following Marxist approaches offer alternative interpretations to the global capital and state, which is dealt with in Part Three.

### **Part Three: Globalisation, State, Class: Marxist Perspectives on Global Capital and The State**

#### **4.1 Neo-Gramscian Approaches to the State and Globalisation**

##### **4.1.1. Introduction**

The neo-Gramscian IPE emerged in the 1980s against the background of the problem of ‘internationalisation of capital’ and its effects on the states and classes. The inadequacy of mainstream approaches (especially realism) and the marginalisation of some streams of Marxist IR approaches (i.e. dependency school), as well as the increasing popularity

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<sup>17</sup> For Bonefeld’s general critique of the ‘derivation debate’, see Bonefeld 2003 (p. 202) ; and Bonefeld 2014 (p.165), in which he critiques the term ‘derivation’ and its implications for state theory.

of Italian Marxist Antonio Gramsci and the concepts developed by him (i.e. hegemony, historical bloc) (on this see Anderson, 1976) were significant factors in the emergence of the neo-Gramscian school as a critical IPE approach (see Worth, 2011). Hence, it is argued that this approach reflects “a crucial break with mainstream International Relations (IR) approaches” (Bieler and Morton, 2004, p.86).

This critical IPE “owes an intellectual debt to the work of Robert Cox” (Macartney and Shields, 2011, p.33). Indeed, his two *Millennium* articles in the early 1980s (see Cox, 1981; 1983) where he applied some Gramscian concepts to the study of IR and IPE in order to assess changes in the world economy and world order since the 1970s, pioneered the neo-Gramscian IPE. Neo-Gramscian theory then further developed through the works of Cox (1992; 1996), and, amongst others, Gill and Law (1989), Robinson (2001; 2004) and Bieler and Morton (2004; 2006).

It is not possible to argue that there is a homogeneity among these contributors; and there are differences between the early works of Cox and later neo-Gramscians. However, for our concern, and for the coherence of this chapter, the common points will be emphasised. The common approach of the neo-Gramscians to the state and economy/market under ‘globalisation’ is of interest here; against the background of mainstream IPE approaches which deploy state-market dichotomy and neglect class – discussed in the first section of this chapter. In this context, although the conceptual framework and the approach of neo-Gramscian IPE is different from mainstream approaches to globalisation, it suggests, like the globalisation orthodoxy, that there is an ‘epochal shift’ in capitalism (Robinson, 2004; 2005; Gill, 1992) through the globalisation process. However, this does not mean that with globalisation the state is eroding, or that we have been witnessing the retreat of the state. Rather, there is a change in the structure of the state which is called the ‘internationalisation of the state’ (Cox, 1992) or later, the ‘transnationalisation of the state’ (Robinson, 2004).

Hence, this section discusses the Coxian interpretation of global political economy and the changing role and form of the state under ‘globalisation’, which attempted to offer a historical materialist account and overcome state-market dichotomy.



#### 4.1.2 Internationalisation of the State

For Cox's account, post-war world order (*pax Americana*), through the Bretton Woods system (fixed exchange rates and IMF and WB) and under the Fordist-Keynesian social structure of accumulation provided national states with a 'relative autonomy' to protect domestic welfare (Cox, 1981; 1992). However, in the early 1970s, there were problems in terms of the sustainability of this system. The forms and functions of *pax Americana* began to change as a result of the crises of the world economy and collapse of the Bretton Woods system, which was marked by a 'structural change' in the world economy in the 1970s (Bieler and Morton, 2004, p.94).

At the heart of these changes was the internationalisation of production and the internationalisation of the state, which led to the process of globalisation (ibid., p.94). In Cox's words, "the internationalisation of the state is associated with the expansion of international production" (1981, p.146). In that context, the neo-Gramscian approach emphasised the role of the internationalisation of production in restructuring the role of the state and rejected the idea of an eroding role of the state (Bieler and Morton, 2004, p.95).

For Robert Cox, therefore, "globalization was an elite-driven process, with states once again shaped in their preferences and outlooks by their particular position within these wider global processes" (Macartney and Shields, 2011, p.33). In that context, the emergence of a 'transnational managerial class' is crucial as "at the apex of an emerging global structure is the transnational managerial class" (Cox, 1981, p.147). This new class structure and its hegemony has a close relation to the internationalisation of the state, since its members are not limited to international organisations (which have an important role for the formation of the hegemony at international or transnational level). The managers and staff of some key national sectors and ministries which have a close connection with the internationally oriented sectors (e.g. finance), are a part of this transnational managerial class, according to Cox (ibid, p.147).

In this context, and as a result of these 'structural changes', internationalisation of the state reflects a process which converts "the state into an agency for adjusting national economic practices and policies to the perceived exigencies of the global economy. The state becomes a transmission belt from the global to the national economy" (Cox, 1992,

p.49). Here, we are presented with a view that emphasises the ‘outside-in’ character of this process as the state – once bulwark defending domestic welfare from external disturbances – is transformed into a *transmission belt*. It is outside-in because it begins “with international consensus formation and attendant agreements and obligations to which internal state structures are then adjusted” (Panitch, 1994, p.69). In such a readjustment, power is restructured within the apparatuses of the national state as it is “concentrated in those agencies in closest touch with the global economy – the officers of presidents and prime ministers, treasuries, central banks. The agencies that are more closely identified with domestic clients – ministries of industries, labour ministries, etc. – become subordinated” (Cox, 1992, p.31).

In Cox’s account then, the state is being forced into the process of restructuring, *vis-à-vis* the spectre of capital. This is labelled, in Cox, as *nébuleuse* or ‘governance without government’. Cox (1992, p.27) defined this process as follows:

States willy nilly became more effectively accountable to a *nébuleuse* personified as the global economy; and they were constrained to mystify this external accountability in the eyes and ears of their own publics through the new vocabulary of globalisation, interdependence, and competitiveness.

Robert Cox’s analysis offered useful ways to overcome the vulgar globalisation and state-market dichotomy accounts discussed in the first section of this chapter. The neo-Gramscian school has thus brought class back in the debates in IPE, and represented ‘the critical’ in an otherwise vulgar discipline (Burnham, 1994). However, against all these merits, there are limitations to the critical stance of Cox, reproducing somewhat paradoxically the very same methodological fallacies of conventional IPE.

First, as Leo Panitch (1994, p.71) argued, the concept of the ‘transmission belt from the global to the national economy’ makes too formal a distinction between the global and the national, and also reflects a ‘top-down’ process in terms of power relations. Apart from the distinction of the ‘national’ and the ‘global’, the state and the market are also seen as externally related, and globalisation is assessed as a process which tips the balance in favour of the market against the state (Burnham, 2000, p.15). Class struggle and labour is viewed as external to the restructuring process, and states are put in a powerless position, passively responding to the changes in the global political economy. The

structural power of finance capital is emphasised, which had, it is argued, pertinent effects on policy-making – making it fractionalised (ibid., p.14). Also, the notion of ‘internationalisation of the state’ remains vague (Brand, 2007, p.7), and it dismisses domestic governing strategies and preferences by emphasising an ‘outside-in’ approach. Finally, the concept of *nébuleuse* – personified as the global economy to which the state is accountable – is conceptually flawed. As Bonefeld (2014, p.160) puts it, “the view that the capital is an intangible global ‘thing’ and that the state is accountable to this ‘thing’ is uncritical. The state is not accountable to capital. It is the political form of the capitalist social relations.”

This latter line of argument, namely the Conference of Socialist Economists (CSE) approach to the state and global capital is discussed in the following section as the theoretical backbone of this thesis.

#### **4.2. The CSE Approach to State, Capital and Class**

The Conference of Socialist Economists (CSE) debate, this thesis argues, provides a more rigorous analysis of the capitalist state, class, and global capital; against the background of the weaknesses of the accounts mentioned earlier in this chapter. This particular approach, which has been developed through debates in the CSE since the 1970s, offers a critique of instrumentalist and structuralist-functionalist approaches to the state, and challenges also the mainstream state-market and/or national-global dichotomies of the discipline of IPE.<sup>18</sup>

The influence of the German State Derivation Debate on the debates within the CSE is significant<sup>19</sup>. Drawing upon the state derivationists, the CSE contributors shared the

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<sup>18</sup> The CSE was established in 1969 in Britain as a forum for economists. However, against the background of the growing economic crisis and political conflict in the 1970s, it moved away from narrow economic discussions and shifted its focus on to the capitalist system as a whole, including its *state* (see Clarke, 1991, p.1). This entailed going back to fundamentals of Marx’s critique of political economy, and thus in the CSE approach “the emphasis placed on recovering Marx’s analysis of class, capital and the state as outlined in *Capital and Grundrisse*” (Burnham, 2001b, p.50).

<sup>19</sup> The publication of *State and Capital: A Marxist Debate* (1978), edited by John Holloway and Sol Picciotto is the manifestation of this interest and influence, which introduced the German debate to English-speaking circles.

position of understanding capital as a social relation, and the state as the form of that relation. However, the CSE approach also drew attention to the limitations of the derivationists' contribution. As Holloway and Picciotto (1991, p.122) put, "while they emphasise the importance of seeing capital as a social relation, they do not stress sufficiently that this is a relation of class struggle." Hence, against the German debate's emphasis on the logical and historical derivation of the state form, the CSE contributors stressed the primacy and centrality of class struggle. This means that "class struggle is not to be added as another factor equally as important as the state, money or the market. Rather these latter categories themselves are seen as the form taken by class struggle in historically specific societies." According to this approach, struggle is not external to the 'structure'; it is not only *within* but also *against* the existing state form, hence the form of the capitalist state is the constant object and result of class struggle (Clarke, 1991, p.41, original italics; see also Bonefeld, 1992).

In this context, this section discusses CSE contributors'<sup>20</sup> contribution to the understanding of the capitalist state, class, world market and 'globalisation' and depoliticisation of economic policy-making against the background of changes and continuities in the global political economy.

#### **4.2.1. The Form and Class Character of the Capitalist State**

For the CSE approach, in order to understand the state, "it is necessary to understand the nature of the social relationships that constitute it – capitalist social relations" (Rogers, 2014, p.119). In this context, the historical development of the rise of capitalist social relations is of vital importance for making sense of the form and content of the capitalist state. Indeed, "a materialist theory of the state begins not by asking in what way the 'economic base' determines the 'political superstructure', but by asking what it is about the social relations of production under capitalism that leads to creation of *apparently separate economic and political forms*" (Holloway and Picciotto, 1991, p.112; quoted in

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<sup>20</sup> The authors who contributed to the development of this distinct approach to the state and capital which this section draws upon are Simon Clarke, John Holloway, Hugo Radice, Werner Bonefeld, Peter Burnham, Ana Dinerstein, Chris Rogers and Steven Kettell (albeit with differences amongst them).

Bonefeld et al., 1995, p.23, italics in original). This entails focusing on the differences between capitalist and pre-capitalist societies.

Pre-bourgeois societies (i.e. feudalism) were characterised by the togetherness of economic and political rule. The form of domination, for example, between feudal lords and their serfs was based on personal rule, which simultaneously constituted a relationship of political power and a relationship of economic exploitation. However, in capitalist society, what is observed is the divergence of economic exploitation and political rule. Put differently, capitalist society is characterised by *impersonal* rule: “Economic domination therefore no longer has a personal character; the individual wage-labourer is not personally bound to a particular capitalist” (Heinrich, 2012, p.203). Labour and capital meet in the “exclusive realm of Freedom, Equality, Property, and Bentham” (Marx, 1976, p.280; quoted in Bonefeld et.al. 1995 p.25).

The emergence of the modern (capitalist) state therefore must be contextualised within this change in the social relations of production. It was, therefore, not simply a matter of the transfer of power from one class to another, or the development of world trade (Bonefeld et.al, 1995, p.24; Clarke, 1988, p.126). The political revolutions and social struggles – which were the expressions of changing social relations of production – “necessarily smashed all estates, corporations, guilds, and privileges” (Marx, 1975, p.166, quoted in Bonefeld et.al., 1995, p.24) which characterised the Middle Ages. The very same processes and struggles also abolished the direct political element of (civil) society whilst creating the modern state: “The establishment of the political state and the dissolution of civil society into independent individuals – whose relations with one another depend on law, just as the relations of men in the system of estates and guilds depended on privilege – is accomplished by one and the same act” (Marx, 1975, p.167, quoted in Bonefeld et al., 1995, p.24).

Hence, the development of the modern state was marked by the radical/institutional separation of the state from civil society. This is the basis for the *class character of the capitalist state*, rather than the dominance of capitalists or the ‘primacy of the economy’ (Bonefeld et al., 1995, p.25). Bourgeois society doubles itself up into society – that is freed from political character – and political state; that is to say that the state is the political form of the (bourgeois) society. Capitalist social relations constitute the state and

give rise to its existence as the form of accumulation based on the ‘double freedom of the workers’ (see Rogers, 2014; Heinrich, 2012). As Werner Bonefeld (2014, p.166) puts:

the political state is the premise of the non-coerced, depoliticized exchange relations between the buyers of labour power and the producer of surplus value who in spite of their manifest inequality pursue their interests in liberty as equal legal subjects, based on the rule of law.

Through the rule of law, the liberal form of the state entails securing the rights of contract between capital and labour and therefore guarantees the property rights of capital as rights of exploitation and appropriation (Bonefeld, 2000, p.208). Rule of law and rule of money – money is the most abstract form of capitalist property and its only measure (Clarke, 1988) – enforced by the state ‘impartially’ therefore are the presuppositions of the capitalist state form, as well as its embodiment as a strong liberal state.

Hence, the constitution of state/political and market/economic as apparently ‘autonomous’ and ‘separate’ spheres is based on the development of capitalist social relations. However, this separation of the state and society, or the political and the economic, is an ‘institutional illusion’ or a ‘fantastic form’ (Holloway and Picciotto, 1991) which actually ‘represents the historically specific form of political domination’ characteristic of capitalist social relations (Bonefeld et al., 1995, p.26). On this basis, in capitalism, diverse phenomena, i.e. the state and economy, although seemingly existing independently from each other, do not exist as externally related entities but as moments/forms of the same class relation (class antagonism between labour and capital) from which they are constituted (Bonefeld, 1992, p.100; Bonefeld et al., 1995, p.11). Hence, for the CSE, the capitalist state is not conceptualised as an ‘autonomous structure’ which sits outside of economic relations; rather the state is understood as a particular historical form of social organisation, as the ‘political’ counterpart to the ‘economic’ process of capitalist production (Kettell, 2004, p.21).

As being inherently an integral aspect of capitalist relations of production, the state itself is dependent on the reproduction of these relations. The capitalist state is the political form of capital’s purpose of profit (Bonefeld, 2008, p.64). Hence, “the bourgeois state is not just the rule of law”, as Heinrich puts, “it also guarantees the general *material* conditions for the accumulation of capital” (2012, p.206, italics in original). However,

this does not mean that the state would guarantee providing general conditions suitable to every particular capital (Bonefeld, 1992, p.121). In contrast to ‘fractionalist’ approaches to state-capital relations which explain state economic policy by looking at successful political representation of particular interests, the CSE tradition focuses on the fundamental relations between capital and the state, through the notion of ‘capital-in-general’<sup>21</sup> (Burnham, 1990; Clarke, 1988; also see Negri 1984). As Peter Burnham (1990, p.182) notes, “the state meets the interest of capital-in-general by enforcing the discipline of the market through the rule of law and the rule of money which are the mediated forms in which the rule of the capitalist market is imposed on the working class and all particular capitals.”

The state, thus, through its policies, follows the capitalist *general interest* of the most profitable accumulation possible (Heinrich, 2012, p.206, original italics). These policies could be against particular interests of individual capitals, but the state – through its form – would follow the sustained accumulation of capital; the conditions of which are determined by the state. The accumulation process, however, is not without problems in capitalism. It is crisis-prone and creates its own barriers through class struggle, limits of exploitation and economic crisis (Rogers, 2012, p.35). Hence the state tries to ‘remove barriers to accumulation’ (Burnham, 1990, p.183). It has to act “to regulate class struggle” and “address the various crises that emerge as a result of the instability of the capitalist social form” (Kettell, 2004, p.22). It is in this context that Marx and Engels’ definition of the state in the *Communist Manifesto* as the ‘executive committee of the bourgeoisie’ is echoed in the CSE approach (see Bonefeld, 2010; 2008).

Moreover, capital accumulation is not only a domestic phenomenon. Following Marx, the CSE approach insists that capitalism is fundamentally marked by the global character of

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<sup>21</sup> Nevertheless, as Simon Clarke (1983, p.9) notes, “It is important not to underestimate the extent to which the capitalist class seeks directly to impose its class interests on the state, and indeed such direct political intervention by sections of the capitalist class is a normal aspect of the functioning of the state.” Moreover, it could be observed that there are governments which favour individual capitals. However, that is not an essential aspect of the state-capital relationship (Heinrich, 2012, p.206). As again Clarke (1983, p.9) argues, “behind the direct representation of the interests of the capitalist class lie the more fundamental, if less immediate, relations between capital and the state that serve to secure the domination of the capitalist class over the state.”

accumulation, although it was politically constituted on the national basis (Bonefeld et al., 1995). The next section deals with this apparently contradictory aspect.

#### **4.2.2. World Market and National State**

In contradistinction to both the conventional and ‘radical’ neo-Gramscian IPE approaches which assessed ‘globalisation’ as a historical rupture or epochal shift in the history of capitalism, the CSE approach has developed a distinctive approach to the question of ‘internationalisation’. In this approach, the emphasis is put on the global character of capitalist accumulation as an inherent tendency of capitalism through Marx’s concept of ‘world market’ which was developed in *Grundrisse*, conceived as “*the organisation of capital as determined by space*” (Negri, 1984, p.118, italics in original). As Clarke (1992, p.135) puts, “the constant tendency to develop the productive forces (without limit) underlies the tendency for capital, from its earliest stages, to develop the world market and to generalise capitalist social relations of production on a global scale”. The world market then “is the presupposition and the result of the reproduction of capitalist social relations” (Bonefeld, 2006, p.50). Therefore, the capitalist society is fundamentally and inherently a global form of society (Kettell, 2004, p.22).

Nevertheless, the political form of this world market society is constituted on a national basis in capitalism. The emergence of global capitalist social relations which formed the ‘world market’, and the establishment of the national state as the political form of this world market society of capital, were both the products of the above-mentioned social struggles which revolutionised feudal social relations (Bonefeld, 2008, p.67). In this context, as Simon Clarke (1992, p.136) puts, “the class character of the state is not “defined in national terms”. Rather it derives from the world market, ‘the capitalist law of property and contract transcending national legal systems, and world money transcending national currencies’.”

The capitalist state can only be understood in this context. It is a part of the ‘international system of states’, as the specific political form of the “world market, international capitalism, the global system of social relations” (Barker, 1991, p.205). However, this global system of capitalist social relations is not seen as the sum of its parts – i.e. the sum of many national economies – but is rather seen as “a single relationship in which state power is allocated between territorial entities” (Bonefeld et al., 1995, p.27; see also von



Braunmühl, 1978, p.162). From the perspective of the CSE, then, nation states are seen as political ‘nodes’ or ‘moments’ in the global flow of capital (Burnham, 2001b, p.107). The state’s role, therefore, in ‘removing barriers to capital accumulation’ – which was mentioned earlier – should be understood in a global context. The power and legitimacy of the states are directly related to the sustained accumulation of capital within their boundaries; therefore capitalist state managers facilitate favourable conditions to attract capital to the ‘national’ market whose condition is also dependent on the successful expansion of accumulation on a world scale (Kettell, 2004; Bonefeld et al., 1995). Put differently, the movement and accumulation of capital at the global level entails decisions taken at the national level; and the national state safeguards – in a contradictory manner – global relations of exploitation and the imposition of capitalist work (Duman, 2014, p.25).

Hence, the analysis of the capitalist nation state within the CSE approach is directly related to the global capital from its birth, which is the manifestation of the global exploitation of labour and the production of surplus value in the world market. The world market is thus dependent upon the labour; and the nation states, ‘national’ bourgeoisies are the integral part of these global capitalist social relations, which make little sense if they are assessed independently of the world market. Hence, in this context, as the state and the market are not externally related entities, the ‘national’ and the ‘global’ must not be conceived of as externally related: “[t]he global and the national are different-in-unity: they are the moments of the social relations of production which constitute their distinct forms of existence, suffuse their interrelation and contradict their differentiation.” (Bonefeld, 2014, p159).

This understanding would offer a different interpretation of the changes in the global economy since the 1970s, which helps in overcoming crude state-market and national-global dichotomies. According to the CSE approach, these changes are intrinsic to the contradictory character of capitalist accumulation. First, capitalist accumulation is crisis-prone. Over-accumulation and ‘tendency of the rate of profit to fall’ are contradictory aspects of capitalist accumulation on a world market scale. The individual capitalist feels the pressure of competition (Clarke, 1992, p. 135), and he “always has the world market before him, compares, and must constantly compare, his own cost-prices with the market-prices at home, and throughout the world” (Marx, quoted in Bonefeld, 2006, p.59). This

pressure of competition in the world market forces the capitalist to accumulate endlessly. For this reason, he/she tries to increase productivity by replacing labour with machineries; namely, the constant capital's value rises (the means of production), and the variable capital's value decreases (labour power) (ibid, p. 60).

However, the source of the value is labour power – it is the source of capitalist accumulation and thus profit. For this reason, in the capitalist accumulation process, there occurs a 'tendency of the rate of profit to fall'. This process explains the crisis of post-war status quo, and state and capital's reaction in order to overcome the 'barriers to capital accumulation'; faced with the class struggle which impeded immediate attempts of restructuring. As Werner Bonefeld (2003, p.178) makes clear:

The exploitation of labour's productive power had become much too expensive. In other words, the post-war attempt at integrating labour's productive and disruptive power through institutionalisation was failing. Capital responded by financialising profits and by moving labour-intensive production to so-called developing countries where cheap labour costs were seen to provide competitive advantages.

Thus, this tendency increased 'money capital's importance in the world market after 1980s. "The world market became a market in money" (ibid, p.179). This increasing domination of money means that there is a "disassociation of monetary accumulation from productive accumulation" (ibid, p. 179). Capital tries to spring over its own barrier, the labour. Namely, "capital takes flight from the inadequacy of its own basis: this flight is expressed in the conversion of capital into money and the movement of that money in search of profitable means of expansion" (Holloway, 1995, p.132). That is to say that there is a change in the form of the global existence of capital, rather than simply 'internationalisation' or 'globalisation' of the economy (ibid, p. 133). The role of the state is therefore not diminished because of the so-called globalisation, according to the CSE approach. Rather, "recent changes in the global political economy are thus predominantly about reorganising rather than bypassing states" (Burnham, 1997, p.153) and "this re-

composition is undertaken actively by states as part of a broader attempt to restructure and respond to crisis in capitalist society”<sup>22</sup> (ibid, p. 157).

In this context, the CSE tradition offers a different framework in order to make sense of the role of the capitalist state and state managers in the management of labour and money under ‘globalisation’ and capital mobility. Within the context of the CSE, this issue is discussed under the term ‘*depoliticisation*’ of economic management rather than the false dichotomy of states and markets (see, among others, Bonefeld and Burnham, 1998; Burnham, 2000; 2001a; 2014; Kettell, 2004, 2008; Rogers, 2009, 2012).

#### **4.2.3. ‘Globalisation’, Depoliticisation and the State**

As discussed in the first part of this chapter, developments in the global political economy since the 1970s – i.e. the reregulation of financial markets<sup>23</sup> and ‘globalisation’ – have been commonly interpreted as processes which have given power to markets over states (cf. Burnham 2000, p.21). However, as it is emphasised, such an interpretation is too simplistic considering the enduring ‘power’ of the states which “derives from their ability to reorganize labour/capital relations within (and often beyond) their boundaries to enhance accumulation of capital both domestically and globally” (ibid. pp.17-18).

Hence, it would be more fruitful to discuss these developments in the context of labour-capital relations, and assess how the power of the state increased *vis-à-vis* the working class through the imposition of ‘politics of austerity’ by means of depoliticisation of economic policy-making. In this context, it is important to draw attention to how reregulation of financial markets in the global political economy and increased capital mobility raised the importance of the search for counter inflationary credibility.

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<sup>22</sup> This understanding is crucial for the Turkish case. Contrary to the mainstream understandings of the neo-liberal restructuring in Turkey, which assess it in terms of state-market balance of forces in which the former is in retreat and the latter gained supreme power, the CSE approach emphasises the role of the capitalist state in restructuring and focuses on the internal relations of the state and market.

<sup>23</sup> Rather than ‘deregulation’ simpliciter, the term ‘reregulation’ is preferred as ‘a complex process of the drafting of new regulations rather than a simple lifting of regulations’ has been on the agenda since the 1970s (Burnham, 2000, p.27).

‘Speculative’ capital (or foreign exchange dealers) in the world market would have a preference of holding currencies which are backed by anti-inflationary policies for higher and predictable returns, and they would respond to slack monetary policy through runs on currency (Bonefeld and Burnham, 1998, p.32). Hence, ‘price stability’ and anti-inflationary policies became the main target of monetary policy and it has been suggested that it is the crucial determinant in the global economy (Burnham, 1994; 2000).

However, under the ‘politicised’ management of economy in the post-war period – from 1945 to late 1970s (Burnham, 2001a) – the materialisation of such policies proved to be difficult for state managers. ‘Politicised’ economic management refers to a “governing strategy based on the directly visible involvement of the state in economic affairs, such as that associated with ‘Keynesian’ social democracy”<sup>24</sup> (Kettell, 2004, p.25). In such a ‘statecraft’, governments took responsibility in the areas of unemployment levels (full employment policy) and welfare provision (Rogers, 2012, p.42). However, although governments benefitted from the possible electoral outcomes of these policies, such policies carry an important risk in terms of management of labour and money. Especially, under the conditions of relatively full employment, which is accompanied by the strong bargaining power of the workers, the implementation of particular economic policies would prove to increase political instability. As Peter Burnham (2000, p.20) puts it, “[i]n such circumstances, the implementation of anti-inflationary policies will always threaten to heighten class conflict and ultimately risk the danger that an ‘economic/industrial’ crisis will become a crisis of political authority itself’.

In a capitalist state, however, the state managers would aim to maintain the ‘apparent’ separation of the ‘political’ and the ‘economic’ (Burnham, 2014), and would not want the “politicisation of issues which have hitherto been regarded as being of a purely ‘economic’ character” (Kettell, 2004, p.25). Hence, in order to avoid the above-mentioned pitfalls, “state managers may prefer to pursue strategies of depoliticisation, through which governments aim to achieve a certain level of governing competence in the realm of economic management by distancing themselves from the direct act of

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<sup>24</sup> Buller and Flinders (2005, p.528) suggest that, since governments would not intend to politicise the conduct of economic affairs, the word ‘discretionary’ might be more helpful rather than politicised.

making policy decisions” (Rogers, 2012, p.42).

As classically defined by Peter Burnham, “depoliticisation as a governing strategy is *the process of placing at one remove the political character of decision making*” (2001a, p.128, italics in original). Considering the risks of ‘politicised’ (discretionary) management, depoliticised (rules-based) management would provide clear advantages to state managers in the management of labour and money. This would entail going beyond the ‘states *versus* markets’ model of the mainstream IPE, as “the real significance of the shift from ‘discretion’ to ‘rules’ lies in how state managers use the language of ‘external commitments’ (and ‘globalisation’) to legitimate the recomposition of labour/capital relations in the guise of global competitiveness” (Burnham, 2000, p.19).

In this context, depoliticisation as a governing strategy would enable the governments to be relieved of responsibility for unpopular economic and social policies, capitalise on the recent developments in the global political economy, and impose discipline on labour and capital (Burnham, 2001a, p.137). The means to achieve these aims and build a counter-inflationary credibility *vis-à-vis* the financial markets would include two important tactics: *i*) Reassigning tasks to an international regime or using an anchor as a buttress for national policies (e.g. ERM, IMF, ECB) which would set definite and binding rules or conditionalities ostensibly decreasing the government room for manoeuvre and providing an ‘absolution from without’ (see Burnham 2000, p.22; Rogers, 2012; Bonefeld and Burnham, 1998, pp.33-41). *ii*) Reassigning tasks to a national body (‘independent’ Central Bank given a definite role in statute – i.e. maintain price stability) (Burnham, 2000, p.22).

These strategies would help governments to ‘depoliticise’ the policy-making (especially monetary-policy making) and would give the electorate the impression that ‘our hands are tied’. Hence, depoliticisation strategies would aim to change market expectations about the effectiveness and credibility of policy making as well as altering expectations regarding wage claims (Burnham, 2000), yet at the same time “potentially shield governments from the consequences of adopting anti-inflationary policies or imposing austerity measures” (Burnham, 2014, p.195).

Hereby, it should be noted that although the aim of the depoliticisation strategies is to emphasise that economic policies cannot be influenced politically – thus they are

‘technical’ and ‘apolitical’ matters (Kettell, 2008, p.631) – and to convince the key actors that the state is removed from the process of policy-making to a considerable extent; it is “highly political” and “in many respects state managers retain arms-length control over crucial economic processes while benefiting from the distancing effect of depoliticization” (Burnham, 2000, p.22).

Nevertheless, these developments are commonly interpreted as the ‘retreat’ of the state or as giving power to markets over states, or the internationalisation of the state through international financial institutions. The CSE-inspired depoliticisation approach<sup>25</sup> has therefore challenged mainstream perspectives on state-market relations against the background of ‘financial globalisation’ and emphasised that the “recomposition of the global circuits of productive commodity and money capital (popularly understood as ‘globalisation’) has not fundamentally transformed the character of the capitalist political economy” (Burnham, 2000, 26). In this context, “the state continues to play a permanent and direct role in the reproduction of capital accumulation on both domestic and global levels” (Burnham, 2001a, p.145).

In terms of management of labour and money, the discipline imposed by the nation states is increased and this is maintained through restructuring of the state and further “externalization of “politics” from democratic accountability and thereby from working class demands and aspirations” (Bonefeld and Burnham, 1998, p.34). Hence, the power of the state *vis-à-vis* the working class is enhanced, as the reregulation of financial markets provided the strongest justification for the politics of austerity via the discourse of price stability, and anti-inflationary credibility being crucially important in the world market, and jobs and profits would be immediately lost if there is a lack of ‘competitiveness’ (Burnham, 2000, p.21).

The contribution of the CSE approach, therefore, lies in its emphasis on the internal relation of the state, labour and capital; and the insertion of these relations into the world market context.

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<sup>25</sup> The ‘depoliticisation’ debate also includes different perspectives from different theoretical backgrounds (see Buller and Flinders, 2005; Flinders and Buller, 2006; and a special issue of *Policy&Politics* Vol.42 No.2).

## 5. Conclusion

The chapter provided the theoretical lens of this thesis. Against the increasing popularity of ‘British school’ vs. ‘American school’ of IPE, the chapter problematised the false dichotomies of state-market and national-global which, it is argued, are intrinsic to the majority of the IPE approaches. It showed that developments in the world market since the 1970s have been discussed within the limits of these dichotomies and were inadequate in terms of the understanding of restructuring state, capital and labour.

The chapter then introduced Marxist state debates since the 1970s and showed the theoretical advances of these debates which bring class back in (Miliband-Poulantzas debate, German Derivation debate, neo-Gramscian IPE). However, they were not without limits, and to varying degrees remained locked in instrumentalism, structuralism, and national-global dichotomy.

The chapter then argued that the form approach developed by the CSE approach would be helpful in overcoming the apparent problems in the above-mentioned debates. Its dialectical and internal understanding of state-economy, national-global, and state-class struggle provided an opportunity to make sense of the national constitution of states and the global character of accumulation. It is argued that the state should be understood as the political form of capitalist social relations, which were fundamentally constituted on the world market level. It therefore critiques the mainstream IPE debates which assess ‘globalisation’ as a watershed moment in terms of state-market relations, and offers the framework to make sense of the role of the state and its management of labour and money under ‘globalisation’ (politicised and depoliticised management), rather than engaging in state-market dichotomy.

This is also in clear distinction with conventional accounts on the Turkish political economy. These approaches engage with the above-mentioned IPE accounts and reproduce these dichotomies in the Turkish context. However, this thesis emphasises the state’s management of labour power and its crisis management, and this is part and parcel of global class relations. The empirical chapters thus focus on these issues within the framework of the CSE approach.

## **Chapter Three**

### **Historical Background of the Political Economy of Turkey: State, Economy and Class 1923-1980**

#### **1. Introduction**

This chapter aims to introduce the foundations of the modern Turkish political economy and its development on the capitalist basis from the late Ottoman period to the military coup of 12 September 1980. This gives a meaning to the dynamics underlying the transition to ‘neoliberalism’ in the 1980s, against the background of intensified class conflict under rather ‘politicised’ management.

The chapter first deals with the early Republican Era (single-party period, 1923-1946) with reference to the Ottoman legacy in terms of capitalist development and class relations; then discusses the transition to the multi-party period (1946-1950). The political economy of Democrat Party rule (1950-1960) follows, and finally the Planning and Import Substitution Industrialisation era (1960-1980), especially the crisis-ridden 1977-1980 period within this era, is discussed and highlighted; which is significant in terms of class struggle and the transition to neoliberalism.

#### **2. Early Turkish Republic: Making of Classes, State Formation and Economic Policies**

##### **2.1. The Ottoman Legacy**

Developments since the beginning of the 19<sup>th</sup> century; (i.e. modernisation process, integration into the capitalist world market in an uneven way, increased nationalist movements across the Empire, protracted wars) brought about the further decomposition of the Ottoman Empire as a dominant power in the beginning of the 20<sup>th</sup> century. Upon loss of its legitimacy through severe post-World War 1 treaties and occupation of its lands by Western powers, the War of Independence based on Anatolian people and nationalist young military officials (Kemalist forces) between 1919-1922 ended up with the establishment of the Turkish Republic in 1923, and the dissolution of the Ottoman Empire. This “cumulative, drawn-out historical process of social and political change”



(Gülalp, 1994, p.156) had significant effects on the process of the formation of the Republic of Turkey as a modern, secular and capitalist nation state.

The legacy of the Ottoman Empire in terms of capitalist development was a lack of heavy industrialisation. Although the Ottoman social formation became increasingly capitalistic towards the end of the 19th century; the Ottoman bourgeoisie remained weak and engaged in commercial activities rather than industrial production, while non-Muslim minorities were the dominant part of the bourgeoisie (Duman, 2014, p.52). The economy was mainly agrarian, and depended on the export of agricultural goods; thus the agriculture sector was “the primary channel of integration into the world economy” (Keyder, 1981, quoted in Aydın, 2005, p.26). Industrialisation mainly relied on the state’s military needs, and this increased gradually towards the end of the 19th century (Akkaya, 2004, p.139). However, although it could be observed that classes were in the making due to the capitalist expansion<sup>1</sup> and gradually increasing industrialisation, it is difficult to perceive a developed class structure and capitalism.

Industrialisation was fostered when the ‘*Young Turks*’ put an end to the thirty year long ‘regime of tyranny’ of Sultan Abdulhamid in 1908 (Boratav, 2010, p.33). The ‘*Young Turks Movement*’ under the Committee of Union and Progress forced the Ottoman Palace to restore the 1876 Constitution under a regime of constitutional monarchy. This was an important step towards state formation of the modern Turkish Republic in 1923 and the economic policies of Young Turks were aimed at creating a national bourgeoisie under statist development (Ahmad, 1993). The first Law on Industrial Incentives which was enacted in 1913, for example, provided some privileges to ‘domestic’ capital investments, and during the war the establishment of corporations with ‘national’ capital was encouraged (Boratav, 2010, pp.31-31).

The post-1908 establishment also sensed potential class conflicts within society, and attempted to prevent them. Indeed, in the aftermath of the announcement of the second

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<sup>1</sup> Reforms in the 19th century were crucial in terms of this expansion and integration of the Ottoman state into the world market and Western capitalism. The ‘British imperialism’ of the era played a great role in terms of this reform process and expansion. For instance, ‘The Commercial Treaty of 1838’, ‘*Tanzimat*’ (1839) and ‘*Islahat*’ (1856) edicts, and the new legal framework adopted from the West were important parts of this transformation (Timur, 1987, p.13).

Constitutional Monarchy on 23rd of July 1908, the following months of August and September witnessed a peak in labour unrest with 138 strikes across the Empire (Akkaya, 2004, p.140). This led to the enactment of *Strikes Law* in 1909 which severely restricted the right to strike and unionisation<sup>2</sup>.

The war years and political upheavals following the 1908 revolution impeded the development of capitalism in a 'stable' manner. Furthermore, when the War of Independence was won by Kemalist forces in 1922 and the Republic was established in 1923, this legacy of class formation was not reflected in the Republic to a great extent. A large section of both the bourgeoisie and the working class remained outside Republican borders because of the wars, nationalist movements, migrations and nationalist Kemalist forces' stance against the minority (Christian) capital during the War of Independence (Duman, 2014, p.54). However, the post-1908 orientation of economic policy and creating a 'national' capitalist class, while shadowing class contradictions, remained as a legacy for the Turkish republic. The foundation of modern Turkey as a capitalist nation state (as the political form of bourgeois society) also consolidated and resolved the contradictions of the Ottoman state – which was a relatively and increasingly capitalistic state but its ideology remained pre-capitalistic (Gülalp, 1994, p.172).

## **2.2. The Formation of the Republic and Single-Party Rule: 1923-1946**

After the proclamation of the Republic in 1923, the Kemalist leadership's Cumhuriyet Halk Firkasi<sup>3</sup> (CHP - *Republican People's Party*) assumed power, and Mustafa Kemal Atatürk was elected as the first president of the new Turkish State<sup>4</sup>. The single-party

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<sup>2</sup> Most of the economic enterprises at that time were owned by foreigners and the state itself. Hence, the strike wave mostly affected these enterprises and the Law in question prohibited strikes in foreign capital owned enterprises and state-owned enterprises only (Işıklı, 1987, p.312).

<sup>3</sup> Firka means 'Party' in Turkish. The name of the CHF was changed to CHP in 1935.

<sup>4</sup> There has been a great debate amongst Turkish intellectuals as to whether the Republic represents a continuity or rupture from the Ottoman Empire. The Kemalist intelligentsia argued that the Kemalist revolution represented a definitive break (see Perinçek, 1979; Kongar, 1981). The representatives of the 'Strong State Tradition', on the other hand, argued that the modern Turkish Republic represents the continuity with the Ottoman tradition through the Kemalist bureaucratic elite, and that the state remained independent of social relations (Heper, 1985; Keyder, 1979). Taking into account the above-mentioned developments in this chapter, it does not seem possible to identify a definitive rupture.

system lasted until the 1946 elections – except for some short-lived periods of multi-party attempts. There were significant transformations in state-society relations in this period. The Kemalist revolution attempted to transform/modernise society in a Western, secular and capitalist direction framed within a nationalist ideology based on ‘Turkishness’. However, it is not the aim of this chapter to discuss this wholesale transformation. This section, thus, discusses the period in terms of development of capitalism, economic policy-making, and the development and management of labour power.

### **2.2.1. Dynamics of Capitalist Development in the Period 1923-1929**

As mentioned above, the economic policy orientation of the Committee of Union and Progress in the post-1908 revolution was followed by the Kemalists when the Republic was established in 1923. The idea was to create and strengthen a ‘national’ bourgeoisie which was lacking to a significant extent as a legacy of the Ottoman era. Hence, the “nascent national bourgeoisie” mainly composed of commercial capitalists gradually played a more important role in policy-making and influenced the decisions taken in the İzmir Economic Congress in 1923 (Yerasimos, 1987, p. 75), which were the backbone of the economic policies of the early Republican era, and the Congress institutionalised this policy orientation (Duman, 2014, p.54).

This period, unlike the 1930s which will be discussed later in the chapter, was marked by a less protectionist, mildly statist, and more open trade regime. The Kemalist leadership attempted to prove that the new Turkey was not an enemy of the West nor would simply implement a socialist economic programme after the national liberation (Savran, 2010). Decisions which were taken by the İzmir Congress of Economics reflected this tendency. The Congress wanted to develop the domestic bourgeoisie; nevertheless it also suggested that the new Turkish government was not against foreign investment and capital as long as they do not demand preferential treatment (Zürcher, 2012, p.288). Put differently, as Ahmad states “they welcomed foreign capital so long as it came without political or economic strings” (1993, p.94).

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Continuity, however, cannot be seen in ‘state tradition’. The continuity argument should rather be based on the economic policies and development of capitalism.

There were also external constraints on the state managers of the new Republic in terms of their policy orientation. For instance, although capitulations had been abolished in the Lausanne Treaty<sup>5</sup> in 1923, customs tariffs were frozen at 1916 rates for the following five years (Boratav, 2010, p.44; Ahmad, 1993, p.94). This placed some restrictions in terms of the policy autonomy of the new Turkish state until 1929, and was one of the reasons for this rather ‘liberal’ economic policy (Boratav, 2010; cf. Yalman, 2009, p.157).

In this era, to a great extent, economic policies aimed to achieve rapid industrialisation by encouraging capitalists, rather than direct involvement of the state itself. During the 1920s, even though the state owned and nationalised some industrial enterprises (especially railways and tobacco regime), it mainly tried to develop the infrastructure, open some state banks and credit institutions to encourage the expansion of the national industry (Berberoglu, 1982, p.25); or through the law, i.e. *Teşvik-i Sanayi Kanunu - Law for the Encouragement of Industry* of 1927 which provided tax exemption and privilege to newly emerging industrial enterprises (Boratav, 2010; Zürcher, 2012) or by trying to attract foreign capital (Savran, 2010, p.155).

However, the expected level of industrialisation could not be achieved in this period. Although average economic growth rate in 1923-1929 period was 8.5% per year (Boratav, 2010, p.57), this does not reflect a significant success, especially in industrialisation, and was mainly related to the recovery and reconstruction of the economy after a period of war. In 1927, the rate of industrial production in the gross national product was only 12% and industrial workers represented 3.9% of the whole labour force (Yavuz, 2011, p.158). The economy remained dependent on agricultural small-holders, landlords and petty commodity producers, and commercial bourgeoisie. As Berberoglu (1982, p.27) puts it, “despite these extraordinary advantages provided by the state to private capital, the Turkish bourgeoisie lagged far behind the state’s expectations of rapid industrialization.” Apart from that, namely the failure of the much-awaited transformation of Turkish compradors into industrial capitalists, according to Berberoglu, there were two other

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<sup>5</sup> The Lausanne Peace Treaty of 1923 was the final treaty to settle the conflicts after World War 1, between the Ottoman Empire then the Kemalist forces which objected to the conditions of the Sevres Treaty of 1920, and British, French, Italian and the Greek states. This defined the territory of the new Turkey and the framework of its engagement with the West.

reasons to explain the failure in industrialisation: Firstly, the resistance of landlords in areas where their interests were threatened by industrial expansion, and secondly, the well-known effects of the Treaty of Lausanne between 1924 and 1929 (ibid. pp.28-29). Moreover, the nationalist ideology of the new Turkish state affected minority business groups (especially Armenians and Greeks) and they were forced to leave the country. These capitalists could not be replaced, so this also affected the industrial accumulation of capital (Zürcher, 2012).

Towards the end of the decade, another difficulty that proved that this policy could not be sustained was the break out of the Great Depression in the world market in 1929. Due to the crisis and the contracted world market, the prices of agricultural goods decreased significantly. As a wheat producer, Turkey was affected by this situation and its export share significantly decreased (ibid. p.290). Furthermore, commercial capitalists were affected because of currency depreciation (Duman, 2014, p.55).

Under these conditions, the economic policy orientation of Turkey was forced to change as a reaction to the developments in the world economy. It moved to a more protectionist and statist economy; and industrialisation was given priority through the direct involvement of the state as collective capitalist (Savran, 2010, p.155; Duman, 2014, p.55).

### **2.2.2. *Etatism*, Planning and Protectionism: Political Economy of 1930-1946 Period**

The end of the restrictions of the Lausanne Treaty in 1929 allowed more room for manoeuvre for the Turkish state in terms of ‘protectionist’ industrialisation. Combined with the crisis in the world market and an insufficient level of industrialisation in the 1920s, the Turkish state became directly involved in industrialisation.

In line with this new policy orientation, “between 1929 and 1931, the government passed a series of measures which brought the economy, especially foreign trade under state control with a view to protectionism” (Ahmad, 1993, pp.96-97). Moreover, in 1931 congress of the CHP, *etatism* was accepted as the new economic policy and a determinant of Kemalist ideology, although the nature or definition of it was never explained (ibid. p.291). Thus, the Turkish state, like many other Western capitalist states in the process of capitalist development, intervened in the economy for the development of industrialisation.

In this context, in 1933, Turkey drew up its first five year industrialisation plan and this plan represented the state's involvement in economic development by including an intention to establish a number of state-owned economic enterprises (Bayar, 1996, p. 775). Interestingly, planning activity in Turkey was heavily influenced by the Soviet planning experience which had officially started in 1927. Furthermore, the first five-year development plan drew on the policy recommendations of a group of Soviet planners who visited Turkey in 1932 (Berberoglu, 1982, p.38; Zürcher, 2012, p.291). This first five-year planned industrialisation focussed on developing textile and steel industries, and it envisaged the utilisation of local raw materials.

Following the relative success of the first plan, a second five-year development plan was accepted by the government in 1938. However, “the second world war which broke out a year after the Plan went into effect, interrupted the implementation of a substantial portion of its projects as the emphasis had now shifted to war production” (Berberoglu, 1982, p.41). Thus, the Turkish State's first decisive planning activity effectively ceased in 1939 because of the ‘war economy’.

These attempts by the Kemalist regime increased the level of industrialisation and capital accumulation rapidly over a decade. The share of industry in the GDP was 9.9% in 1929, and it increased to 18.3% in 1939. Concomitantly, the average annual growth rate of the economy was 7.9% in 1933-1939 period (Boratav, 2010, p.71). However, although Turkey was not involved in the Second World War, the detrimental effects of the war were severe. During the period 1940-1945, growth contracted by 6%, industrial production decreased by 5.5%, and agricultural production declined by 6% on average. Gross capital accumulation (capital formation) decreased from 10.7% in the 1933-1939 period to 3.7% in real terms during the war period (Boratav, 2010, pp.86-87).

This section discussed the economic policies and dynamics of capital accumulation in the early Republican era in Turkey. These developments and policies under the rule of CHP since 1923 had significant effects on the making of the working class, and on the state's management of labour power in line with nationalist and populist ideology<sup>6</sup>. The next

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<sup>6</sup> Here, it should be noted that ‘populism’ has a different meaning in the context of Kemalist rule. *Populism* (*Halkçılık*) was one of the six tenets of Kemalism, which were institutionalised in the 1930s. In this context,

section thus assesses the 1923-1946 period, namely single-party rule in the context of state-labour relations.

### **2.3. State and Labour under Single-Party Rule**

The stance of the Kemalist regime towards the working class in the early Republican era reflected the above-mentioned understanding of populism and it shaped the social policy and associational life environment in that period (Mello, 2013, p.64). The new Turkish State governors imposed their imaginary Turkish society as a ‘classless, composed of unprivileged members, and coherent’ society. With that in mind, and in line with its bourgeois characteristics, Turkish state managers “took the necessary measures to prevent the development of a working class movement” (Duman, 2014, p.56).

As a reaction both to strikes in 1923 and the Kurdish uprising of 1925, the government enacted *The Law for Maintenance of Order (Tahrir-i Sükun Kanunu)* in 1925 (ibid., p.56). This law was “a turning point for unions, as for many aspects of the social life” and “all workers’ activities were effectively banned” through this legislation (Işıklı, 1987, p.313). Concomitantly, the number of workers increased significantly as a result of industrialisation attempts by the Turkish state. The number of workers rose from 76,216 in 1921 to 275,083 in 1943 (Duman, 2014, p.56). This led the state to perceive the need to regulate labour relations, and legalise the previous regulations which indirectly intervened in labour relations. Firstly, changes made in the Penal Code introduced further punitive sanctions on strikes (Işıklı, 1987, p.313). The Labour Law of 1936 then followed, which was a copy of that of fascist Italy; it did not legalise the right to strike or unionisation, rather it strictly restricted these labour movement activities (Zürcher, 2012, p.295). Finally, “the 1938 Law of Associations banned the foundation of associations ‘based on social class’, reinforcing the anti-union nature of the legislation” (Isikli, 1987, p.313).

This repressive stance against labour was in line with the state’s attempt to foster industrialisation and growth. As observed by one commentator, “[o]ne of the major aims

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the understanding of populism is based on the denial of class divisions in society and it excludes any notion of antagonism (Laclau, 2005, p.209).

of the new Turkish state throughout the 1930s and 1940s was to maintain a docile labour force in order to increase production and reach the five-year plan targets” (Kahveci, quoted in Mello, 2013, p.67). Poor working conditions and the insufficient material situation of the working class and peasants was the price of the ‘success’ of the planned industrialisation goal (Ahmad, 1993, p.99). As a result, “given the extremely low level of wages and the long hours of work the surplus value extracted by the state and the national bourgeoisie increased dramatically during this period, intensifying the exploitation of wage labour” (Berberoglu, 1982, p.62).

It should be noted that, in this period, the working class of Turkey were in the making. Society remained highly agricultural<sup>7</sup>, and although it increased in the 1930s and 1940s, industrial employment and wage labour lagged behind the peasant farmers and small craftsmen (Mello, 2013, p.68). However, rapid capitalist development, emerging class contradictions, and the formation of the state as the political form of these relations and contradictions led the Kemalist regime to recognise “the potential power of the Turkish workers and the threat they posed to their classless, corporatist vision of Turkish society” (Ahmad, 1993, quoted in Mello, 2013, p.68), and the repressive rule of the regime reflects this. Thus the unrest of labour contributed to the loss of legitimacy of the CHP.

By the end of the Second World War, the CHP was under pressure from both international and domestic forces and single-party rule had reached its limits. The next section deals with the transition to multi-party rule and Democrat Party governments in the post-World War Two era until 1960.

### **3. Transition to Multiparty Rule and Democrat Party Governments: 1946-1960**

#### **3.1. Transition to Multiparty Rule and Political and Economic Liberalisation: 1946-1950**

The economic crisis during the years of World War Two increased discontent and unrest in Turkey, which was combined with the authoritarian stance of single-party rule under CHP. Concurrently, the international environment had changed. The increasing

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<sup>7</sup> In 1927, 81.6 per cent of the population was working in the agricultural sector (Işıklı, 1987, p.312).



dominance of the US in world politics and ‘Cold War’ conditions had an effect on Turkish politics (Mello, 2013, p.68). The US considered Turkey, alongside Greece, as an outpost against communism and the USSR, and gave important foreign aid to these countries through the Truman Doctrine and the Marshall Plan; the precondition for this was to convince Western powers that Turkey was on its way to democracy<sup>8</sup> (Eroğul, 1987, p.106; Schick and Tonak, 1987, pp.339-340; Zürcher, 2012, pp.307-308).

Under these conditions, on 7th of January 1946, the Democrat Party (DP) was formed by political cadres who were former CHP members. However, the Democrat Party was critical of the authoritarian stance of the CHP and emphasised ‘market freedoms’ and a more liberal political system (Mello, 2013, p.69). Although the DP rapidly gained support from various segments of society, including the working class; the CHP remained in power after a controversial general election in 1946.

The CHP, however, started to change its stance on both economic policy and political ideology in order to compete with the DP. In line with this policy change, the CHP put an end to its “implicit, protectionist, statist economic policy in the period of 1946-1950, and liberalised foreign trade regime with quota restrictions” (Duman, 2014, p.58). Concomitantly, there were also signs of ‘political liberalisation’ of the regime in the period in question, and this had implications for state-class relations because the CHP wanted to gain the support of the working class which was leaning towards the DP. In this context, together with the pressure from international organisations such as UN and ILO, bans on forming class-based organisations were lifted in 1946 through the Law of Associations, although it still restricted the political activities of the unions (Mello, 2013, p.69). This amendment also led to the formation of socialist political parties such as the Socialist Party of Turkey and the Socialist Labourers’ and Peasants’ Party of Turkey which fostered the development of independent labour movement organisations<sup>9</sup> (Isikli, 1987, p.314; Mello, 2013, p.69). Furthermore, the CHP government also passed the

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<sup>8</sup> Specifically, the Marshall Plan included \$400 million of financial aid to Turkey and Greece, plus military and civil assistance in order to promote democratisation and development of the countries in question along Western lines, both economically and politically (Mello, 2013, p.68).

<sup>9</sup> However, Mello also notes that the CHP government moved to close these socialist parties and labour organisations within the same year, since they were perceived as a threat to the regime (2013, p.69).

Unions Law in 1947 which officially recognised unions and permitted the formation of unions. However, there were severe restrictions on unionism and labour unions were still forbidden to conduct political activities and denied the right to strike (Zürcher, 2012, p.318).

These restrictions were crucial in terms of working class support for the Democrat Party in the 1950 elections. The DP leadership had a discourse of enhancing union freedoms, and promised to recognise the right to strike. Combined with the authoritarian CHP regime, economic difficulties and discontent of the masses, the DP won a landslide victory in the 1950 elections and the government changed for the first time since 1923.

### **3.2. The Democrat Party Rule: 1950-1960**

The pattern of economic policy based on commercial liberalisation and foreign investment incentives since 1946 was followed by the DP government in its first years in power. The DP passed a number of laws regarding the liberalisation of foreign trade and further integration into the world market, such as the Law on Incentives for Foreign Capital Investments (1951), the Law on Foreign Capital Incentives (1954) and the Law on Oil (Duman, 2014, p.60).

However, this economic policy was mainly beneficial for the agricultural sector, merchants, artisans, peasants and big landowners (these were the main DP electorate); whereas it was a source of discontent for emerging private industrialists and the urban working class (ibid., p.60). At the same time, it was soon proven that this economic policy was not sustainable because of the increasing balance of payments difficulties and trade deficits which eventually necessitated protectionist foreign trade policies towards 1954 (Boratav, 2010, pp.117-118; Savran, 2010, pp.162-163). Although this move relieved the industrial segments of the bourgeoisie and the urban working class, the DP government remained reluctant in terms of supporting the industrial capital, since its voters were mainly peasants and commercial petit-bourgeoisie. Thus, it would not be an overstatement to say that “the bourgeoisie had become disaffected by the DP’s agriculture-centred policies, which subsidized the peasantry at the expense of industry” (Schick and Tonak, 1987, p.342). There was no decisive state policy of industrialisation in the 1954-1961 era, and there were even some tensions between the DP and the industrialists. This contradictory situation became more apparent when some members of

the DP formed the Liberty Party (which later joined the main opposition party CHP) in 1955 which represented modern industrial capital circles (Zürcher, 2012, p.382).

Nevertheless, average annual industrial growth was 4.3% in the period from 1954 to 1961 and the share of manufacturing had become 18% of the GNP by the end of the period, up from 13.4% in 1953 (Boratav, 2010, p.112). However, “despite the increase in the share of manufacturing as a proportion of the GNP, and the subsequent formation of new economic sectors, the government could not proceed fully with the policy of import-substituting industrialization since its own position depended on the satisfaction of merchants’ and farmers’ demands” (Milor, 1990, p.6).

This contradictory situation became worse especially after the 1957 elections, which the DP won with a majority; although support for the party significantly decreased. The high growth rates and economic ‘success’ of the DP governments came to an end towards the late 1950s. In 1958, total indebtedness exceeded 10% of the GNP, foreign exchange reserves reached insufficient levels, and the DP approached the IMF for a loan agreement and stability measures (Schick and Tonak, 1987, pp.341-342). As there was no sound industrial policy or planning in the agenda of the DP – which was the main complaint of Turkish industrialists – international agencies encouraged Turkish policy-makers in terms of planning in 1958 (Keyder, 1987, p.298). As Milor (1990, p.9) makes clear:

Increasing discontent of the industrial bourgeoisie coincided with the criticisms of international lenders, when Turkey’s foreign creditors in 1958, after negotiations in Paris with the IMF, US authorities and the OEEC, strongly urged the DP government to adopt a kind of economic planning.

Hence, towards the end of the 1950s, it became evident that the DP rule remained backwards as far as the development of Turkish capitalism was concerned, and it simply tried to consolidate its electorate. It could not *ideologically* represent the Turkish bourgeoisie and could not adjust to transformations in the social relations of production.

Concomitantly, alongside the economic issues such as contracted growth, high inflation and shortages, the DP increased repression towards political opposition, and social unrest climbed towards the end of the 1950s (Bayar, 1996, p.777). The working class was an

important object of this increasing repression, although before the 1950 elections the DP leadership had promised to have a different stance from the CHP.

The DP, especially in its first year in power, passed legislative regulations which would benefit the working class, because of the increasing electoral importance of labour (Mello, 2013, p.71). Indeed, with the emerging industrial bourgeoisie, there was a 52% increase in the industrial working class over the 10-year period between 1950-1960; and with the inclusion of other sectors of the economy, 18.7% of the labour force was working class in 1960 (Berberoğlu, 1982, p.73). Urbanisation also increased during this period and over a decade the urban population rose from 18.5% to 25.2% (Mello, 2013, p.72).

However, conditions of the working class started to deteriorate towards the end of the decade, as real wages significantly declined and repression increased. Although the Turkish Workers' Confederation (Türk-İş) was established in 1952 as the first national labour union confederation, and the number of unions increased during this decade; the labour movement was not strong and independent enough to intensify the class struggle and resist the anti-labour policies of the DP. As discussed above, the DP government promised to provide the right to strike before the 1950 elections, but it did not fulfil this promise during its period in power. On the contrary, especially from 1957 onwards, the government became more hostile and repressive towards the unions and their increasing demands (Eroğul, 1990; Blind, 2007).

Hence, combined with the developments discussed earlier in this chapter, towards the end of the decade, there emerged a broad coalition against DP rule consisting of large industrialists, international agencies, military and civilian bureaucracy, the CHP and the growing urban classes (Pamuk, 2008, p.283; Savran, 2010, p.164). However, this coalition was a 'minority in a small country of peasants' (Savran, 2010, quoted in Duman, 2014, p.61). Hence, the growing unrest against DP rule was resolved with a military coup on 27 May 1960, which put an end to the decade long DP regime.

In the aftermath of the 1960 coup, there were significant economic, social and political developments in Turkey, which were mainly shaped by the 1961 Constitution, and the institutions and legal frameworks brought about by the Constitution. The post-military coup establishment changed the economic policy for a more decisive industrial development; and introduced a different social and political environment which would be

significant for the development of the class struggle and class-based politics. The following section thus deals with the political economy of the post-1960 period.

#### **4. Political Economy of 1960-1980 Period: Planning, Class Struggle and Crisis**

##### **4.1. Planning and Import Substitution Industrialisation (ISI)**

As discussed earlier, tensions between the economic policy and the emerging industrial capital circles were significant under DP rule. Thus, in a sense, the military coup resolved this tension. Nevertheless, it cannot be concluded that the coup was the victory of a “hegemonic capital fraction”, namely the industrial bourgeoisie (cf. Savran, 2010). This was related to the conditions of Turkish capitalist development in that period of time. Moreover, throughout the 20th century, the majority of underdeveloped countries implemented inward-oriented Import Substitution Industrialisation (ISI) through development planning, and these policies were framed within the international division of labour in the world market (Ozan, 2012, p.50).

In this context, in the aftermath of the 1960 military coup, planning was made central to the new economic policy; and on 30 September 1960, the State Planning Organisation (SPO) was established (Ministry of Development, 2013). The military junta introduced a new constitution in 1961 and article 129 of the Constitution made national planning an obligation for governments (Boratav and Özüğurlu, 2006, p. 177; Zürcher, 2012, p.382). Hence, planned ISI through protection became the predominant economic policy of the 1960-1980 period; and it also became an ideology that drew support both from the intellectual-bureaucratic establishment and the manufacturing bourgeoisie (Keyder, 1987, p.298). This era could be assessed as being similar to the protectionist, inward-oriented and import substitution industrialisation of the 1930s and the 1954-1961 period. However, the real impetus appeared in the 1960s, and the 1960-1980 period had significant features that differed from the earlier industrialisation periods: These were planning, the content of industrialisation, the distribution of investments and sector priorities (Aydın, 2005, p.35; Boratav, 2010, p.118).

Nevertheless, there were initially some concerns amongst capital circles and the US that planning was reminiscent of a socialist economy. However, it soon became clear that the United States would support the new regime, pledging \$400 million in new credit, with

more international aid following afterwards (Schick and Tonak, 1987, p.343). Moreover, “planning was reintroduced in the 1960s to work *within the framework of this dependent capitalist economy* rather than *against it*.” (Berberoğlu, 1982, p.94, italics in original). ISI policy should be assessed in this manner as well. As Keyder puts, “ISI was not a policy of rebellion against a world market imposing a status of agricultural and light consumer goods production: it was rational from the point of view of the existing hierarchy in the world economy, and was sanctioned by it” (1987, p.299). These points are important both in understanding the position of Turkey in the world market, and to refrain from “developmentalist” interpretations which attributed a ‘radical’ meaning to these policies.

This became apparent when the plans started to be implemented in 1963. As observed by one commentator, “the plans themselves did not acknowledge any contradiction between the state sector and the private sector. The Turkish bureaucracy... saw the two sectors as complementary rather than mutually exclusive and thus antagonistic” (Aydın, 2005, p.34). According to Boratav (2010), only the first five-year plan which covers 1963-1967 would prove to be an exception in terms of its balance of private and public sector, and this would be resolved in the second plan. Thus “the second five-year development plan (1968-1972) eased up the concerns about the regime change with its more market friendly approach than the first five-year development plan” (Aydın, 2005, p.34). Moreover, the second plan was obligatory for the public sector, whereas it was only advisory for the private sector (Zürcher, 2012, p.383).<sup>10</sup>

Under these circumstances, ISI policies were supported by different segments of society because of its populist distributional dynamics. Under ISI, the technology, most capital goods and a good proportion of intermediate goods had to be imported; and consumer durables would be produced in the country. Thus, a high-income market which would be in co-operation with foreign capital and dependent on imported inputs was created (Ozan, 2012, p.51; Keyder, 1987, p.299). This had impacts on the material conditions of the growing labouring classes in the period in question.

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<sup>10</sup> It could be argued that this move is related to the election victory of the centre-right Justice Party (*Adalet Partisi*) in the 1965 elections, which was the successor of the Democrat Party and emphasised ‘market liberties’.

It could be asserted that, within the framework of mainstream political economy, ISI policies were successful in terms of economic growth, especially in their early stages which is its relatively easy phase (Pamuk, 2008, p.284). Indeed, as Schick and Tonak assert “the 1960s were years of extraordinary growth, particularly in the industrial, construction, and service sectors; the average yearly growth rate of the GNP during the entire decade was 5.7 per cent, certainly a very high rate by most standards” (1987, p.344). Most notably, between 1960 and 1973, manufacturing production had increased by 10.2% per annum (Keyder, 1987, p.302). These high growth rates would continue until the mid-1970s when Turkish capitalism and ISI policies went through a serious crisis. But that crisis, which also culminated in a political crisis, could only be postponed until the end of the 1970s, as will be discussed later in this chapter.

From the very beginning, the ISI experience in Turkey was contradictory and crisis-prone, as being a form of capitalist development. This industrialisation path was expected to decrease the foreign-source dependency of the economy *prima facie*; however, contrary to this expectation, it increased the dependence of the economy on importation (Boratav, 2010, p.120). The reasons for non-fulfilment of these expectations were related to Turkey’s position in the world market. The industries that Turkish capitalists and state invested in mostly relied on foreign aid and foreign trade deficit to finance the importation of technology as well as raw and intermediate materials and energy. Importing endlessly, financing imports with external credit, and unable to significantly increase the volume of value of exports, Turkey’s balance of payments and foreign debt problem once again deteriorated (Schick and Tonak, 1987, pp.344-345). Inward-oriented and relatively protectionist economic policies have a tendency to limit the amount of exports as the economy cannot acquire the necessary level of foreign currency and this leads to inevitable foreign debt (Ozan, 2012, p.54). Apart from this tendency, the implementation of the fixed rate foreign currency policy led to the overvaluation of the Turkish lira, which made exports expensive and imports cheap; thus contributing to huge trade deficits by encouraging more importation (Aydın, 2005, p.36).

These developments, namely balance of payments difficulties – i.e. trade deficit had risen to 3.2 billion Turkish Liras (TL) in 1970 and it was followed by 7.3 billion TL in 1971 – rising inflation and external debt, which had risen to 18.4 billion TL in 1969, were the signs of an economic crisis (Berberoğlu, 1982, pp.94-96). This led to the announcement

of 9 August 1970 stabilisation measures by the government in accordance with international financial institutions, which exaggerated Turkey's debt bondage via an allocation of \$950 million after the implementation of the package (Schick and Tonak, 1987, p.347). A military memorandum followed this package in 1971. This intervention was related both to the facilitation of the implementation of measures and to the class-based upheaval by organised labour in the late 1960s and early 1970s, which will be dealt with later in this chapter.

As discussed above, the crisis prone and dependent nature of the economy became apparent by the late 1960s and early 1970s. Nevertheless, despite the faltering economy, high growth rates were sustained until 1977. Indeed, the average annual GDP increase was 6.7% in 1963-1967, 6.6% in 1968-1972 and 7% in 1973-1976; and the overall annual average growth rate in 1962-1976 was 6.8%, accompanying an annual 9.6% growth in industrial production in the same era (Aydın, 2005, p.38; Boratav, 2010, p.130). The reason behind this "success" was also the manifestation of the crisis-prone character of the economy. The Turkish economy, during the period in question, was highly dependent on external sources as mentioned-above; thanks to this huge amount of external borrowing, foreign aids and resources, it could sustain high growth rates and thus postpone the crisis until 1977.

For instance, during the period 1960-1980, Turkey received \$5.6 billion foreign aid, and a very significant proportion of this aid was US-based (Zürcher, 2012, p.384). Hence, Turkey was supported by the West during the Cold War and benefitted from "US largesse towards front-line states in the fight to contain communism" as did the other so-called Developmental States, e.g. Taiwan and South Korea (Radice, 2008, p.1167). The institutional indication of this support was the foundation of the Aid Consortium for Turkey in 1961 within the OECD, and this consortium was quite generous in terms of supporting the deficits of the economy. All in all, Turkey received long-term and short-term credits and foreign aid amounting to \$300-\$500 million per year during the 1962-1974 period, and this amount increased to approximately \$1 billion in 1975-1976 (Berberoğlu, 1982, p.96; Boratav, 2010, pp.122-128).

Apart from this external borrowing and foreign aids, a new element in Turkey's balance of payments during this period was remittances sent home by workers abroad as a source



of foreign exchange. During the 1960s when the post-War European economic expansion accelerated, Turkish workers started migrating, especially to Germany, and sent remittances to Turkey (Beinin, 2001, p.149). These remittances gained importance especially in the late 1960s. The government enforced special exchange rates in order to attract workers' savings, and although these were not always sufficient to offset the trade deficit, they played an increasing role in the financing of Turkey's development (Schick and Tonak, 1987, p.346). Indeed, as Beinin illustrates, the "remittances offset the cost of 15 percent of all imported capital goods and covered the trade deficit in 1972 and 1974" (2001, p.151). These transfers reached a peak of \$1.462 million in 1974 and then started to decline due both to the recession in Europe and faltering economic conditions in Turkey; hence this decline contributed to the balance of payment crisis of the late 1970s (Beinin, 2001; Zürcher, 2012, 385; Berberoğlu, 1982).

Despite these external sources, the Turkish economy continued to register deficits, and especially after 1973, with the oil crisis and the recession in the world economy, Turkey's problems became apparent. Moreover, starting from 1973, the political atmosphere in Turkey started to accompany deteriorating economic conditions through an intensifying class struggle. Making sense of these developments entails scrutinising the developments in the labour front and political sphere starting from the 1960s. The next section will discuss this.

#### **4.2. Labour Movement, Class-Based Politics and the Conditions of the Working Class**

It could be asserted that one of the most important features of the 1960-1980 period in Turkey was the further emergence of the working class through industrial capital accumulation, and participation of this class in the union and political struggle. Thus the "mobilization of Turkish workers from the 1960s to the 1980s more closely resembles the Marxian model of class politics than any other Middle Eastern case" (Beinin, 2001, p.162). The inward-oriented ISI policies were quite appropriate for the working class and unions to strengthen their positions especially until the early 1970s, as the increasing wages and improvement of the conditions of the working class were not a big threat for the state and capital-in-general but rather necessary to sustain the reproduction of inward-

oriented capitalist development (Pamuk, 2008; Boratav, 2010).<sup>11</sup> The era has been defined as “parliamentary populism” and the “distributional dynamics during the nearly two decades that followed were shaped by the class matrix of parliamentary populism” (Boratav and Özuğurlu, 2006, p.174). Nevertheless, as we shall see later, the working class should not be conceived of as the passive object of these policies; rather it has been the subject of the struggle and challenged “populist toleration” since the very beginning of the era.

Through the 1961 Constitution, the military and the political establishment after the coup sought to co-opt and contain some of the demands of the segments of society which supported the military takeover. As Berberoğlu (1982, p.88) puts forward:

To accommodate the various demands of the masses, the new Constitution contained a number of progressive measures, including the right to collective bargaining and the right to strike, the right to form new political parties, press freedoms, university autonomy and freedom of speech and assembly. All these rights and freedoms, of course, were defined within the framework of bourgeois democracy.

In this context, the 1961 Constitution “provided the basis for the establishment of Western-type industrial relations based on tripartite representation” (Boratav and Özuğurlu, 2006, p.174). The basic and social rights, as well as the union rights provided by the constitution were meant to indicate the starting of a new period of trade unionism and labour movement and in other aspects of the social life. In contrast to earlier legislation, the constitution granted the right to unionise to “those who work” in article 46, and the right to strike and bargain collectively to “workers” in article 47. The use of the term “those who work” was significant as it indicated that civil servants were also

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<sup>11</sup> Nevertheless, increasing wages do not necessarily mean that the Turkish bourgeoisie was indifferent or even supportive in terms of these increases. Although the bourgeoisie had a toleration for high-incomes to sell their products in the domestic market; from the very beginning of the era, they tried to limit these increases. The increases generally occurred through SOE’s (State Owned Enterprises) as a result of “populist” policies. Even at the start of the 1960s, when the ISI was having its “golden age”, wage increases were realised through the struggles of the working class, and these struggles encountered significant resistance from the bourgeoisie in the private sector (Savran, 2010, p.174).

included (Işıklı, 1987, p.318). What followed the 1961 constitution in terms of labour relations legislation were Law No. 274 Unions Act and Law No. 275 Collective Bargaining, Strikes and Lock-outs Act; both of them passed into law in 1963.

Hereby, some dominant views on the developments between 1960 and 1963 in terms of the labour legislation should be challenged. The dominant paradigm argues that the rights of workers were developed and elaborated on in 1963 legislation (see Zürcher, 2012, p.392). Another view is that these rights were granted to workers “without much of a struggle” (Keyder, 1987, p. 300). The real picture, however, differs from these presentations. The Turkish bourgeoisie fought for some “correction” after the 1961 Constitution. Hence, the right to lock-out was granted to employers in the 1963 laws, which was not mentioned in the 1961 Constitution. Moreover, there were also some restrictions on the right to strike in the 1963 legislation. These were significant losses of rights and indicate the difference between the 1961 Constitution and the 1963 labour legislation (Koç, 2010, p.187). Secondly, starting from late 1961, workers began to demand their constitutional rights. Between 1961 and 1963, there were more than 40 strikes and many more demonstrations by the labour movement; the most notable ones were the 1961 Istanbul demonstration by 200,000 workers and the 1963 Kavel resistance which lasted 36 days (Berberoğlu, 1982, p.102; Koç, 2010, p.187). These resistances and struggles accelerated the process of the 1963 labour legislation, although some important rights had been granted to the bourgeoisie which were mentioned above.

As early as 1961, the effects of the new socio-political atmosphere could start to be perceived. As the new Constitution legalised the establishment of a socialist party, twelve trade unionists, mostly within Türk-İş (Confederation of Turkish Trade Unions), founded the Workers Party of Turkey-WPT (TIP- *Türkiye İşçi Partisi*) which won 15 seats in the parliament in the 1965 elections (Cizre-Sakallıoğlu, 1992, p.721). This was also the first manifestation of the opposition to the “above-party” (or non-partisan) politics of the Türk-İş from within.

As the unionisation rate was increasing, left-wing movements were gaining significance. The unexpected election success of the socialist WPT in 1965 and its role in elevating the labour movement to a more political level was giving hope to workers. In the meantime, the Türk-İş still remained corporatist and tried to sustain a good relationship with the

government; since it was mainly organised in the public sector (Akkaya, 2004, p.146). Hence, there was a clear demand for forming a new union confederation. Türk-İş's decision to stop a strike in Paşabahçe Crystal Factory in 1966 and to expel striking unions from Türk-İş was the final straw. Then on 13 February 1967 the Confederation of Revolutionary Trade Unions (DİSK- *Devrimci İşçi Sendikaları Konfederasyonu*) was founded (Blind, 2007, p.294; Zürcher, 2012, p.393). Four out of the five founder unions' presidents of DISK were among the twelve unionists who founded WPT in 1961 (Koç, 2010; Işıklı, 1987). Although DISK had only 50,000 members when it was established in 1967, its impact on the politics and labour movement went beyond its union rank and file; moreover its membership increased quickly. DISK, as a socialist labour confederation, attacked Türk-İş very harshly for its collaborationist policy towards the JP governments and openly took a stand on revolutionary political unionism instead of 'above-party politics' (Cizre-Sakallıoğlu, 1992, p.721). Thus, after the establishment of DISK, the labour movement became stronger and more challenging in the 1968-1970 period as the number of strikes increased from 54 in 1968 to 112 in 1970 (Berberoğlu, 1982, p.103; Koç, 2010, p.233).

However, these developments were unsettling for both state and capital. The social-democratic atmosphere which was established after the 1960 military takeover soon showed its limits. The first attempt of the JP government was to make some amendments to the labour legislation in 1970. An amendment to the Unions Law prohibited the existence of unions unless they represented at least one third of those working in a particular workplace. It is important to note that there was an explicit and public admission by a government spokesman that the amendment was going to be used to wipe DISK out of existence (Işıklı, 1987, p.320). By means of these amendments to Law No. 1317, the JP government aimed to make the corporatist Türk-İş as the only active confederation in industrial relations (Akkaya, 2004, p.148). This attempt led to one of the most important mass labour insurgencies. On 15-16 June 1970, more than 100,000 workers protested against the amendments; stopped work in 135 factories; blocked the Istanbul-Ankara highway and immobilised the entire Istanbul-Marmara region; and bloody clashes occurred between the workers and security forces. The regime described these events as "the dress rehearsal for revolution" (Beinin, 2001, p.139) and the right-

wing JP government declared a martial law<sup>12</sup> (Berberoğlu, 1982, p.103-104). However, the martial law was neither effective nor sufficient. Indeed, between 1 January 1971 and 12 March 1971 – the day the military declared the ultimatum – more days were lost to strikes than in any full year since 1963 (excepting 1966) (Beinin, 2001, p.139). The military blamed the JP government on the basis of the faltering economy and its failure to control the widespread strikes, student unrest, and urban terrorism; and it was argued that “political development had surpassed economic development”<sup>13</sup> (Schick and Tonak, 1987, p.347).

Under these circumstances, on 12 March 1971 the Turkish military issued an ultimatum. The government stepped down and an interim regime governed by a military-backed technocratic government commenced. In distinction to the post-1960 coup regime, the regime following the 12 March military intervention was repressive; the 1960 Constitution was amended and democratic rights were curbed (ibid., 1987, p.347). As Berberoğlu writes “all strikes and demonstrations were outlawed, left wing political organisations and publications were banned, liberal and progressive newspapers were closed down, and journalists associated with them were prosecuted, and thousands of trade unionists, students, teachers were detained” (1982, p.107). The Workers Party of Turkey, which stimulated the labour and socialist movement in the post-1960 period, was closed down in 1971 by the interim military regime.

Nevertheless, as will be discussed in the next section, the interim regime between 1971 and 1973 was not effective and remained within the limits of “restoration” rather than “restructuring”. There were no stable governments during this era, and the amendments made to the Constitution and other legislation could not stop the labour movement, except for a short period. Thus “the workers’ movement, after a decline in the mid-1970s, resumed with greater strength at the end of the decade” (Beinin, 2001, p.139).

Last but not least, the issue of wages is worthy of a mention in this section, as, starting in

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<sup>12</sup> Although the 15-16 June insurrection could not stop the amendments in Parliament; by the litigation of the Workers Party of Turkey, the Constitutional Court rejected the amendments in 1972 (Koç, 2010, 234).

<sup>13</sup> This famous declaration was made by Nihat Erim who served as the Prime Minister of the interim regime after the 12 March 1971 military ultimatum.

the 1970s, it was one of the main problems to disappoint the Turkish bourgeoisie. Benefitting from the rights granted to workers by the 1961 Constitution and 1963 labour legislation, the labour movement elevated its struggle and gained a significant position in terms of its material conditions. As discussed earlier, another factor was “populist” distributional policies which were imperative to some extent for the reproduction of ISI policies. Under these circumstances, by means of the right to strike and collective bargaining (excepting the 1971-1973 interim regime), real wages increased significantly between 1963 and 1970, and between 1973 and 1976 (Keyder, 1987, p.300).

Indeed, if wage levels were accepted as 100 in 1963, they had increased to 220 by 1976 (Boratav, 2010, p.139). What is more, “wage rates in the manufacturing sector were high by international standards – at least until the mid-1970s. For instance, in 1977, daily wages in manufacturing were the same as those for Greece, and double those of South Korea” (Keyder, 1987, p.300). Workers also struggled intensively to keep the wages high during the crisis-ridden years of this era, namely 1977-1980, which will be dealt with in the next section.

### **4.3. Crisis, Instability and Struggle in 1977-1980 Period: The Limits of ISI and Making Sense of Transition to Neoliberalism**

As mentioned in the previous section, the scope of the military intervention in 1971 remained limited<sup>14</sup> and was not able to bring about the expected stability, except for a short period of time; albeit its damages to progressive segments of society, and to the labour movement in particular. The interim regime ceased in 1973 and the first elections after then took place in the same year. The most significant feature of the era that started with the 1973 elections was the composition of the parliament, which did not enable the formation of a stable government. Hence, the 1973 and 1977 elections could only bring unstable coalition governments that were unable to govern the economy, the social and political tensions, and the street clashes (Ozan, 2012, p.77; Aydın, 2005, p.41). One of

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<sup>14</sup> Zürcher suggests that during the interim regime, the influence of the former PM Demirel (Justice Party) gradually increased. The military hesitated to intervene in the form of a coup. The reasons behind this were, firstly, they witnessed the damage of the 1967 Greek Colonels’ Coup. Secondly, endless ultimatums and interventions were impossible and it might have affected their reliability and plausibility (2012, p.376).

the main reasons was the dissolution of the strong centre-right political entity of the late 1960s and early 1970s. Islamist and ultranationalistic currents started to gain importance in Turkey in the 1970s, and they found their political representation in the Islamist National Salvation Party (MSP-*Milli Selamet Partisi*) and the ultranationalist Nationalist Action Party (MHP-*Milliyetçi Hareket Partisi*), rather than the centre-right JP<sup>15</sup>. Indeed, between 1973 and 1980, seven minority, caretaker, and coalition governments – either right-wing ‘Nationalist Front’ coalitions or CHP minority governments – served until the third military takeover (Schick and Tonak, 1987, p.346).

The economic structure of the post-1960 establishment was also starting to crunch, starting in 1973-1974. As mentioned previously, inward-oriented ISI policies were highly dependent on external sources and foreign exchange. However, starting from 1973, there were significant constraints on these sources. Following the 1973 Middle East war, the oil embargo and OPEC price increases affected Turkey negatively, as Turkey was highly dependent on oil importation since the 1950s, and the result of the oil crisis was increased costs of imported oil. Secondly, the recession in Europe both increased the prices of imported goods and decreased the amount of Turkish workers’ remittances due to increasing unemployment in Europe (Beinin, 2001, p.159; Schick and Tonak, 1987, p.349; Zürcher, 2012, p.389). What is more, Turkey’s military intervention in Cyprus in 1974 increased military spending, and caused an embargo by the US plus reduced foreign lending and aid. These were all signs of a balance of payments crisis once again.

Nevertheless, Turkey was able to postpone the crisis until 1977, and between 1973 and 1977 the growth rate per annum was 7% (Bayar, 1996, p.778). The means that the Nationalist Front governments were using to postpone the crisis were workers’ remittances (albeit decreasing), issuing money, very costly short-term external borrowing, and Deposits Convertible to Foreign Exchange – a procedure aimed at using

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<sup>15</sup> This proliferation of political parties was also a reflection of contradictions within the bourgeoisie. For instance, the MSP was supported by the Anatolian capital and merchants and thus drew a reaction from the big industrial bourgeoisie during the Nationalist Front governments (Ozan, 2012, p.77). The former would be called “Anatolian tigers” in the 1990s.

state guarantees to rapidly obtain large amounts of foreign exchange (Schick and Tonak, 1987, p.349; Boratav, 2010, p.129; Pamuk, 2008, p.285).

However, by the middle of the 1970s, and especially from 1977 onwards, the period of easy growth was over and economic indicators started to deteriorate. Although the growth rate was 4% in 1977, foreign trade indicators showed that it had reached its limits. The rate of exports meeting imports was only 30% in 1977, and the foreign trade deficit reached \$4 billion and Turkey's total foreign debt reached \$12.5 billion (from \$3.5 billion in 1975) in 1977 (Berberoğlu, 1982, p.110; Boratav, 2010, p.140). Indicators also continued to deteriorate in the following years. Growth decreased to -0.7% in 1979 and -1.1 per cent in 1980, whilst the inflation rate rose to 90% in 1979 (Pamuk, 2008, p.285; Keyder, 1987, p.295).

The period 1977-1980 was also marked by significant social and political unrest and instability. Thus, economic crisis was accompanied by political crisis. There were bloody clashes during these "street fighting years" between left-wing groups and fascist/ultranationalist groups. There was also sectarian contention between Sunnis and Alevis (Beinin, 2001, p.160). Naturally, the state was not neutral on these issues. During the Nationalist Front coalition governments, police forces were allocated to the fascist Nationalist Action Party, and this allocation was functional in terms of control and repression of left-wing political movements (Zürcher, 2012, p.380).

These tensions amongst society were a reflection of the class relations at that time. Indeed, class struggle intensified significantly from the mid-1970s, and especially after 1977<sup>16</sup>. Trade unions became stronger and more political in their demands; fighting back against wage suppressions and thus frustrating the easy availability of high profits to industrialists (Keyder, 1987, p.303). There was a 2.5 fold increase in the number of working days lost to strikes in the 1977-1980 period, compared to the 1973-1976 period (Boratav, 2010,p.146), which was one of the most crucial social problems reported by TİSK

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<sup>16</sup> Hereby, it should be noted that the establishment of nationalist-conservative union confederation MISK in 1970 and Islamist union confederation HAK-İŞ in 1976 reflected the aim of the keeping the working class away from class unionism and focused on identity-based politics (Duman, 2014, p.76). However, these organisations remained marginal prior to the 1980 military coup.



(*Confederation of Employer Unions of Turkey*) (Ozan, 2012, p.75). Concomitantly, the capitalist state was responding to prevent unrest; the number of strikes postponed by the state was 108 between 1976 and 1980, whereas this number was only 50 between 1963 and 1975 (Akkaya, 2004, p.150).

Predictably, the bourgeoisie started to show its discontent about this state of affairs. According to Yalman (2009, p.306), “it is important to emphasise that the bourgeoisie has become a class for itself, if not before, then gradually during the 1970s.” Various representatives of the Turkish bourgeoisie started to complain and put pressure on governments as they perceived a ‘revolutionary threat’ and a general crisis of political economy. In this context, the Turkish bourgeoisie were also disappointed because of the instable and “weak” governments which were unable to “govern over society”. Vehbi Koç, one of the very important capitalist figures and the founder of Koç Group which was the main component of TÜSİAD (Turkish Industrialists’ and Businessmen’s Association - established in 1971 and represents the big industrial bourgeoisie) openly declared his expectations before the 1977 elections: “This country needs a very strong government if it is to overcome today’s anarchy, economic disorders and political troubles” (Koç, 1977, quoted in Birand, 1987, p.29). However, the results of 1977 elections were far from meeting this expectation. As it is stated by Cizre-Sakallıoğlu (1992, p.724):

neither the RPP [CHP]-led coalition governments (1973-1974, 1977-1978), nor the right-wing nationalist front coalition governments dominated by JP (1974-1977, 1979-80) were strong enough to impose further state controls on labour to avert and contain the growing militancy of a politicized and polarized labour movement, especially in the socialist DISK.

Crisis, struggles and discontent expanded in 1979 and 1980. The CHP-led minority government started negotiations with international institutions (IMF, OECD, and WB) in order to receive foreign loans and aid, and put stabilisation measures in place. However, PM Bülent Ecevit, the leader of the CHP was hesitant to agree on a stabilisation programme because of the party’s electorate, namely labourers – who were highly politicised at the time. However, the country desperately needed foreign credits, and the bourgeoisie was putting pressure on an agreement. Ecevit was in a contradictory situation, and oscillated for a period of time until July 1979, when there was an agreement

amounting to \$1.8 billion (Zürcher, 2012, p.386). However, the condition of the provision of this credit was a reform package comprising austerity and liberalisation. Ecevit could not put this package into practice and resigned on 14 October 1979, and a JP minority government (or the Third Nationalist Front) took office in October, and immediately proceeded to prepare Turkey's third package of stabilisation measures. These were announced on 24 January 1980, then the international aids and credits started to be received (Zürcher, 2012, p.386; Schick and Tonak, 1987, p.351).

The 24 January economic stability programme drew the framework of transition to neoliberalism in Turkey. However, the decisions and related policies did not have any chance of being implemented in the pre-military coup atmosphere, as they encountered significant working class resistance (Güveloğlu, 2007, p.101). One quarter of the strikes in the 1971-1980 period took place only in 1980, especially after the announcement of the 24 January Decisions; and the number of striking workers rose from 6,414 on 25 January 1980 to 57,000 by 27 June 1980 (Akkaya, 2004, p.150; Koç, 2010, p.270). Furthermore, there was a crisis in parliament by the end of the 1970s. The Turkish parliament failed to elect a President of the Republic after voting 100 times, as the political parties could not agree on a candidate because of the composition of the parliament. This led to a significant delay of talks on the 24 January Decisions (Ozan, 2012, p.58).

The political establishment was losing its legitimacy both in parliament and in society because of this crisis-ridden political and economic situation. Under these circumstances, Turkish capitalists both explicitly and implicitly called for more authoritarian solutions to resolve the crisis. The 12 September 1980 military coup, which will be dealt with in the next chapter, was decisive in this context.

## **5. Conclusion**

This chapter introduced and discussed state development; the making of the classes; and the nature and contradictions of capitalist development in modern Turkey (including the Ottoman origins) until the 1980 military coup to provide a framework to make sense of the restructuring in the post-1980 period. The class-based account suggested in this chapter differs radically from the dominant paradigms of state-society relations in Turkey, namely the 'Strong State Tradition'. Instead of assessing the military coups and role of

the state bureaucracy as antagonistic to the bourgeoisie and civil society, this chapter emphasised the contradictory continuity of capital accumulation and industrial development objectives of state managers since the beginning of the 20th century. This brings class and class struggle to the analysis of political economy of Turkey.

The chapter particularly focused on capitalist development in the second half of the century, and especially the period post-1960. This was a period marked by a decisive development strategy based on planning and ISI, which also witnessed intensified antagonistic class relations and the development of class-based politics in Turkey. The dependent nature of the ISI policy on the world market showed the limits of high growth and high income policy quickly in the 1970s. Labour militancy as a response faced repressive state enforcements starting in early 1970s.

Towards the end of the 1970s, the sustainability of liberal democratic rights and the constitutional framework within a severe economic and political crisis started to be questioned by Turkish bourgeoisie and military. The economic crisis was attempted to be overcome through the introduction of the 24 January 1980 stability measures. However, the liberal state understood as 'market police' (see Bonefeld, 2013) was weak. This is the context of the 12 September 1980 military coup which I will discuss in the following chapter.

## **Chapter 4. Restructuring the State, Economy and Society: From Military Coup to ANAP Governments: 1980-1991**

### **1. Introduction**

On 12 September 1980, Turkish Military Forces staged a coup in response to the crisis of the Turkish political economy in the late 1970s. The purpose of this chapter is to make sense, firstly, of the political economy of the military dictatorship between the years 1980-1983, and then to examine the overall state restructuring process in the 1980s, which has since had persistent effects on the contemporary political economy of Turkey.

This chapter argues that the restructuring process of the 1980s aimed at ‘putting an end to class-based politics’ (Yalman, 2009) and introduced authoritarian management of labour power and labour relations as a reaction to labour militancy in the 1970s. It will also be argued that these developments were in tandem with the crisis of world capitalism in the 1970s, and also reflected the general anti-inflationary tendencies of governments as a reaction to wage upsurges (Duman, 2014, p.79).

The chapter links the ‘economic’ (24 January Stabilisation Programme and wider so-called ‘Structural Adjustment’) and the ‘political’ (12 September coup and the political and social restructuring), and reveals the class content of this state-economy restructuring in the 1980s. First, the role of the military governments between 1980 and 1983 and its enforcements as an extra-economic coercive force in the transition to neoliberalism in Turkey will be emphasised. In contradistinction to the mainstream dominant paradigm of “Strong State Tradition” in Turkey, this chapter argues that the 12 September 1980 coup should be understood in the context of class struggles, not as an antinomy of strong state *vis-à-vis* the weak civil society (including the bourgeoisie).

In the aftermath of the military dictatorship, a new political party, ANAP (*Anavatan Partisi- Motherland Party*) governed Turkey under a single majority government between 1983 and 1991. This neoliberal-conservative party and its leader, Turgut Özal, played a crucial role in proceeding with neoliberal reforms and the anti-democratic spirit of the military regime. In this context, this chapter argues that the 1980s and the ANAP years in Turkey are crucial and mark a radical change, and this period provides us with the

elements to understand the contemporary political economy of Turkey. In political terms, this era witnessed an attempt which tried to marginalise class-based politics and pursued a repressive trade union policy; and the state started to have a different interaction with (political) Islam. In economic terms, “the successive crises that Turkey experienced over a short interval in 1994, 2000 and 2001 had their origins in key decisions implemented during Özal era” (Öniş, 2004, 115). For that purpose, making better sense of the 1980s is pivotal in understanding the political economy of Turkey.

## **2. Reorientation of the Capitalist Development: 24 January Decisions and Structural Adjustment Policies in the 1980s**

### **2.1. The Context of Economic Policy Change**

The previous chapter demonstrated that the Turkish political economy was in a state of severe crisis in the late 1970s. The economy was suffering from foreign currency constraints<sup>1</sup>, external debt, balance of payments crisis, high inflation and a shortage of crucial commodities which was accompanied by political crisis and crisis in the state form. These processes were marked by increased labour militancy and the crisis in the world market in the 1970s (i.e. Oil crisis and the collapse of the Bretton Woods system).

As a response, the Turkish state – in line with IMF and WB and also supported by the OECD – developed an economic stability programme, which mainly consisted of a devaluation of Turkish lira, removal of price controls, trade liberalisation, removal of restrictions on imports and encouragement of exports (Duman, 2014, p.81). Although there was no direct reference to labour-related issues in the January decisions, the aim was to change the way Turkey integrated with the world market, from ISI to export-oriented strategy based on further competitiveness, which would necessitate the disciplining of labour and dramatic wage reductions (ibid., p.81).

As discussed in the previous chapter, the initiation of the stabilisation programme was under Süleyman Demirel’s minority Justice Party government, and the then Undersecretary of the Prime Ministry, Turgut Özal, played a crucial role in shaping the

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<sup>1</sup> This situation was summed up by the then PM Süleyman Demirel before the coup: “Turkey is even in need of 70 cents” (Özel, 2015).

IMF-backed and co-operated 24 January 1980 decisions. However, because of societal opposition and the ‘summer of discontent’ marked by a strike wave in 1980, the programme could not be implemented successfully. Thus, the 12 September 1980 military coup paved the way and the reorientation of the economy started in a strong and decisive way.

Some commentators, who do not assess the military coup as a consequence of the class struggles of 1970s, argue that “the military did not take over in order to impose a strict adjustment programme” (Öniş and Webb, 1992, p.34). However, economic policy-making in the post-coup period would reveal the military’s role in imposing a ‘strict adjustment programme’. The military supported the economic measures and urged the governments to take such measures in the late 1970s. Moreover, as Özal was aware that there would only be limited accomplishment under normal party politics, he asked the Turkish military that “he be given five years of political and social harmony in which to accomplish his task of restoring the economy to a healthy state” (Ahmad, 1993, p.179). This explains why the junta removed Demirel from power, but appointed Özal as a technocrat minister responsible for the economy under the military governments. Hence, “[m]ilitary rule enabled Özal to ‘pragmatically’ concentrate state and government power in the Turkish executive, to handpick a few state officials to work on the IMF structural reforms, and to neutralize any social or political resistance to neoliberalism” (Marois, 2012b, p.101).

The programme initially and immediately attempted to relieve the economy from the balance of payments crisis, rising inflationary pressures, and the debt crisis (Nas, 1992, p.15). However, the Turkish stabilisation measures – though they mainly addressed the above-mentioned problems of the economy – initiated a wholesale reorientation of economic policy in the 1980s; aiming at putting the economy on an outwardly oriented course. This was a significant overturn from the post-war era of inwardly oriented growth and industrialisation (Arıcanlı and Rodrik, 1990, p.1344). Elements of the decisions included all the components of the IMF stability policy packages and World Bank structural adjustment programmes (SAP) prescribed to the most of the underdeveloped countries in the 1970s (Boratav, 2005).

In line with this, shortly after the coup, a three-year stand-by agreement signed with the IMF, and Turkey had five SAL's (*Structural Adjustment Loans*) from the World Bank in 1980-1984 (Öniş and Webb, 1992, p.27). Furthermore, the 1985-1989 five year development plan was prepared with the direct participation of the World Bank<sup>2</sup> (Aydin, 2005, p.43; Yalman, 2009). These were also in line with the demands of the Turkish capitalists in the late 1970s, as a response to the economic crisis of 1977-1979 (Boratav, 2010, p.150). In this context, it is not surprising that “most of TÜSİAD's and TİSK's key demands at the end of the 1970s turned out to be policy outcomes during the 1980s” (Yalman, 2009, p.334).

To reiterate, the objectives of the above-mentioned 24 January decisions and stability programme were to immediately resolve economic turmoil in the short term – namely crises of balance of payments, inflationary pressures (mainly through wage declines) and shortages of consumer goods; and in the long-term, render the form of integration of the Turkish economy with the world market, in an export-oriented and more liberalised way. The means of the programme were in line with the so-called Washington Consensus. The specific measures taken in the context of the restructuring of the economy are discussed in the following sections.

## **2.2. Labour Market Policy and Wages**

Among the stability measures of the early 1980s, wage repression was the most crucial one<sup>3</sup>. As discussed in the previous chapter, wage issues were a significant part of the class struggle; and low wage policy direction towards the end of the 1970s politicised the labourers, as the ISI strategy was not able to contain the material demands of the workers in a crisis-ridden situation marked by the increases in production costs post-oil crisis of 1973 (Duman, 2014, p.80).<sup>4</sup> The labour movement and trade unions were fighting back

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<sup>2</sup> The reasons, political context, and economic extent of this foreign financial assistance from the IFI's (International Financial Institutions) will be elaborated further in the chapter.

<sup>3</sup> In this section, for the coherence of the chapter, mainly wage-related aspects of labour restructuring will be dealt with. The politico-legal structures will be discussed in the “Political and Social Restructuring” section of this chapter.

<sup>4</sup> The wage demands of the unions were attempted to be contained and restrained through the ‘Social Contract’ in 1978 which was signed under the Social Democratic Ecevit government with the Türk-İş Union

against the wage repression demands from the Turkish capitalists and the state and this obstructed the new economic policy orientation. It was clear that without significant wage decreases, it would not be sufficient to boost exports and increase the competitiveness of Turkish goods in the world market through the exchange rate adjustments and export promotion incentives alone. For that purpose, “successful integration into the world market demanded that Turkey have a disciplined and cheap labour force capable of producing competitively priced export-oriented goods” (Marois, 2012b, p.101).

Indeed, it is worth noting that before the military intervention, when Turgut Özal was serving as the Undersecretary of Prime Ministry under the JP minority government in 1979, he penned a letter to the Prime Minister Demirel, indicating that Turkey cannot export its goods under these general high wages and thus the labour market should be disciplined (Boratav, 2010, p.147). It is also not a coincidence that, after the military coup, in his first speech, General Kenan Evren – head of the junta and National Security Council – was complaining about high wages (ibid., p.148); moreover he was comparing his salary with a hotel worker in Istanbul, and claiming that the wage of the hotel worker was higher than his salary, and it had nothing to do with the so-called “social justice” (Koç, 2010, p.278). Hence, a discourse was developed in order to ‘demonise’ the demands of the working class. Because of wage levels, the working class was held responsible by Turkish capitalists for many reasons ranging from high inflation to the uncompetitiveness of the Turkish economy – especially before the coup (Ozan, 2012, p.73). In order to legitimise the wage suppression policy, thus, as Ahmad (1993, p.205) puts:

A campaign to create an anti-labour sentiment in all segments of urban society (the intelligentsia, the shopkeepers, and small producers) was launched to give moral sanction to this policy. It was claimed that workers were over-paid and the high wages were an obstacle to economic development since they priced Turkish goods out of the world market.

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Confederation. However, this attempt failed as a result of the short-lived Ecevit government and also uncompromising and radical segments of the labour movement, refusing to sign the contract (see Talas, 1982).



It is also interesting to note that, from a comparative perspective, even though the Turkish military transition to neoliberalism resembles the Latin American military dictatorships (e.g. Chile under Pinochet), differing from those, the emphasis was not on the contractionary fiscal and monetary policies, but on the incomes policy that is harshly opposed to labour in general (Boratav, 2010, p.149).

In this light, what was experienced in Turkey in the early 1980s under military dictatorship, and until the end of the decade (1988-1989) under ANAP governments, was a regressive wage policy. This started as a decisive policy in the aftermath of the military coup by means of anti-democratic military measures, and then covered most of the decade under an authoritarian political establishment. This regressive wage policy entailed a fierce repression of the organised labour at the same time. Hence, these developments should be conceived of as an “attempt not only to reverse the real wage gains labour had made in the previous period but also... to reduce its effectiveness as an emerging societal force and as a likely source of strong opposition to SAP” (Şenses, 1996, p.73).

Under the military dictatorship – between 1980 and 1983 – all trade union activity was banned, and there was no room for collective bargaining. The labour front was completely excluded from any policy-making process. The most significant illustration of this was the initiation of the Council of Arbitration (*YHK-Yüksek Hakem Kurulu*) to settle wage disputes under military governments. Only two out of nine members of the council were representing the labour front, and they were pro-military coup trade unionists (Koç, 2010, p.302). The decisions of the Council were indisputable and there was no right of appeal. This formation guaranteed real wage decreases as the Council “repeatedly gave nominal wage increases below the previous and future inflation rates” (Öniş and Webb, 1992, p.18).

Concomitantly, whilst the military junta attempted to facilitate the provision of cheap labour, it did not want to have unemployment since this would increase political unrest. To that end, the military government banned worker dismissals (Şenses, 1996, p.73; Öniş and Webb, 1992, p.18), although unemployment rose until 1983 (Şenses, 1991, p.225). The meaning of banning layoffs and dramatic wage reductions was that the short-term goal of the Turkish state was to rely on existing capacity and cheap labour force in order to materialise the intended export boost. Hence, according to the SPO (State Planning

Organisation), the share of wages in the GNP declined sharply from a high of 36% in 1977 to 21% in 1983 (Ahmad, 1993, p.205). After the military regime ended in 1983, the ANAP governments under the leadership of Turgut Özal continued the same wage policy of the military rule, although the means of this policy had to be changed due to the limited transition to democracy. Nevertheless, the ANAP government successfully exploited the institutional and legal framework that the military designed before leaving power; and thus share of real wages further decreased to 17.7% in 1986 and to 15.4% in 1988 (Şenses, 1991, p.227; Boratav, 2010, p.163; Boratav et.al., 1994; p.46). Put differently, the wage-earners had a 32% decrease in their real wages in the period of 1979-1988.

The revitalisation of the labour movement after 1987, and ANAP's debacle in the 1989 local elections would reverse this regressive trend in wages. Indeed, in real wages, there was a 31.7% increase in the private sector and 38.7% in the public sector after 1987; moreover, in 1991, real wage gains reached a level even above that of 1980 (Şenses, 1996, p.74). The political dynamics of this development will be discussed later in this chapter.

### **2.3. Liberalisation and Export-Oriented**

Initially, foreign trade and the foreign exchange system were liberalised inasmuch as that those measures even surprised the IMF and World Bank officials (Aydin, 2005; p.44). Foreign trade policy 'reforms' started with a 33% real devaluation of the Turkish Lira and removal of almost all multiple exchange rate practices just after the announcement of the decisions, before the coup (Öniş and Webb, 1992, p.27). This policy proceeded and there was continual devaluation of the Turkish Lira and a flexible exchange rate policy based on daily adjustment; and from May 1981 to May 1987, the average annual depreciation rate was 4.2% (Baysan and Blitzer, 1990, p.11; Aydin, 2005; p.44; Zürcher, 2012, p.440).

Before 1980, the exchange rate policy was a constant matter of complaint; especially at the end of the 1970s, when there were severe foreign exchange constraints. In an export-oriented economy and under liberal trade regime, this policy proved unsustainable. Before 1980, it is argued that the overvalued exchange rate was an impediment to exports – which remained at only 5% of the GNP – and created excess domestic demand which was a constant source of economic instability (Arıcanlı and Rodrik, 1990, p.1344; Balassa, 1982, p.1982). Moreover, Turkish commodities would not have a chance to

compete in the world market under an overvalued exchange rate. It is argued that the flexible exchange rate system was one of the most important measures taken in the early 1980s, and the constant real depreciation of the Turkish Lira contributed to the export growth in the period in question (Baysan and Blitzer, 1990, p.11).

Other means of stimulating exports were subsidies composed of tax rebates, cheap export credits, direct subsidiary payments to the industrialists and the easing of bureaucratic processes (Boratav, 2010; Zürcher, 2012; p.440; cf. Waterbury, 1992). Indeed, there was a generous support for exports. For example, the export subsidy rates for the manufacturing sector between 1980 and 1983 averaged 22% (Öniş and Webb; 1992, p.29), and the general rate for subsidies amounted on average 20-30% between 1981 and 1985 (Arıcanlı and Rodrik, 1990, 1344). Apparently, contrary to mainstream theoretical accounts which claim that the relation of the state and market as a *zero-sum game* and the state is in retreat or weakened under neoliberalism; what is observed here is the changing *forms of state intervention* to the economy (Yalman, 2009, p.330). The capitalist state is ubiquitous and indispensable for the operation of the market. Strangely enough, however, the period in question witnessed a very sound anti-statist discourse in Turkey. Turgut Özal developed a discourse which argued that the economy should be understood with its technical meaning, as if it has its own laws and has an independent existence; and if intervened in favour of income distribution or welfare policies, it would be in crisis as it was in the late 1970s (Tünay, 2002, p.190). This discourse aimed to marginalise class-based demands in the 1980s.

There were some other measures which were marked by the overall structural adjustment measures, such as liberalisation of imports. Although initial steps had been taken in January 1980, the major step in import liberalisation came in 1984 (Arıcanlı and Rodrik, 1990, p.1345). This was in line with the wider liberalisation of the economy.

Change in the interest rates policy was another measure implemented in the 1980s. On 1st of July 1980, interest rates were liberalised and restrictions were limited. While the interest rates were well below the rate of inflation before 1980, they had been kept excessively high in order to reduce internal demand, encourage savings, and thus struggle with the high rates of inflation (Aydın, 2005, p.45). Even though it had an impact on decreasing of the inflation rate in the short-term, it soon proved to be ineffective, as, rates

were generally as high as 50% to 80%. This made capital borrowing too expensive especially for the smaller enterprises and manufacturing industry, thus leading to monopolisation (ibid, p.45; Ahmad, 1993, p.206).

However, a more serious effect of this financial liberalisation would soon be seen. The free interest rate policy and other rapid financial liberalisation measures of Turgut Özal paved the way for the mushrooming of money brokers and small bank openings that started to exploit and manipulate those policies. As Marois (2012b, p.105) makes clear:

Each new firm was betting on continued high financial profits and their ability to seamlessly attract new money. This resulted in a volatile, competitive, corrupt, and highly speculative situation that quickly turned into crisis and the collapse of the brokerage system in 1982.

This crisis is also known as the so-called ‘Bankers’ scandal’ or ‘Kastelli crisis’, which was, according to Boratav (2010, p.152), the first fiasco of neoliberal economic restructuring in Turkey. This led to public anger and ultimately Turgut Özal resigned from his position as Deputy Prime Minister responsible for Economy under the military government in 1982. However, this would not prove to be a rupture in terms of economic policies regarding the 1980s. The spirit of ‘structural adjustment’ and the 24 January decisions, or the same policy package, would remain intact without any reversals until the years of 1988-1989 (ibid., p.148, cf. Öniş and Webb, 1992, p.34).

As far as the foreign investments are concerned, this area received its share from the extensive liberalisation process as well. Prior to 1980, the role of direct foreign investment in the economy was extremely limited; and there had been substantial bureaucratic restrictions on foreign capital. However, in the 1980s, ‘discriminatory’ measures were removed to a great extent, the approval process was simplified and bureaucratic impediments were moderated significantly; moreover, there was some positive discrimination towards the foreign investors in terms of import taxation, and foreign firms were allowed to carry their investment capital and profits back to their countries (Zürcher, 2012, p.442; Arıcanlı and Rodrik, 1990, p.1346).

#### **2.4. Reorganisation of the Public Sector and Privatisation Attempts**

In the Import Substitution Industrialisation era, prior to 1980s, State Economic Enterprises (SEEs) or State-Owned Enterprises (SOEs) played a crucial role for capitalist development, management of domestic demand and employment in Turkey. As shown in the previous chapter, however, the public sector and the private sector were neither antagonistic nor mutually exclusive according to the development plans. Nevertheless, as capital accumulation had been obstructed by several impediments, and with the discourse on wholesale ‘liberalisation’ of the economy, the role of SEEs started to be questioned in the 1980s. Moreover, it is argued that the SEEs were a constant source of budget deficits. The public sector created large amounts of deficits and losses which were financed – directly or indirectly – through the Central Bank (Arıcanlı and Rodrik, 1990, p.1345). Thus, “privatization of the SOEs has been a vanguard strategy behind the transition to neoliberalism in Turkey as in other developing countries” (Marois, 2012b, p.102). Hereby, it should also be emphasised that privatisation, from a critical political economy perspective, cannot be conceived of as a technical process or simply the ‘rolling back of the state’. It should be explained in class terms. Hence, following Marois (ibid., p.102), “privatization, beneath its formal appearance as an economic policy, entails the restructuring of social relationships of power between the state, capital, and labour in ways that aim to intensify competitiveness by exposing individuals and collectives to profit imperatives.”

Nevertheless, although privatisation policy was an important goal of policy-makers in the 1980s; as far as the number of the SEEs privatised or the earnings from those processes are concerned, it could be argued that they remained moderate, both during the military governments and the Motherland Party (ANAP) years in Turkey. This does not mean, however, that both the military and the ANAP governments were reluctant to privatise public sector enterprises. Rather, it was not an easily and immediately achievable process considering the place of the SEEs in the economy.

In this light, in the early 1980s, there was not a “shock-therapy approach” in privatisation in Turkey, as the “emphasis in those years was more on their reform, arguably required to increase their efficiency and productivity” (Angın and Bedirhanoglu, 2012, p.146). In this context, the prices of SEE products were a constant matter of discontent before the

1980s, as they could not cover their costs generally. Hence, in order to resolve this problem, as a first policy measure, SEEs “were to be self-financing organizations, adjusting their prices to reflect their cost structure...[and] increases in SEE prices were the chief mechanism for reducing public sector deficits in 1980 and beyond” (Arıcanlı and Rodrik, 1990, p.1345). Another measure was drastic reductions in real wages in the public sector which had a significant impact on reducing public sector expenditures as a share of GNP (*ibid.*, p.1345).

Although there were limited attempts at privatisation in the early 1980s, more decisive and courageous steps were taken towards the mid-1980s and late 1980s. Some initial plans for the privatisation of SOEs were generated by the ANAP government in 1984 and then the sale of some minor SOEs followed in 1985 (Marois, 2012b, p.103; Cam, 2002). Starting with Turgut Özal’s second term in office, from 1987, the privatisation policy was reiterated again and the first major sell-off occurred in 1988; which was a SOE named Teletaş, a telecommunications company (Angın and Bedirhanoğlu, 2012, p.148). However, these first experiences were far from being a success story. Teletaş shares in the capital markets had fallen steadily after the privatisation, and it has been argued that the capital markets at that time was not sufficient to contain such a big transfer operation in Turkey (*ibid.*, pp.146-147). This experience slowed down sell-offs in the 1980s and ultimately the first wave of privatisation proved to be fruitless, with earnings remaining less than US\$ 30 million between 1985-1988 (Marois, 2012b, p.103). The privatisation process, then, would be accelerated in the 1990s, and the 1994 Privatisation Law would be facilitating this process, which will be discussed in the next chapter of this thesis.

## **2.5. Politics of International Support to the Turkish Restructuring Process**

As already briefly discussed in the beginning of the chapter, the Bretton Woods institutions were directly involved in the economic policy-making process in Turkey in the 1980s. Hence, the essence of the stabilisation programme in 1980 reflected all elements of the IMF and World Bank shaped ‘Structural Adjustment’ policies, in line with the other developing countries.

Nevertheless, Turkey had some distinctive features which are crucial to understand the context of generous support provided by these institutions. First of all, Turgut Özal (who held the positions of Undersecretary of Prime Ministry, Technocrat Minister of Economy,

and Prime Ministry respectively) was formerly employed by the World Bank in the 1970s. The outcome of this position was that he conceived the *modus operandi* of Bretton Woods institutions, and in addition to that – and partly for that reason – he gained the trust of those external institutions as well as the international financial community (Öniş, 2004, p.116; Arıcanlı and Rodrik, 1990, p.1346; Boratav, 2010, p.147). For example, such a credence was lacking under Ecevit governments in late 1970s.

Concomitantly, the fall of the Shah of Iran and the Soviet invasion of Afghanistan, as well as the Iran-Iraq war between 1980-1988, raised Turkey's strategic importance for NATO; motivating OECD governments to provide financing directly and through international institutions (Öniş and Webb, 1992, p.27). Yet another significant point was that both the military regime, and then ANAP rule had taken a very clear pro-USA stance in the 1980s, which eased the process of obtaining funds. Moreover, in those years, the IMF and the World Bank were in need of a successful country case and thus “for most of the decade these agencies portrayed Turkey as a shining example of the validity of the orthodox stabilisation and structural adjustment programmes” (Pamuk, 2008, p.287).

In economic and fiscal terms, this literally meant that Turkey would benefit from Western largesse and ‘goodwill’, which facilitated the rescheduling of external debt and substantial amounts of new resource inflows, as well as substantial US economic and military aid (ibid., p.287; Ahmad, 1993, p.207). Not all of those opportunities, however, were provided to every client country. For instance, Latin American countries were forced to transfer a significant amount of their GNP abroad as soon as their debt crisis hit; whilst Turkey was permitted to have positive net resource transfers until 1982-1983 and to make relatively small net resource transfers abroad afterwards (Arıcanlı and Rodrik, 1990, p.1346). That explains why Turkey was in comparatively easy circumstances especially in the early 1980s.

Between 1980 and 1987, Turkey received 8 separate structural adjustment loans (SALs) from the World Bank which amounted to US\$ 2.5 billion, meaning that the country was by far the largest recipient of balance of payments support in that period. As far as the IMF was concerned, Turkey also had three Stand-by Arrangements with the IMF in 1980, 1983, and 1984, and the IMF made available 2 SDR billion (Special Drawing Right) between 1978-1985 (Conway, 1992, p.125; Öniş and Webb, 1992, p.27). All in all,

considering whole aids and credits to Turkey (including OECD and US), US\$ 13 billion were injected into the Turkish economy between the period of 1980-1987 (Ahmad, 1993, p.207). When analysing the political economy of Turkey in the 1980s, one cannot neglect the extent and significance of this element. Thus, there is a need to come to terms with the fact that the impact of this assistance was furthering Turkey's fragile position in the world market, which increased the need for credibility, apart from a relatively easy SAP process and easily obtained funds. Indeed, as Yalman (2009, p.262) makes clear:

This relative ease in access to new sources of finance has made not only the initial years of the adjustment experience less cumbersome, but the Turkish economy more susceptible to the maintenance of this inflow in one form or the other, thereby paving the ground for the policymakers to replace 'industrialisation' with 'creditworthiness in the international financial circles' as the most significant indicator of country's respectability in the world.

In the short term, these inflows helped Turkey in terms of overcoming foreign-exchange constraints and thus balance of payments difficulties. As a result, Turkey did not have any significant crisis until the late 1980s. Although Turkey's reliance on IFIs would be sustained both in the 1990s and 2000s given the crisis-prone nature of the Turkish economy and the need for the state managers to 'externalise' the responsibility, the role of IMF and World Bank on policy-making process relatively declined in late 1980s due to some improvements in balance of payments and further financial liberalisation which meant Turkey could receive capital inflows through the international capital markets without external anchors.

## **2.6. General Evaluation of the Economic Restructuring in the 1980s and Its Reverberations on 1990s**

The 24 January 1980 economic stabilisation programme and the structural adjustment policies which determined the character of economic restructuring in Turkey remained intact until 1988-1989. The year 1989 would be a turning point for neoliberalism in Turkey, both in political and economic terms. In this concluding section of the first part of this chapter, first a general evaluation of the 1980-1989 era – which is defined as a



success story by mainstream accounts – will be made. Then the political economy of the 1989-1991 period will be discussed for its reverberations on the 1990s.

As it is argued by a leading theoretician of the structural adjustment policies and one of the advisors to the WB, in the context of SAP, “growth objectives will need to be given greater weight as compared to income distributional objectives” (Balassa, 1982, p.23). Turkey, in the 1980s, reflects this tendency well; although growth performance remained relatively modest. During the decade, the GNP increased by 4.6% per annum (Pamuk, 2008, p.287). However, and strangely enough, this rate was lower than that of the 1963-1977 period.

As already illustrated in wage trends, the 1980s – at least until 1989 – tried to put labour in its place through anti-democratic means, and income distribution turned markedly against labour in the period in question (Arıcanlı and Rodrik, 1990, p.1350). Alongside labour, peasants were another loser of neoliberal restructuring in Turkey in the 1980s. While there were generous subsidies for exporters, agricultural subsidies had been cut and the purchasing power of the countryside decreased significantly in the 1980s (Pamuk, 2008, p.288; Boratav, 2005).

One of the most important objectives of structural adjustment was to succeed in reorienting the Turkish capitalist development in an export-led growth path. It has been argued that, in terms of accomplishing this aim, the Turkish experience was a huge success (Öniş and Webb, 1992, p.48). Empirically speaking, the share of output for export rose from 5% in 1979 to 23% in 1989; or from \$2.9 billion in 1980 to \$12.9 billion in 1989 (ibid., p.48, Karadağ, 2010, p.14). As has already been made clear, the repressive wage policy of the 1980s was crucial for that aim, and this succeeded through an authoritarian management of labour power. Nevertheless, even from a mainstream economics perspective, it cannot be concluded that this had been a ‘success story’. In order to claim a success, there should have been a significant decrease of imports. However, in Turkey, in the 1980s, “increased export capacity has been achieved alongside increasing import dependence” (Aydın, 2005, p.48). Namely, for the same period mentioned above, the imports share increased 2.8 times in dollar-denominated (Boratav, 2010, p.160). Furthermore, throughout the decade, these growth rates were accomplished thanks to huge amount of external debt, which increased from around \$10 billion in 1980

to over \$50 billion in 1990 (Pamuk, 2008, p.288). Namely the external debt burden reached to 37% of the GNP (Boratav, 2010, p.160).

Considering the persistent high inflation which had not been below 40 per cent (in 1988 it was even above 80 per cent) (Tünay, 2002, p.192), and fiscal instability together with the above-mentioned characteristics of the structural adjustment policies; the macroeconomic situation began to deteriorate in the late 1980s. The revitalisation of the labour movement challenged the anti-labour stance of the ANAP government. As a consequence, wages increased significantly both in public and private sector – for example, real wages in manufacturing increased by 90 per cent in cumulative terms between 1989 and 1991 (Yeldan, 2006, p.196). Towards the end of the decade distributional pressures made themselves felt again; putting state managers under pressure in the context also of slower growth. Indeed, the growth rate decreased to 1.5% in 1988 and 1.6% in 1989, from 6.8% in 1986 and 9.8% in 1987 (TurkStat, 2012, p.694).

Under these conditions, “main macroeconomic policy response to the increased wage costs and culminating fiscal deficits was complete deregulation of financial markets” (Yeldan, 2006, p.196). In August 1989, the ANAP government announced the Decree 32 which liberalised Turkey’s capital account fully. This meant that “all restrictions on capital movements and on borrowing by residents in international markets were lifted” (Altinkemer and Ekinçi, 1992, p.103). Turgut Özal’s expectation was to attract short-term capital inflows, namely ‘hot money’, to restore economic growth and finance deficits (Öniş, 2004, p.123; Pamuk, 2008, p.289). As a result, the Turkish economy became desperately dependent and vulnerable to the short-term speculative foreign capital movements, which would affect the 1990s.

ANAP lost power in the 1991 elections, and this was mainly due to the increasing unrest of the labouring and peasant classes and ever deteriorating economic conditions between 1989-1991. However, this defeat “did not mean... the demise of the pro-structural adjustment or the pro-liberalisation coalition. The long period of ANAP rule helped consolidate reforms to such a degree that all the principal parties agreed on a broadly similar economic program” (Öniş and Webb, 1992, p.48). Although this observation rightly reflects the stance of all establishment parties in the 1990s in terms of economic policy, the very same authors made this comment in an expectant way. According to them,

“without sharp ideological conflicts, coalition politics in the 1990s seemed unlikely to duplicate the highly unstable pattern of the late 1970s” (ibid, p.48). However, contrary to this expectation, the following decade would be “a decade to forget” (Pamuk, 2008), marked by severe economic and political instability.

### **3. Political and Societal Restructuring: Making Sense of Transformations in State-Society Relations in the 1980s**

The military coup of 12 September 1980 also initiated a societal and political restructuring process against the background of the ‘street fighting years’ between the left and right political movements, and the disruptive actions of organised labour especially in the late 1970s. In this context, the military junta aimed at “restoring law and order, protecting life and property, and restoring the state authority” (Birand, 1987, p.193). This entailed the “strong state as a guarantor of economic individualism” (Aydin, 2005, p.54), instead of the collective demands of organised labour. Hence, state-society relations needed to be restructured through a new legal framework, which was in sharp contrast to the post-1961 politico-legal structure. Suspension of democratic rights were *sine qua non* for the initiation of economic restructuring, considering the highly politicised atmosphere and class struggle in the late 1970s.

The manifestation of this restructuring would be the anti-democratic 1982 Constitution, the new legal framework covering industrial relations (introduced in 1983), other authoritarian measures related to the centralisation of economic policy-making and exclusion of trade unions therein, and Islamisation attempts in order to contain the labour movement and radical student movement.

The successive ANAP governments, following the 1983 elections and transition to democracy, followed and embraced this authoritarian restructuring as well as the economic policies initiated through the 24 January stability measures. Hence, by emphasising the ANAP governments’ role as a continuity with military rule, this section is in sharp contrast with the reading of ‘Strong State Tradition’ in Turkey. According to the account in question, when the military dictatorship ceased in 1983, the neoliberal ANAP was identified as the representative of ‘civil society’ and democracy which should be supported against the repressive and authoritarian statism represented by the military’s ideology and the party it created – MDP (*Milliyetçi Demokrasi Partisi-Nationalist*

*Democracy Party*) (cf. Boratav, 2005), because ANAP “carried...the potential for the pendulum to swing from the state, through the political party, to society” (Heper, 1990, pp.325-326). Considering the state-society conceptualisation of this dominant account, this conclusion is not surprising. According to this approach, as observed by critical commentators, “civil society...provides economic development, struggles against oppression, ...[develops]... democratisation, and emancipation in history etc. On the other hand, the state stops or obstructs, such developments and places humanity in a backward position” (Güngen and Erten, 2005, p.14). This externally related understanding of state-society relations is far from conceiving the state as the political form of capitalist society.

The following sections, thus, offer a different reading, and assess the period in question in terms of restructuring state-class relations, which had persistent effects for the 1990s and 2000s. It also emphasises the continuity of this process under ANAP governments.

### **3.1. Trade Union Policy in the 1980s: Authoritarian Management of Labour Relations**

Following the military coup on 12 September 1980, the junta formed an executive body comprised of five generals, which was called the National Security Council (*NSC-Milli Güvenlik Konseyi*). Some of the immediate actions of the NSC were issuing decrees which were related to suspension of the constitution, dissolution of the parliament, closing down of the political parties and detaining their leaders, and suspending almost all professional associations and confederations of trade unions.

On 14 September 1980, all strikes were prohibited and striking workers were ordered back to work (Ahmad, 1993, p.182). When the coup was announced in September 1980, there were 54,000 workers on strike in 178 workplaces across the country. Approximately 47,000 of striking workers were members of DİSK (*Revolutionary Trade Unions Confederation*), and the rest of them belonged to the reconciliatory Türk-İş Confederation (Koç, 2010, p.275). Apart from suspending all strikes, the NSC also ordered DİSK members to surrender to the martial law authorities within 48 hours; which also applied to MİSK (*Nationalist Confederation of Unions*). According to Ahmad (1993, p.182), the purpose of MİSK arrests was to give the impression that the regime was impartial towards the left and right wings of the unions. However, no MİSK member was on strike, and,

moreover, that confederation had never become a threat to the political and economic establishment.

The military coup was welcomed by Türk-İş, which was the principal labour organisation in terms of membership. As discussed in the previous chapter, it always sustained its 'above-party' politics and remained corporatist and its stance was similar in the wake of the 1980 coup. Türk-İş was not closed down after the coup, and, after a while, it was allowed to operate, although there was no right to strike or collective bargaining (Nichols and Suğur, 2005, p.196). Also, it gave full support to the military, and furthermore the General Secretary of Türk-İş, Sadık Şide, had been appointed as Minister of Social Security under military governments (Koç, 2010, p.281). However, this led to the suspension of Türk-İş's membership in ICFTU (*International Confederation of Free Trade Unions*).

The coup was also welcomed by Hak-İş, the Islamic oriented trade union confederation. Although its operation was suspended in the aftermath of the coup, it had been allowed to operate again in 1981. They acquired this right through their application to the NSC, stating that the confederation had not been involved in any 'anarchic' and 'subversive' activity in the previous period (Koç, 2010, p.285). The specific position of Hak-İş and its importance will be dealt with later in the chapter in the context of political Islam.

The most exceptional case was that of DİSK, in terms of the anti-democratic enforcements it faced. The reason for that was its class-based, political and revolutionary unionism, which was perceived as a significant threat to the unity of the state and society (Kuş and Özel, 2010, p.9). The financial assets of DİSK were seized by the state, and in 1981 the leaders and members of the confederation were put on trial (1477 members in total) with criminal charges calling for the death penalty (78 members) (Adaman et al., 2009, p.173; Nichols and Suğur, 2005, p.196). The confederation could only resume its activities in 1992 and its members were charged with sentences from five to ten years of imprisonment.

The major legislations concerning capital-labour relations in the period in question were the 1982 Constitution and 1983 Trade Unions Act (Law no 2821) and the Collective Bargaining, Strike and Lockout Act (Law no 2822). The spirit of those legislations mainly reflected the demands of the Turkish bourgeoisie, if one reviews the reports and

publications of, for example, TİSK. In line with its general anti-democratic character, the 1982 Constitution “institutionalized measures intended to de-politicize, de-mobilize, de-radicalize, and de-unionize society” (Marois, 2012b, p.102). The constitution also disappointed even the pro-military union leaders, who complained that the very aim of the constitution was to create ‘democracy without unions’ (Ahmad, 1993, p.186).

Indeed, there were very important restrictions regarding union rights in the constitution compared with the 1961 constitution. Article 51 of the Constitution required that in order to be a representative or executive of a union or a union confederation, a worker should have worked at least 10 years. Needless to say, this was an important impediment to unionisation rights. Article 52 stated that the trade unions could not pursue any political purposes, and cannot have any links with political parties. Article 54 of the constitution banned political strikes, general strikes, solidarity strikes, slowdown strike, occupation of workplace, and reduction of productivity as means of resistance (Koç, 2010, p.299). Thus, the right to strike was curtailed and could only take place under carefully defined circumstances. Put differently, strikes regarding non-wage issues were prohibited and moreover, it was made possible for the political authority to postpone permitted strikes for reasons of “national security” and “public safety”. These were very broadly and arbitrarily defined in such a way to include ‘national economic interest’ as a security concern by defining many sectors as ‘strategic’. For example, the maintenance of export revenues were seen as directly related to national security (Adaman et al., 2009, p.174; Yalman, 2009, p.316). Hence, it would not be an overstatement to argue that the military regime “ensured through the authoritarian 1982 constitution that the working class would not challenge capital in the foreseeable future” (Aydın, 2005, p.53).

In the following year, 1983, the labour legislation (Laws no 2821 and 2822) furthered restrictions on unionisation and labour movement. The most severe elements were the thresholds, which reflected the attempt to create a centralised unions system. According to new legislation, in order to have a right to collective bargaining and thus right to strike, a trade union should have organised a minimum of 10 per cent of all workers on the industry/trade branch basis; and moreover, it should organise 50% +1 workers in a particular workplace at the same time to fulfil this requirement (Kuş and Özel, 2010, p.9). Considering the anti-unionisation sentiments and the anti-democratic nature of the political establishment, these thresholds were aimed at eliminating most of the unions,

and thus unionised workers, from the process of collective bargaining and strikes. They also aimed at creating a more centralised and concentrated form of unionism. Indeed, this policy brought results towards the end of the decade: while there had been 1000 unions in 1980, this number had decreased to 76 in 1990, and only 41 of them had memberships above 10%, which was needed in order to be recognised as a party of collective bargaining process (Nichols and Suğur, 2005, p.194).

Another significant enforcement promulgated was the bureaucratic conditions and impediments to the membership process. In order to be a member of a union, according to Law no. 2821, a notary approval requirement was put into action. This requirement, thus, made it more difficult for a worker to be unionised since the notary process was an extra bureaucratic process and costly at the same time (Koç, 2010, p.300; Adaman et.al., 2009, p.174). All in all, considering the whole politico-legal restructuring, one could assert that “the post-1983 framework... had the political objective of reversing the political as well as economic gains of the labour movement achieved during the previous two decades much to the chagrin of the business community” (Yalman, 2009, p.317).

In 1983, there were general elections and the military left power to the civilian government. The ANAP won the elections with a landslide victory (45.1% of the votes), although it was not supported by the military. ANAP and the PM Turgut Özal (the architect of stabilisation measures) sustained the same anti-democratic labour legislation, and constitution, and exploited the restrictions on the unions. Namely, there has been a continuity in the Turkish state’s stance on labour and class-based politics; as both military rule and the ANAP governments perceived labour as a challenge to their restructuring process.

Indeed, one case is very informative to show the togetherness of economic restructuring and anti-union and strike policies. As mentioned previously, in the 1980s foreign investments were welcomed in Turkey in the context of trade liberalisation. In 1985, under ANAP rule, 4 free trade zones were established in the Izmir, Mersin and Adana provinces (Zürcher, 2012, p.443). This does not mean, however, that relations between capital and labour would also be ‘liberal’ in those free trade zones. According to Law No. 3218 Free Zones Act, the right to strike was forbidden in free trade zones for 10 years after their establishment (Koç, 2010, p.317). This was used to promote foreign

investments in the period in question. It is also worthy to note that Turgut Özal and ANAP governments forced state economic enterprises to join TİSK in order to be able to contain the labour movement more effectively (Aydın, 2005, p.54).

Another useful example to understand ANAP and Turgut Özal's economic policy-making and its reflections on unions, is a method called 'rule by decree'. By this technocratic method, regular parliamentary procedures and constraints were bypassed, with the responsibility for key economic decisions being limited to the Prime Minister, an inner or core cabinet and a small group of top-level bureaucrats (Arıcanlı and Rodrik, 1990; Öniş and Webb, 1992, p.10; Öniş, 2004, p.114). Thus, in Turkey in the 1980s, following the new constitution of 1982, the executive power was strengthened at the expense of legislature, and power had been centralised within the executive (Ahmad, 1993; Öniş and Webb, 1992). This process effectively "cut off the mechanisms for including labour unions in the policymaking process" (Kuş and Özel, 2010, p.9). Hence, in the context of broader labour legislation and repressive union policy of the government, "the task of the trade unions would be to negotiate wages with the employers, but not to negotiate economic policy with the government" (Yalman, 2009, p.316) in post-1983 era.

Nevertheless, under ANAP rule, especially after 1984 local elections, different strategies were exploited to prevent unrest against the restructuring process. The ANAP government increasingly pursued a neoliberal populist policy to contain the working class. The party used some unique social policy measures. In the early 1980s, a 'fund system' had been established. Although the funds were initially aimed at funding priority economic activities (Öniş and Webb, 1992, p.26), they became an effective means of neoliberal populist policies. Turgut Özal benefitted from strong executive power in order to use them, and the funds "became a source of governmental expenditure which was outside the budget and therefore outside the control of the Assembly or the bureaucracy", and Özal had the authority for their allocation (Ahmad, 1993, p.191).

Among these funds, The Poor Fund (popularly known as *Fak-Fuk-Fon*), founded in 1986 with Law No. 3294 – *Law of Encouraging Social Help and Solidarity* – was particularly crucial, in order to contain and manage the demands of the 'poor'. However, the spirit of the law and the fund addressed traditional Turkish-Islamic values, and it was nothing to do with 'citizenship' (Buğra, 2008, pp.205-206). This was in line with the marginalisation



of class-based demands and union identity, and the exclusion of the labouring classes from society with their class identities; instead recognising them only through their ‘poor’, ‘squatter’, ‘consumer’ identities who were in need and could be assisted through traditional means (Boratav, 2010, p.153). Thus, as Aydın puts forward “the policies followed by the Motherland Party (ANAP) were a combination of a strictly authoritarian approach towards organised labour and a loose populist policy towards the urban poor” (2005, p.54).

However, especially after 1988-1989, the labour movement and the unions started to revitalise and show their unrest; and both went beyond and ‘violated’ the restrictions of labour legislation. This was due to the ever worsening conditions of the working class in the 1980s and relative loosening of the authoritarian political atmosphere towards the end of the decade. Thus, between 1989 and 1991 there was an important strike wave in Turkey. Although it has been argued that these labour insurgencies were “at the level of wage rather than a demand for widespread change in political and economic conditions” (Güveloğlu, 2007, p.101); they directly addressed the ANAP government and Turgut Özal, and played an important role in ANAP’s defeat in 1991 elections.

This revitalisation would be significant especially in the first half of the 1990s as a resistance to further restructuring, which will be discussed in the next chapter. The following section deals with another aspect of state-society restructuring in the 1980s; namely the changes in the Turkish state’s interaction with (political) Islam, which had salient effects on state-class relations and for the 1990s and 2000s.

### **3.2. Transformations in State-Islam Nexus**

The Turkish State and Islam, throughout the history of the Republic since 1923, always had internal relations. For example, the Directorate of Religious Affairs was established in 1924, just after the declaration of the Republic, in order to contain and control Islam and Islamist movements in a state which was attempting to become secular and ‘Westernised’/modernised. However, until the 1980s, Islamist movements and the role of Islam within the Turkish state structure remained relatively negligible and it was not a determining factor for the Turkish state, although it had already started to be promoted in the 1970s. Nevertheless, this relationship took a different form in the 1980s, starting with military dictatorship. That is why, although the 1990s and 2000s are conceived of as the

periods when political Islam gained importance; one should start with the 1980s to understand the rise of Islamist politics.

As Coşar points out “what distinguished the post-1980 turn in the state-religion interface was the shift in the official ideology from Islam as a passive ingredient of Turkish national identity to a dominant ingredient in the shaping of national discourse” (2012, p.76). This was a reaction to the political developments of the late 1970s. In the 1980s, this ideological manipulation was part and parcel of a wider neoliberal restructuring of the state and society. Put differently, “the neoliberalization of the Turkish state was accompanied by the legitimation of Islamic politics” (Blad and Koçer, 2012, p.48). While Islamist elements and Turkish-Islamist or conservative nationalism (Tünay, 2002) were promoted as an ideology; class-based politics and left-wing movements (the potential opposition to restructuring of the state and economy) were repressed. The Turkish military perceived socialism and communism as a significant threat and “saw Islam as a political means of “saving the poor youth from the disease of communism” (Cam, 2005, p.3). Thus, the 1982 Constitution made instructions in ‘religious culture and morals’ compulsory lessons in primary and secondary schools (Zürcher, 2012, p.415).

The higher education system was also restructured in the post-1980 period. Prior to the 1980s, the universities were highly politicised and mainly dominated by left-wing/radical student movements. The aim of the new Higher Education Law, however, “was to ‘de-politicise’ the universities by purging all adherents of the centre-left and placing education in the hands of the ‘nationalist-conservatives’, the guardians of ideological purity in the 12 September regime” (Ahmad, 1993, p.185). This emphasis on the role of religion in education and the toleration of the reactionary movements by the Turkish state was a turning point in the history of the Turkish Republic (Tünay, 2002, p.190).

Nevertheless, the most striking development was the repercussion of this ideological orientation on the unions and working class. As discussed in the previous section, the revolutionary confederation DİSK was banned from activity until 1992. Türk-İş remained open and supported the military intervention. Another confederation, Hak-İş, deserves particular attention— and the interaction it had with the state in the neoliberal era reflects the attempt at “Islamization of Turkish labour through the state advocacy of cultural, rather than the traditional class-based, trade union organizations” (Blad and Koçer, 2012,

p.45). It has been argued that the Islamist oriented labour confederation in question was closed down after the coup because the secular Turkish Army and the generals perceived it as a threat to the secular order (cf. Nichols and Suğur, 2005, p.196). This is, however, a fallacious argument, since within a year, in 1981, the confederation was made functional again “as a result of military regime’s policy of encouraging Islamic identity in an attempt to weaken the leftist tendencies of workers” (Kus and Özel, 2010, p.10). The reason was clear: Hak-İş represented a philosophy of Muslim brotherhood and perceived the labour-capital conflict as artificial which could not have a meaning in an ‘Islamic society’ (Cam, 2005, p.3; Kus and Özel, 2010, p.10). This was in line with the military’s desires, and thus it is not surprising that the “expansion of Hak-İş with respect to membership and contemporary influence is due almost exclusively to military support in the early 1980s” (Blad and Koçer, 2007, p. 45).

The ANAP government simply followed the path that the military paved in the context of Islam’s place in society in the 1980s. Since the ANAP consisted of various ideological factions, however, the influence of Islamist political parties would be apparent towards the mid-1990s against the background of further de-radicalisation of organised labour and the increase of informal labour which has gradually become the backbone of Islamist politics.

#### **4. Conclusion**

The period starting with the 24 January 1980 economic stabilisation programme in Turkey marked significant transformations in Turkey in the 1980s. This chapter argued that the political and the economic restructuring were complementary and can be best understood if one puts ‘class’ at the centre of the analysis. It illustrated that this complementarity was also the perception of the Turkish state and military, and the Turkish bourgeoisie. That is why throughout the chapter, the class content of stabilisation measures, the military coup, and politico-legal enforcements and their inter-relationships were revealed.

The following decades inherited this ideological, political and economic structure which was anti-democratic and crisis-ridden. Hence, developments in the following decades are rooted in the transformations of the 1980s; which restructured state and society in an

authoritarian and conservative way, in an attempt to put an end to class-based politics, as it is argued in the introduction of this chapter.

The economic policies introduced in order to resolve the contradictions and crises of the ISI period brought some stability, due to the disciplined labour power and massive external support and loans through the ‘credibility’ of the regime. However, this brought its own contradictions when capital accumulation was obstructed; inflation and external debt soared; growth contracted; and labour showed unrest. The ANAP government found the solution in capital account liberalisation, which would mark the 1990’s crisis-prone political economy. The next chapter, thus, deals with the crisis-ridden 1990s of the Turkish state.

## Chapter 5

### Return of Instability and Crisis-Ridden Political Economy: The Long 1990s and the 2001 Crisis

#### 1. Introduction

Following the downfall of the Motherland Party (ANAP) in the 1991 elections – as a result of the economic slowdown and workers’ mobilisation – a period of weak and short-lived coalition governments started in Turkey, which was characterised by ‘instability’ and crisis. This outcome has been thought of as a ‘deviation’ from the ‘successful’ economic policies and ‘strong political will’ of the 1980s. As Bekmen (2014, p.54) points out, the economic liberals, who praised the era of PM Özal and his ‘vision’, retrospectively labelled the 1990s as ‘the loss of the vision’ and “a decade to forget” (see Pamuk, 2008, p.289).

However, the world market context was also crisis-ridden during this decade – i.e. 1992-3 European Exchange Rate Mechanism (ERM) crisis, the 1994 Mexican ‘peso crisis’, the Asian crisis of 1997 and the Russian crisis of 1998 – which was marked by increased capital mobility, financial integration and ‘globalisation’. Turkey had similar ‘capital flight’ crises in 1994 and in 2000/2001; following the capital account liberalisation decision of 1989, which would have important political and economic effects. Hence, affected by these instabilities, Turkish state managers tried to find external anchors for the imposition of fiscal and monetary discipline, to increase credibility and competitiveness, and to introduce ‘regulatory reforms’; especially in the aftermath of the 1994 crisis and towards the end of the decade.

In the political sphere, the 1990s could be defined as “the decade of extremes” (Açıkel, 2013, p. 15), reflecting the rise of radical Islam (which reached to a position of main coalition partner, triggering military’s reaction against it in 1997), the halting ‘democratisation’ process, the Kurdish movement and its struggle against the Turkish state and the deteriorations it caused in the economy, and the rise and fall of the labour militancy *vis-à-vis* the crisis-ridden political economy of Turkey. The presence of the

coalition governments prevented a comprehensive and ‘sound’ approach to the crises faced during this era.

Hence, the purpose of this chapter is to give a meaning to these developments, which will help in making sense of the post-2001 era. It argues that state managers lacked a coherent and consistent ‘depoliticisation’ strategy and thus this era was marked by serious economic and political crises stemming from the contradictions of accumulation and legitimation. The ‘loss of political vision’ is thus understood in the context of the failures of providing a ‘neoliberal strong state’ to impose discipline on labour and money, albeit inconsistent efforts to do so.

The first part of the chapter starts with the 1989 capital account liberalisation decision of the Turkish State which led to the financialisation and subsequent crises and instability, culminating in 2001 crisis. It deals with the specific policies of the governments in crisis resolution (stability measures, relations with the International Financial Institutions, privatisation) and its effects on labour in terms of wages, productivity and competitiveness. The second part focuses on state-society relations; specifically explaining the deradicalisation of the labour movement and the rise of political Islam in the 1990s against the background of ‘neoliberalism’ since the 1980 coup.

## **2. Financialisation<sup>1</sup> and Recurrent Crises: The Economy in the 1991-2001 Era**

This section discusses the developments in the economy following the capital account liberalisation decision of 1989. It discusses its effects on economic policy-making, deals with how it paved the way for domestic financial actors to finance the public debt and make gains, how the separation of productive and financial accumulation occurred, the role of the state, and how this created a crisis-ridden economy in the 1990s. It also discusses how this situation affected labour, as a result of crisis resolution policies.

### **2.1. From Capital Account Liberalisation to 1994 Crisis**

With decree number 32 in August 1989, Turkey’s capital account liberalisation was

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<sup>1</sup> Financialisation as a term here in the 1990s is used in an “emerging market” context where the debt management of governments play an important role (Güngen, 2010).

completed and the Turkish Lira was made fully convertible. Although this decision was in line with the broader policy of financial liberalisation (which had already started in the early 1980s against the so-called financial repression of the pre-1980 era); the timing of the full liberalisation of capital movements was related to the deteriorating macro-economic conditions towards the end of the 1980s.

As can be understood from the debates at that time, this decision was made by PM Özal and his Minister of Economy, although the economic bureaucracy, i.e. the governors of the Central Bank, State Planning Organisation, and Treasury, were strictly against this ‘premature’ move as they were concerned about the value of the Turkish Lira and the possible financial instabilities this move might cause (*Milliyet*, 11.08.1989, p.9). Nevertheless, under deteriorating economic conditions and increased unrest of the proletariat, the Turkish government sought an immediate remedy and conceived that the large inflows of international capital would be crucial to restore economic growth, alleviate balance of payment problems and sustain public expenditures (Öniş and Aysan, 2000, p.128; Aydın, 2005, p.113). However, it was apparent that this decision was made unpreparedly. Indeed, the capital account regime was extremely liberal, even freer than that of advanced economies with highly developed and sophisticated financial markets (Aydın, 2005, p.114; Öniş, 1996, p.6).

In a capitalist economy, enabling free capital movements, according to a widely-accepted approach<sup>2</sup>, leads to the Central Bank’s loss of control over the exchange rate and the interest rate as policy measures independent of each other, because these turn into exogenous variables in practice, determined by the chaotic conditions of financial arbitrage in the global financial markets (Yeldan, 2006, pp. 196-199; Boratav, 2010). As it is put by Köse and Yeldan (1998, p.67):

From the point of view of the domestic financial markets, liberalization of the capital account necessitated a higher rate of return on domestic assets as

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<sup>2</sup> This model is known as the Mundell-Fleming model (or the ‘impossible trinity’) in the mainstream economics literature. However, this explanation is also accepted by more critical approaches as its empirical explanatory power is strong. It basically argues that an open economy cannot have a fixed exchange rate, free capital movement and an independent monetary policy at the same time. I am indebted to Dr. Ali Riza Güngen for our discussion on this issue.

compared to foreign currency (as given by the rate of nominal depreciation). The rationale for this link can be traced directly to the threat of currency substitution (dollarisation) of the domestic liquidity markets. Given this threat, the monetary authority had to assume a passive role *vis-à-vis* excessively high real rates of interest on domestic assets, coupled with an overvalued exchange rate.

This move, rightly put forward by many authors on the political economy of Turkey, represents a turning point in Turkey's post-1980 restructuring in terms of its effects on economy, society and politics in the 1990s, which culminated in the 21 February 2001 crisis (Cizre-Sakallıoğlu and Yeldan, 2000, p.484; Aydın, 2005, p.114).

It has also been argued that this is a manifestation of the loss of the country's (national) 'economic autonomy' *vis-à-vis* global economy/capital, reflecting an externally conceived national-global dichotomy (see Aydın, 2005; Öniş and Aysan 2000). However, in an economy suffering from contracted growth and increasing distributional demands – especially after 1987 – it clearly reflects a *government strategy* to remove the impediments to international capital inflows. Put differently, “the promotion of financial liberalisation was a conscious choice by the Turkish state, structured according to the logic of globalizing capitalism” (Cizre-Sakallıoğlu and Yeldan, 2000, p.487).

Apart from financing the increasing fiscal deficit and restoring growth, financial liberalisation aimed at creating a more effective and creative financial system, in which converting national savings into productive investments at the lowest cost would be possible (ibid, p.484). Contrary to expectations, however, this led to the 'disassociation of productive accumulation and financial accumulation' in the 1990s<sup>3</sup>. Hence, the financial sector grew for its own sake, putting an end to the aim of accelerating production and investment in the productive sector (Aydın, 2005, p.115). As will be elaborated later in the chapter, the role played by the Government Debt Instruments (GDIs) in order to manage soaring public debt was crucial in this sense. As Güngen (2010, p.8) puts, “the real interest rate that the GDI offered were more attractive than engaging in productive

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<sup>3</sup> For a very detailed analysis of this phenomenon in the context of Turkey, see Arın (2003).



investment.”

**Table 5.1. Main Macro-Economic Indicators 1991-2001**

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
GDP Growth* % (1998 Prices)	0.9	6	8	-5.5	7.2	7	7.5	3.1	-3.4	6.8	-5.7
Inflation Rate %	65.9	70.1	66.1	106.3	88	80.4	85.7	84.7	64.9	54.9	54.4
Public Sector Borrowing Requirement/G DP**	7.45	7.9	7.65	4.61	3.74	6.52	5.83	7.15	11.64	8.88	12.06
Interest Rate (Interbank Overnight)	59.87	67.77	69.63	92.04	106.3	74.33	77.93	79	69.9	198.95	59
Rate of Exports to Imports %	64.6	64.3	52.1	77.8	60.6	53.2	54.1	58.7	65.4	51	75.7
Domestic Debt Stock/GNP %	15.4	17.6	17.9	20.6	17.3	19	19.4	19.7	29.3	29	69.2
Gross External Debt/GDP %	26.7	27.8	29.6	38.8	33.6	32.6	33.2	35.6	41.7	44.7	57.7

Sources: Collected by the author from TurkStat Statistical Indicators 1923-2011 (2012), Undersecretariat of Treasury, External Debt Stock Statistics, <http://www.treasury.gov.tr/en-US/Stat-List?mid=695&cid=12&nm=765>, (accessed 5 March 2014), and Ministry of Development, Public Sector Statistics, <http://www.mod.gov.tr/Pages/MainEconomicIndicators.aspx>, (accessed 6 March 2014).

\*The Turkish Statistical Institute (TurkStat) announced the New Series of GDP (1998 prices) in 2008, according to the recommendations of the European System of Accounts (ESA-95) (for the critique of new series, see Boratav, 2008). The pre-1998 figures on this table are the harmonised GDP by expenditures at 1998 prices, by TurkStat. The harmonised figures are collected from Ministry of Development Economic and Social and Economic Indicators. There are significant differences between the new and the old series. For example, according to the old series, the GNP declined by -7,5 per cent in 2001, and -4,7 per cent in 1999.

\*\*World Bank Data (2006) on PSBR significantly differs from Ministry of Development statistics. For example, in 1999 the WB figure is 24.7, in 2000 11.8 and 16.4 in 2001.

In this context, speculative capital flows led to the real appreciation of currency, and thus imports became cheaper and exports more expensive. As a consequence, production and export of manufactured goods decelerated in the post-1989 period, combined with high interest rates affecting the level of investment in the manufacturing sector as a whole. Indeed, between 1988 and 1993, the investment growth rate constantly stayed below the economic growth rate which means that, according to Oğuz (2009, p.7) “the economic growth rate of 1988-1993 stemmed not from the increase in the production capacity - that is, capital accumulation - but from the higher degree of utilization of the existing capacity and the increase in total consumption.”

**Table 5.2. Balance of Payments Indicators 1989-1994 (Million \$)**

	1989	1990	1991	1992	1993	1994
Current Account Balance	938	-2625	250	-974	-6433	2631
CAB/GNP %	0.89	-1.74	0.17	-0.62	-3.60	1.99
Capital Movements (Excluding Reserves)	780	4037	-2397	3648	8903	-4257
Direct Investment	663	700	783	779	622	559
Portfolio Investment	1386	547	623	2411	3917	1158
Short-Term Capital	-584	3000	-3020	1396	2994	-5190

Sources: Central Bank of Turkey Balance of Payments Statistics, <http://www.tcmb.gov.tr/wps/wcm/connect/tcmb+en/tcmb+en/main+menu/statistics/balance+of+payments+and+related+statistics/balance+of+payments+statistics>, (accessed 10 March 2014). TurkStat Statistical Indicators 1923-2011 (2012).

As can be seen on Table 5.1 and 5.2, the Current Account Balance and the Rate of Exports to Imports started to deteriorate after the year 1989 as a consequence of “hot money” flows which were encouraged by high interest rates. Other economic indicators also deteriorated towards 1994.

As mentioned above, one of the most important aims of liberalising capital accounts was financing the rising levels of fiscal deficits and pursuing public sector expenditures.

However, the dependence of the economy on “hot money” flows created a vicious cycle. High interest rates and an overvalued exchange rate policy attracted large amounts of short-term capital inflows (see Table 5.2). The speculative money received was used for the expansion of public expenditure through state bonds, which led to increasing levels of fiscal deficits and rising interest payments. Dependence on ‘hot money’ entails increasing interest rates which means borrowing even more expensively; and this further increases the deficit because of the overburdening of debt (Bekmen, 2014, p.56; Öniş and Aysan, 2000, p.129).

The revitalisation of the labour movement after 1987, and the coalition of SHP-DYP (Social Democratic-Centre Right) after the 1991 general elections, paved the way for an increase in wages and support for agriculture, which had been neglected over the previous era. Hence, some accounts blame the ‘populist’ distribution policies for the 1994 crisis (see Öniş, 1996; Aydın, 2005). Although the governments used large inflows of capital in order to satisfy these distributional claims and contain the popular unrest of the working and peasant classes; the level of interest payments from budget expenditures rose significantly, which means the financial sector made significant gains. Hence, as Oğuz puts it, “financial liberalization... worked as a mechanism of resource transfer to big capital, as the holding banks became the central agent in the domestically mediated external borrowing of the state” (2009, p.6). Benefitting from the lacunae of the banking system, private banks started to borrow from abroad at relatively lower interest rates, and then bought large amounts of government bonds (GDIs) which paid higher interest rates. Thus lending expensively to the public through borrowing cheap credits from abroad became the *modus operandi* of financial accumulation in the post-financial liberalisation era (Bekmen, 2014, p.56).

By 1993, balance of payments (see Table 5.2) deteriorated and debt stock, interest rates, Public Sector Borrowing Requirement (PSBR) and short-term capital inflows reached critical levels. The rate of exports to imports declined to 52% in 1993 (see Table 5.1), which contributed to an expanding current account deficit, reaching US \$6.5 billion in 1993 (Köse and Yeldan, 1998, p.71). There was no room for the public investment as of 1994, as in 1993 virtually all the central government’s budgetary expenditures were being allocated to wage and salary payments, interest payments on domestic and external debt and transfer payments (Öniş and Aysan, 2000, p.130).

The ever increasing current account deficits, the risks in the banking system, the shaky nature of the political environment, the deterioration of the external and internal debt stocks were already preparing pre-conditions for the capital outflows (Boratav, 2010, p.182). In this context, in order to put an end to the vicious cycle of the 1989-1993 era, the Turkish government attempted to lower interest rates through the Central Bank resources in late 1993. This was the final straw, and then two major credit rating institutions, Standard and Poor's and Moody's, reduced Turkey's investment rating in early 1994 (Öniş and Aysan, 2000, p.130; Öniş, 1996, p.11). Hence, as can be seen in Table 5.2 above, massive amounts of "hot money", namely short-term capital, left the Turkish economy which contributed to the ever deteriorating balance of payments equilibrium. The economy was in serious crisis in April 1994, and on the 5th of April 1994, PM Tansu Çiller announced the orthodox stabilisation measures which are known as "April 5 Decisions". The next section investigates the repercussions of the crisis and the effects of post-crisis management.

## **2.2. Political Economy of Post-1994 Crisis: State, Capital and Labour**

In the crisis year of 1994, the Turkish economy contracted by 5.5% (6.1% according to the old series of TurkStat), the inflation rate rose to 106.3%, the interest rates (Interbank overnight) rose to 92.04%, and the domestic debt and external debt figures deteriorated (Table 5.1). Concomitantly, the depreciation of the Turkish Lira was sudden and significant: US Dollar increased to 30,000 Turkish Lira in 1994, from 11,000 in 1993 (World Bank IEG, 2006, p.4). The crisis was to be the most severe crisis that Turkey had experienced to that date.

As conceptualised in the introduction of this thesis, crises in a capitalist economy are not contingent and unique events, nor is their resolution technical and neutral. Hence, the measures implemented by the Turkish state post-1994 crisis confronted the gains of the workers in 1989-1993 period and attempted to reverse these gains and discipline labour through "market despotism" (Öniş, 1996, p.13). This further accelerated the deradicalisation of the labour movement following the crisis. The external anchors were called in once again, albeit limitedly, for 'externalising' the stabilisation decisions and retrenchment initially. Furthermore, the Customs Union agreement was signed with the EU in the post-crisis era under the centre-right DYP and social democratic SHP coalition

government, in an attempt to further liberalise the economy, increase competitiveness, and provide another step towards full EU membership.

In this light, this section discusses the restructuring process post-1994 crisis, and deals with developments until the 1998 IMF programme. The April 5 stabilisation measures were important in this context as they envisaged some short-term and long-term objectives. In the short-term, tax increases, decrease in government expenditure, increase in interest rates, and price increases in the products produced by State Owned Enterprises were the parts of the stabilisation programme that needed to be implemented immediately. The long term objectives were reform in taxation, Central Bank independence<sup>4</sup>, increase in exports and acceleration of the privatisation process (Zürcher, 2012, p.449). Specifically, currency was devaluated 38.9% against the US Dollar, wages in the public sector would only be increased if the budget would allow, recruitment in the public sector would be stopped, and pension fund contributions increased (*Milliyet*, 06.04.1994, p.5).

The socio-political impacts of crisis resolution – as will be dealt with in detail in the second part of this chapter – were significant. The stabilisation measures could not be fully implemented because of the political instability and opposition. The government was forced to go for an early election 8 months later that was won by the political Islamist Welfare Party – a reaction against the austerity measures and further neoliberal policies.

On the other hand, crisis undermined labour's opposition to the privatisation programme to some extent. Thus crisis was instrumental for state managers to justify the privatisation agenda, which had not been achieved successfully since the 1980s (Öniş, 1996, p.13). Although revenues and implementations remained limited until the 2000s, the ideological environment for privatisation was facilitated. Furthermore, the Privatisation Law – still in force today – was passed into law in 1994, following the crisis. This has been thought of as a remedy, and it was given an important place in the stabilisation measures. Hence, it necessitates a greater scrutiny in the context of the crisis of 1994. After analysing

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<sup>4</sup> Indeed, on the 5th of April 1994, in a press conference, the Central Bank Governor Yaman Törüner stated that a Bill which would give operational independence to the Central Bank was drafted and needed to be supported by all political parties, financial circles and media (*Milliyet*, 06.04.1994, p.8). However, such drafts were not passed into law until the 2001 crisis.

privatisation, the class dynamics of crisis resolution and the context in which Bretton Woods institutions and the EU played a role will be dealt with in the following sections of the chapter.

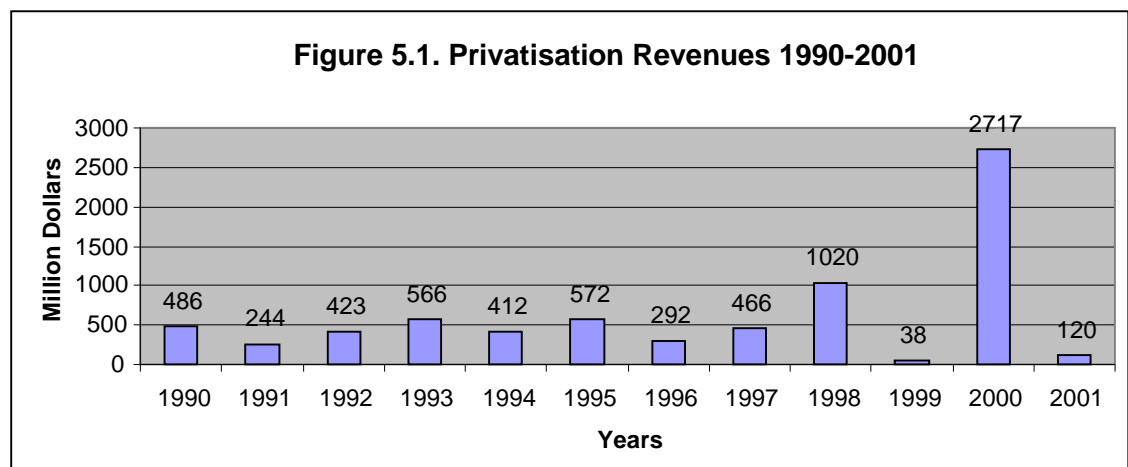
### **2.2.1. Privatisation Process post-1994 Crisis**

Until the 1994 crisis, there was no legal framework for privatisation, and sales of some of the public enterprises until then were implemented through government decrees (Angın and Bedirhanoglu, 2012, p.148; Atiyas, 2009, p.106). The DYP-SHP coalition, which took the office after the 1991 elections, was loyal to the vision of privatisation that was already on the agenda of Turkish state restructuring since the 1980s. However, the electorate of the SHP, organised labour and some segments of the bureaucracy were strictly against it. Nevertheless, the then PM Tansu Çiller of DYP – who was also a Professor of Economics and a big advocate of neoclassical economics – was insistent on the process. Yet, through her bureaucrat responsible for privatisation, Çiller realised that “neither the legal framework nor public sentiment supported the continued privatisation of large Turkish SOEs, and that it was this that had slowed privatisation to date” (Marois, 2012b, p.103), although the process showed some increase in the early 1990s (see Figure 5.1).

Hence, the 1994 crisis was determinant in this context in terms of the legitimisation of law enforcement of the privatisation. On 27 November 1994, Privatisation Law no. 4046 was enacted by the parliament, which, apart from defining the privatisation process, also “created the Privatisation High Council (ÖYK) as the ‘ultimate decision-making body for privatisation’, the ÖİB [*Özelleştirme İdaresi Başkanlığı-Privatisation Authority*] as the ‘executive body for the privatization process, reporting to the Prime Minister’, and the Competition Authority” (Angın and Bedirhanoglu, 2012, p.148). This institutionalisation also reflects the depoliticised character of the privatisation process.

Moreover, as it has been pointed out in the previous chapter, the privatisation process cannot be understood solely as a technical and economic process, one that only aims to

increase productivity and efficiency of the SOEs of the Turkish economy<sup>5</sup>. In the words of the PM Tansu Çiller, “privatisation is not only an economic reform, it is also a political reform. Because, now the power hands over in this country. The power now belongs to the people, not to the state.” (*Milliyet*, 27.11.1994, p.28). This statement is another expression or reproduction of the ‘strong state tradition thesis’ in Turkey. The Turkish state is not a market-facilitating state, according to this argument, but obstructs market forces through its place in the economy. Hence, the privatisation law would put an end to this tradition: “Turkey is the only socialist state in this region, and with the privatisation law we have demolished this socialist state” said PM Tansu Çiller (*Milliyet*, 24.11.1994, p.16). Although Turkey has never been a socialist state, this discourse was useful in order to legitimate privatisation in an era when real-socialism had collapsed only a few years ago. However, such a view does not conceive of the so-called state-led development (‘socialism’ in Çiller’s words) as a form of capitalist development (see Yalman and Bedirhanoglu, 2010, p.108).



Source: Adapted by the author from Privatisation Authority (ÖİB) website, *Privatisation Implementations between 1985-2015*, <http://www.oib.gov.tr/program/implementations.htm> , (accessed 12.11.2014).

Nevertheless, the privatisation process would not be without impediments in the 1990s. The economic instability, social resistance and the existence of coalition governments

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<sup>5</sup> Indeed, priority of privatisation in Turkey was given to the most efficient state companies (Cam, 2002, p.94).

obstructed the process. After 1994, the Constitutional Court hindered the process through the appeals of social democratic opposition parties and organised labour. Indeed, regarding the 1995-1999 period, the Privatisation Authority stated that “some serious problems on the labour front still persist, resulting in a state of lawsuits by Trade Unions and members of the opposition parties, thus delaying the pace of privatisation programme in certain respects” (quoted in Karataş, 2001, p.111). In order to overcome this challenge and constitutional restrictions, privatisation was integrated into the Constitution in 1999 (Angın and Bedirhanoglu, 2012, p.148). This, combined with some other factors (i.e. further weakening of the organised labour, conditionalities of the IFI’s and ongoing crises), paved the way for block sales of the big SOEs in the 2000s.

Although there had been political instability and obstructive forces which prevented the coherent policy on privatisation during the 1990s, the year 1994 was a historic moment as “the enactment of the Privatisation Law in 1994, immediately after the economic crisis, has to be recognized as a reflection of changing social and political dynamics in Turkey under the ‘coercive’ transformative pressures of the crisis” (ibid, p.149).

### **2.2.2. Class Dynamics of Crisis-Resolution: Labour and Capital post-1994 Crisis**

The 5th April Stabilisation measures had important effects on both the distributional aspects and the bargaining power of labour. If the wage cycles are periodised in Turkey in the neo-liberal era since the 1980s, the 1980-1989 period (until 1987 in particular) can be defined as an era of wage repression through authoritarian measures. The revitalisation of the labour movement then led to the beginning of a new era from 1989 to 1993 in which labour made significant gains, and, for example, in 1991 real wage levels reached pre-1980 coup levels (Şenses, 1996, p.75, see also Figure 5.2 below).

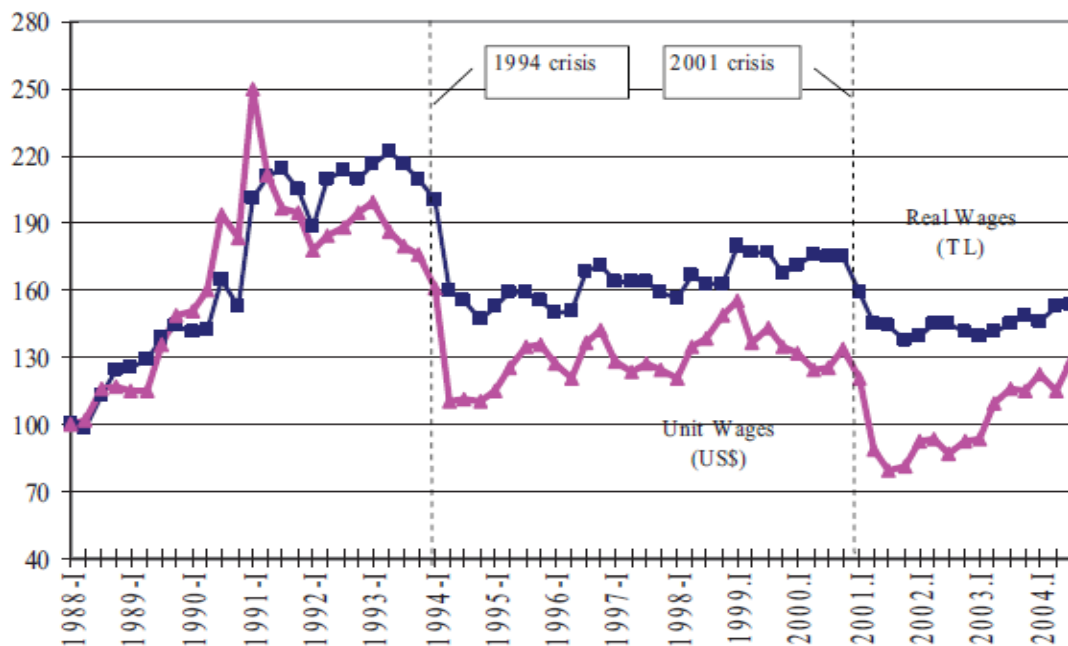
The post-1994 era could be defined as the third era in which “labour’s gains during 1989-93 [were] being sharply reversed” (ibid, p.76). Indeed, it can be asserted that the 1989-93 period was an exception, as direct parallels were observed between the post-1994 crisis mode of adjustment and the 1980-1987 period; in which, again, suppression of real wages and high inflation taxation were the case (Köse and Yeldan, 1998, p.75; Cizre-Sakallıoğlu and Yeldan, 2000, p.492).



Hereby, it should also be stressed that the ‘corrective’ attempts of the Turkish bourgeoisie had already started before the crisis, as a reaction to the wage explosion of 1989-1990; which caused serious concerns in terms of the export competitiveness of the Turkish economy, the public sector borrowing requirement and the commercial viability of private firms (Şenses, 1996, p.74; Onaran, 2004, p.217).

Thus, some defensive measures were implemented in large-scale private industry in the aftermath of the disruption caused by labour militancy in 1989-1991 in order to vitiate the power of the trade unions (Boratav and Özüğurlu, 2005, p.182). These measures consisted of sub-contracting, labour shedding, lay-offs, part-time and temporary employment, fictitious dissolution and reestablishment of companies to take advantage

**Figure 5.2. Pattern of Real Wages in Private Manufacturing and Crises**



Source: World Bank Turkey Labour Market Study (2006, p.vii)

of the thresholds in collective bargaining law, and employing informal workers<sup>6</sup> (Boratav

<sup>6</sup> In that period, there were neither regulations nor limitations on these non-standard practices in labour law. (Onaran, 2004, p.220). Hence, this undermines the credibility of arguments in that period which claimed that the Turkish labour market was rigid. Turkish employers were successful in sidestepping labour legislation especially in the private sector.

et al., 1994, pp.46-47; Şenses, 1996, p.74).

**Table 5.3. Labour Income Indicators 1991-2001**

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Real Wages Index Per Hour Worked Manufacturing (Yearly Rate of Change %)*	39.7	4.4	3.9	-21.6	-12.1	-0.5	3.1	-0.3	11.0	0.5	-14.6
Labour Income Share Ratio (Real Unit Labour Cost Manufacturing)**	0.255	0.257	0.234	0.189	0.155	0.163	0.171	0.193	0.261	0.277	0.264

Sources: \*TurkStat, Employment and Wage Statistics

\*\*OECD Unit Labour Costs (1991 to 1997 are estimated values)

<http://stats.oecd.org/Index.aspx?queryname=345&querytype=view>, (accessed 8 April 2014)

The measures proved to be effective and the momentum of wage increase slowed down after 1991, especially in the private sector. Indeed, from 1991 to 1993, wage increases and labour income share ratio remained stable, which meant a relative decrease compared to 1991 level (see Figure 5.2 and Table 5.3 above).

Nevertheless, the real ‘correction’ in wages occurred post-1994 crisis. In the 5th April stabilisation programme, there were some adjustments envisaged in the public sector, and the programme demanded that workers “consent to the wage discipline” (Koç, 2010, p.388). Following a sharp decline of -21.6% in 1994, real wages and labour’s share in total factor incomes continued to decline or only increased modestly until 2001, and in 2001 another significant decline could be observed. The above-mentioned methods of employers continued in the form of significant portions of labour-shedding and temporary lay-offs.

The enactment of privatisation law and therefore increasing momentum of privatisation in the aftermath of the crisis created more redundancies (Şenses, 1996, p.76). The privatisation law of 1994 envisaged some arrangements for workers to alleviate the adverse effects of privatisation, and to appease the labour unions. These were limited

unemployment insurance schemes, retraining and relocations, using a share of privatisation revenue in order to finance severance payments for workers who lost their jobs because of privatisation (ibid, p.76). However, these were far from being remedies. As Marois (2012b, p.104) asserts, “the so-called employment alternatives have often resulted in public employees forfeiting higher levels of pay, years of seniority, and benefits for lower level and worse paying jobs. The 1994 law has thus weakened the bargaining power and benefits of workers.” This was more apparent in the longer term, if not immediately.

Total unemployment level did not rise dramatically in the post-crisis period, however. It even decreased from 8.9% in 1993 to 8.6% in 1994, and then to 7.6% in 1995 (TurkStat, 2012). The radical decline in real wages and unit labour costs post-1994 crisis were the main causes for this, alongside the new forms of non-standard employment. Indeed, temporary employment rose from 5% in 1985 to 14% in 1997; and the level of contract labour (*tacheron*) in SOEs rose to 15% in 1996, from 4% in 1986 (Cam, 2002, p.96). Hence, the overall experience of labour *vis-à-vis* the crisis management and resolution was severe.

On the other hand, crisis resolution was beneficial for the capital-in-general in Turkey, although some segments of the bourgeoisie were negatively affected because of the contraction of growth and unpredictability of economic conditions. Nevertheless, an important component of Turkish capitalists found some ways to protect themselves from the negative consequences of the crisis. These were, mainly, expanding export capacity against the declining domestic market, and engaging in so-called ‘rentier type activities’ (Öniş, 1996, pp.13-14; Aydın, 2005, p.118). The depreciation of the Turkish lira and the decline of wage costs helped improve export capacity. Combined with declining rates of imports due to the appreciation of the US Dollar, the rate of exports to imports rose to 77.8% in the crisis year of 1994 (see Table 5.1). Concomitantly, the production index rose to 103.1 in the second quarter of 1995 – from 78.1 in the same quarter of the previous year – while real wages were declining significantly (Köse and Yeldan, 1998, p.74); a sign of increasing levels of exploitation through low wages and increased labour productivity.

As far as the ‘rentier type’ activities are concerned, the available options for Turkish capitalists were similar to the pre-crisis era as they continued “to lend to the state at highly lucrative terms, taking maximum advantage of the treasury bonds that provided extremely high rates of return in real terms” (Öniş, 1996, p.14). In this context, one salient indicator of the shift from industrial to financial activities in the 500 largest firms of Turkey was their “non-operational profits” in the total profits, which rose to 54.6% in 1994, from 40.7% in 1993; a clear manifestation of the ability of these firms to benefit from government bonds with high real rates of return and to maintain high profits over the crisis (ibid, p.15; Aydın, 2005, p.118). The state, rather than being an impediment, had clearly been the epicentre of these activities as “the fiscal operations of the state share the major brunt of adjustment in resolution of the distributional conflict in favor of capital-owners” (Köse and Yeldan, 1998, p.75).

### **2.2.3. The IMF, WB and the EU in the post-1994 Crisis: Limited Attempts of Depoliticisation of Policy-Making**

Some commentators argued that no immediate foreign loans were issued from either the IMF or the WB. Thus, Turkey had to confront the crisis on its own (Zürcher, 2012, p. 449). However, this was rather due to Turkish policy-makers’ decision, and nothing to do with the lack of willingness of the IFIs; contrary to arguments which suggest that Turkey did not receive support from IFIs, unlike Mexico who also faced a financial crisis in 1994 (cf. Zürcher, 2012). Thus, this process necessitates a greater scrutiny in terms of the legitimation and/or governing strategies of Turkish state managers.

As far as the World Bank is concerned, the Bank’s willingness in the context of the post-1994 crisis could be observed from this statement: “[A]t the beginning of this period (fiscal 1994-1998), the Bank saw a new opportunity to rebuild its relationship with Turkey, which had been in decline since 1988” (World Bank IEG, 2006, p.7). Nevertheless, the reason for this decline was the Bank’s decision not to provide additional adjustment loans until Turkey could demonstrate progress on the structural problems destabilizing its economy, which was not possible under coalition governments. Hence, Turkey, once “the darling of the Bank” in the 1980s in the words of a WB staff member (World Bank IEG, 2006, p.7), became the country whose portfolio was considered one of the weakest in the Bank by 1993.

With the outbreak of the crisis in 1994, however, the Turkish government requested support from the WB initially, and the Bank showed a willingness to support. However, expectedly, this support would not be without conditions. The WB prepared a long list of conditions during the negotiations in 1994. Yet, these included some politically sensitive issues and unpopular policies, which would put the precarious coalition government in a further difficult situation amidst a strike wave following the 1994 crisis. Thus, with the relatively quick recovery from the crisis, the government did not proceed with an adjustment lending (see Table 5.4). Nevertheless, for preparing the firms for privatisation, the WB provided the Privatisation Implementation Support Loan which was \$100 million, although some cancellations happened later (ibid, p.21).

The IMF provided a significant amount of loans to back up Turkey's stabilisation programme which aimed to help "regain control of the Turkish economy without sacrificing its neoliberal orientation" (Marois, 2012b, p.107). In order to support the government's stabilisation programme of 1994-1995, the IMF approved a 14-month stand-by credit for Turkey of US \$806 million (SDR 509.3 Million) on July 8th 1994. At the request of the Turkish Government in 1995, the IMF approved an extension of the stand-by credit for 6 months and provided an additional US \$160 million; which increased the total amount to approximately US\$ 1 billion (IMF, 1995). Thus, post-crisis management was not without the involvement of the institutions of global capitalism which would help externalising unpopular policies, although it remained rather limited because of the lack of a coherent depoliticisation attempt on the part of the Turkish state managers. Once the Turkish economy showed signs of growth and recovery, the Turkish governments chose not to have agreements with the IMF and WB. However, the 1994 crisis paved the way for the increasing influence of the IMF and WB on economic-policy making in the later phase of the 1990s (Boratav and Özuğurlu, 2005, p.181).

A rather more 'successful' 'externalisation' attempt was in the context of Customs Union (CU) agreement with the EU post-1994 crisis. It was also a significant aspect of the Çiller government's reform process, as well as being a long held desire of the Turkish bourgeoisie. Hence, by mainstream accounts, it was considered as a significant achievement in a period of instability and lack of reform (Öniş and Bakır, 2007, p.151; Pamuk, 2008).

**Table 5.4. World Bank Lending to Turkey by Major CAS Objectives 1993-2000 (US\$ Million)**

<b>CAS Pillar</b>	<b>CAS 1 (1993-1996)</b>	<b>CAS 2 (1997-2000)</b>
● Adjustment Lending		
Macro-management	0	760
● Investment Lending		
Macro-management	62	
Growth&PSD	580	720
Social Sector&Poverty	217	315
Environment&Disaster Management	362	1,127
<b>Total</b>	<b>1,221</b>	<b>2,922</b>

Source. World Bank IEG Report (2006)

For Turkish policy-makers and proponents of the reform process, this step was also seen as a necessary and positive step in order to become a full member of the EU in the long run. Hereby, it is interesting to note that Turkey has been the first and only country to sign the CU agreement before becoming a full member (Türkay, 2004, p.201). The CU agreement was also in line with the neo-liberal reforms of the 1980s in terms of trade liberalisation (Öniş and Bakır, 2007, p.151). Thus, the CU agreement would be an opportunity for exporters and an incentive for investors (World Bank IEG, 2006). It is also argued that the CU was instrumental in achieving some regulatory reforms; for example, the enactment of the Privatisation Law and the creation of the Competition Authority were related to meeting the obligations that are part of Turkey's entry into the Customs Union with the EU (Ercan and Öniş, 2001, p.116; Öniş and Bakır, 2007, pp.151-152). Moreover, it was also expected that the CU agreement process – through a deeper integration with the EU – would enhance human rights practices in Turkey through political conditionalities (ibid, p.152).

However, these accounts do not focus on the negative consequences of the agreement – even from a mainstream perspective. The lowering of tariffs without the benefits of full membership – and thus the lack of the funds which would help the adjustment and structural changes in the context of the CU – was a big disadvantage for the economy

(Altunışık and Tür, 2005, p.84). The taxes which were removed due to the CU affected public revenues and led to the deterioration of the saving-investment balance (Türkyay, 2004, p.202). Moreover, the CU agreement with the EU also led to a significant rise of the imports and further increased Turkey's import dependency, which led to drastic increases in the trade deficit in the following years. Indeed, the balance of trade with EU countries rose to US\$ -12.622 Million in 1997, from US\$ -5.682 in 1995 (Temiz, 2009, p.118). Furthermore, the expected arrival of large amounts of FDI (foreign direct investment) did not materialise (Altunışık and Tür, 2005, p.84).

A class-based explanation would differ from the above-mentioned accounts. Increased market pressure as a result of the CU agreement would increase the need for further competitiveness and labour productivity. The required competitiveness of the Turkish economy in this context was another push factor for low wages. The process was also expected to increase the Foreign Direct Investment as the credibility of Turkey would be enhanced. Indeed, "EU firms were attracted by the prospect of regulatory harmonization and accessing highly skilled labour with lower wages" (World Bank, 2014, p.5). Hence, both industry and the working class would be forced to be more competitive and state managers would be in a position to externalise the responsibility for this discipline.

All in all, through these attempts, the Turkish economy experienced a quick recovery in the 1995-1997 period, with an average growth of 7%. The flexible labour market and significant real wage declines were crucial for this 'smooth' recovery (Yeldan, 2006; Alper and Öniş, 2003). There were some improvements in other macro-economic indicators as well. Hence, there was no immediate radical 'reform' process. The privatisation process remained rather slow. There were no IMF agreements or WB loan agreements in that period. Frequently changing coalition governments and an unstable political atmosphere were still determinants of politics, which was an impediment to coherent economic policy-making for Turkish capitalism.

In this period, however, Turkey took advantage of the generally favourable financial environment in the world market "which was translated to a sustained movement in capital flows to emerging markets as a whole up until the Asian crisis of 1997" (Alper and Öniş, 2003, p.14). As a result, between 1995 and 1997 the cumulative sum of non-resident flows reached US\$ 26 billion (Akyüz and Boratav, 2003, p.1552). The operations

of the banks remained the same as in the pre-1994 crisis. In other words, the underlying triggering factors of the 1994 crisis were still intact. The following section deals with the deteriorating economic and financial conditions and IMF-backed measures towards the end of 1990s, which ended with the major crisis of 2001.

#### **2.2.4. From 1998 IMF Staff-Monitored Programme to the 2001 Crisis**

##### **2.2.4.1. Taking Anti-Inflationary Credibility Seriously: 1998 IMF Staff-Monitored Programme**

By the end of 1997, the underlying structural issues of the Turkish economy had manifested themselves again. The economy was on shaky grounds which was further affected by the East Asian and Russian financial crises of 1997-1998, as the trust in so called “emerging economies” was undermined and capital inflows slowed down (Marois, 2012b, p.118). Indeed, capital flows to Turkey decreased sharply after the East Asian crisis, falling from 5.8% of GNP in 1997 to 1.8% in 1998 (Akyüz and Boratav, 2003, p.1552). Besides, chronic high inflation<sup>7</sup> in the second half of the 1990s, and increasing PSBR which led to increasing debt servicing, proved that the economy was crisis-prone and not sustainable, if there is no serious attempt to take control (Zürcher, 2012; Aydın, 2005).

Concomitantly, domestic political instability increased and the Islamist WP - centre right DYP coalition government was forced to resign by the military, which contributed to the turmoil. Under these conditions, the new Turkish government (ANAP-DSP coalition) approached the IMF in late 1997 for a ‘disinflation programme’. After negotiations, in June 1998 IMF and Turkey agreed on a Staff-Monitored Programme for 18 months; which meant that the Turkish government’s 1998 disinflation programme and its implementation would be monitored quarterly by IMF staff to the end of 1999 (IMF, 1998a). The IMF did not immediately get involved in lending, and gave no money promises in return. However, if Turkey’s Staff Monitored Programme was implemented successfully, then in 18 months’ time, there would be a possibility of another programme

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<sup>7</sup> According to some accounts, it reached three digits (see Aydın, 2005). However, TurkStat indicators provided in Table 5.1 are relatively modest, around 80-90% for the second half of the 1990s.



which would be supported by IMF and World Bank resources (BSB, 2007, p.19).

The Minister of State responsible for Economy emphasised that Turkey's programme was politically supported by the USA and EU (BSB, 2007, p.18). Hence, through IMF backing and emphasising the EU and USA support, the Turkish state managers attempted to increase the credibility of their policies in the eyes of the global financial markets, against the background of Asian and Russian crises.

Turkey's programme was ambitious. Following the first attempts in the first half of 1998 in order to lower inflation, the government's aim was to decrease the inflation rate to 20% by 1999, and increase the primary surplus to 4% of the GNP, through a strict fiscal and monetary policy. In this context, the Memorandum of Economic Policies declared to the IMF in June 1998 stated that "basing increases in public sector wages and agricultural support prices on past inflation has contributed to the inflation inertia" (IMF, 1998a). Therefore, the fiscal policy aimed to increase public sector wages and agricultural support prices in line with targeted, rather than past inflation (*ibid.*). Monetary and exchange rate policy would also support the aim of reducing inflation to 20% by 1999, and the central bank would not extend credit to the public sector (*ibid.*).

Moreover, as the programme envisaged, these measures should have also been accompanied by structural reforms in the areas of banking system, social security, international arbitration, and privatisation policy, according to the Economic Policy Declaration – supplement document to the Staff Monitored Programme (IMF, 1998b; BSB, 2008). Specifically, privatisation was given an important place in the disinflation strategy because of the deficits and borrowing requirement caused by SOEs. The programme envisaged a US\$ 6.6 billion revenue from privatisation in 1998 and 1999, and US\$ 5 billion would be used for debt reduction (IMF, 1998a). The programme also aimed to increase the minimum retirement age to 57 in women and 60 in men, and increase the minimum contribution period to pension fund to 7200 days for women and 9000 days for men (*ibid.*)

Hence, towards the end of the decade, Turkish state managers took the issue of anti-inflationary credibility seriously, and aimed to restructure state-capital-labour relations; using the IMF as an anchor to help maintain anti-inflationary credibility and insulate the government from unpopular outcomes, especially from a possible unrest from labourers

and peasants. As it has been observed by a commentator in an affirmative manner, “politically difficult measures involving fiscal and monetary discipline can be implemented in the presence of a powerful external anchor” (Öniş, 2006, p.255).

The Staff Monitored Programme showed some initial success. However, the Minister of State responsible for Economy resigned after losing a vote of confidence in parliament five months later, as he was allegedly involved in corruption. The government resigned after that; and in 1999 a general election was scheduled. This political uncertainty, and then the 17th August 1999 Marmara earthquake<sup>8</sup>, proved that the implementation of the programme had been affected badly (Altunışık and Tür, 2005, p.84).

#### **2.2.4.2. Towards the 2001 Crisis**

The new coalition government following the 1999 elections – DSP-ANAP-MHP, a combination of Centre Left, Conservative-Liberal, and Ultra-Nationalist parties respectively, forming the 7th coalition government since 1994 (Marois, 2012b) – was determined to pursue the disinflation programme. Therefore, the government started standby agreement negotiations with the IMF. Before starting the negotiations in December 1999, a number of laws and amendments were passed in parliament, including banking sector<sup>9</sup>, social security and international arbitration, which was envisaged earlier in the 1998 programme. Furthermore, major reductions in agricultural subsidies passed through Cabinet Decrees, in a technocratic way.

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<sup>8</sup> This earthquake was the most devastating one in the history of Turkey. According to official data, 17,000 people died, 500,000 were homeless, and the economy was affected very badly. Thus, the IMF also approved US \$501 million assistance for recovery from the earthquake in October 1999, as the Turkish government requested in September 1999 *Letter of Intent* (IMF, 1999). Also, in terms of the WB-Turkey relations, according to the WB, the Marmara earthquake was a *turning point*, as the Bank responded quickly, “and this quick and effective response helped to re-establish the Bank’s credentials with the Turkish government and public” (WB IEG, 2006, p.8).

<sup>9</sup> The 1999 Banking Law was in line with Basel principles and EU guidelines. The law also created the BRSA (Banking Regulation and Supervisory Agency). The government and the state managers expected that this would increase the “state’s financial regulatory capacity” (Marois, 2012b, p.121). Indeed, the banking sector was alarming in 1999 as their open foreign exchange positions had increased from \$ 3.6 million in 1997 to \$ 12.6 million in 1999 (Akyüz and Boratav, 2003, p.1552), largely through their borrowing from abroad and lending to the government because of high interest rates for most of the 1990s.

The privatisation process was still a sensitive area. However, in the year 2000, it reached its climax after a decade, with the privatisation process of POAŞ (Turkish Petroleum Corporation), as shown in Figure 5.1 earlier. This would, however, be the only case, and privatisation would gain its real momentum in the post-2001 era. It is also important to note that these measures were in line with the Fund's new approach post-Asian crisis, which put more emphasis on structural reforms and banking and financial sector regulatory policies (Alper and Öniş, 2003, p.271).

**Table 5.5. IMF Lendings 1994-2002 (In Thousands of SDRs)**

Facility	Date of Arrangement	Date of Expiration or Cancellation	Amount Agreed	Amount Drawn	Amount Outstanding
Standby Arrangement	Jul 08, 1994	Mar 07, 1996	610,500	460,500	0
Standby Arrangement of which SRF*	Dec 22, 1999	Feb 04, 2002	15,038,400	11,738,960	0
	Dec 21, 2000	Dec 20, 2001	5,784,000	5,784,000	

Source: IMF, *History of Lending Arrangements-Turkey*, <https://www.imf.org/external/np/fin/tad/extarr2.aspx?memberKey1=980&date1key=2008-03-31> (accessed 16 April 2014) \* SRF: Supplemental Reserve Facility

After this ambitious effort, as a response to the Turkish Government's *Letter of Intent* to the IMF on 9th of December 1999, the IMF approved US \$4 billion standby credit on 22nd December 1999 to support Turkey's disinflation programme for three years, from 2000 to 2002. The programme, alongside the continuation of tight fiscal and monetary policy, focused also on banking regulation and structural reforms. In order to confront inflation, a pre-announced exchange rate path would be introduced (IMF, 1999). Also, the incomes policy would be crucial to support the disinflation programme and to "guide the private sector to set wage and price increases in line with the inflation target" (IMF, 1999) which meant a decline in real wages of labourers. As Marois (2012b, p.122) put it, the "core political intent" of the programme overall "was to send foreign financial capital a positive message about Turkey's dedication to inflation management and debt service capacity."

As mentioned, the programme relied on a pre-announced crawling peg exchange rate

regime as its anchor<sup>10</sup>. However, following the 1989 capital account liberalisation, Turkey was again in a policy dilemma through the “unholy trinity”. As argued by some commentators (Cizre Sakallıoğlu and Yeldan, 2005, p.395), “the currency risk was eliminated and the whole liquidity generation mechanism was based on the short-term, hot money inflows. Increased foreign exchange activity led to the appreciation of the Lira in real terms.” The appreciation of the real exchange rate led to a boom in consumer spendings (domestic demand), and a significant rise in imports. Indeed, imports increased by 35% in 2000, whereas export growth remained at 7%. Thus, trade deficit doubled to more than US \$20 billion, which led to an unprecedented current account deficit of 5% of GNP – three times higher than the targeted level in the programme (Akyüz and Boratav, 2003, p.1555).

After a while, this unstable situation combined with some political and other economic issues; such as persistently high inflation; the apparent problems in the banking sector and a criminal investigation into several banks; the increasing external and domestic debt; and the political problems regarding the coalition government. It is also argued that the coalition government did not have ownership of the programme and thus could not implement the measures in a credible way (Alper and Öniş, 2003). Thus, the result was a banking crisis and large amounts of capital outflows which reached to US\$ 5.3 billion in November 2000 (Cizre Sakallıoğlu and Yeldan, 2005, p.396; Akyüz and Boratav, 2003).<sup>11</sup>

The Turkish Government sent another *Letter of Intent* to IMF in December 2000 for further support, and the IMF approved US\$ 7.5 billion Supplemental Reserve Facility Credit in the same month, as they were convinced that the programme was on track (IMF,

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<sup>10</sup> As Alper and Öniş suggests, in the 1990s exchange rate-based stabilisation programmes were promoted by the IMF (as also observed, for example, in Argentina), as pegged exchange rates were believed to be key instruments for reducing inflation in the short term, alongside expenditure-reducing policies (2003, p.272).

<sup>11</sup> According to Öniş (2003, p.13), if the IMF did not adamantly force the Central Bank to operate as a “quasi-currency board”, the Central Bank could have injected liquidity into the banking system at the right moment and prevented the outbreak of the November 2000 crisis.

2000). After a short-lived optimism, however, it became more and more apparent that the programme was not viable, as “rising public debt, high inflation and the continued real appreciation of the currency created considerable uncertainty over the sustainability of the peg” (Akyüz and Boratav, 2003, p.1556).

The final straw in the 1994 crisis was PM Tansu Çiller’s decision to decrease interest rates. In the February 2001 crisis, however, the final straw was the political row between the PM Bülent Ecevit and President Ahmet Necdet Sezer at the 19th of February 2001 National Security Council meeting. PM Ecevit left the meeting and declared that “this is a serious crisis of the state” (Ahmad, 2003, p.176). This was sufficient to trigger a turmoil in an already crisis-ridden economy, and the financial markets collapsed. The overnight interest rates reached 5,000%, and the Central Bank lost around US \$5 billion – one fifth of its foreign reserves – but this was not enough to prevent a massive flight from the Turkish Lira. The government put an end to the exchange-rate based disinflation programme and started a floating exchange rate. The Turkish Lira lost about one-third of its value against the dollar (Akyüz and Boratav, 2003, p.1556; Ahmad, 2003, p.176).

This was the most serious crisis of Turkish capitalism, which would pave the way for major economic and political readjustment to the requirements of global capitalism in the post-crisis era. Against this background of crises and restructuring, the second part of the chapter now turns to the politics of this crisis-ridden decade; in the context of rise of political Islam, military intervention and deradicalisation of the labour movement.

### **3. State, Class and Politics under Crisis-Ridden Capitalism**

The period 1991-2001 was also crucial in terms of its political developments, and reflects the tensions between class-based politics and identity-based politics. In this period, political Islam gained crucial support from marginalised segments of society, and also represented a newly emerged ‘fraction’ of capital. The Islamist movement succeeded in electing an Islamist Prime Minister, for the first time in the history of the Turkish Republic, in 1995, albeit under a coalition government. However, political Islam was confronted by the Turkish military in 1997, a process which is known as “post-modern

coup d'état". The "internal war" between the PKK (Kurdistan Workers' Party)<sup>12</sup> and the Turkish Armed Forces led to the securitisation of politics in this era (Akça, 2014). These developments divided society in terms of the identities, and, especially in the second half of the 1990s, the labour movement followed some of these divisions. As Bedirhanoglu and Yalman (2010, p.119) state:

while these identity-based demands have challenged the long-claimed unitary character of the Turkish Republic more than ever and led to deep legitimacy crises starting from the early 1990s, the transformation of the nature of political struggle as such substantially disabled the reintroduction of class considerations into the political agenda.

Thus, the main concern of this section is not to deal with these developments in the context of their own formation and history, but to deal with these issues in terms of their relations to the wider restructuring of the political economy of Turkey in the late 1980s and 1990s, and their effects on class-based politics. This will also provide a foundation for the main political determinants of the 2000s.

### **3.1. The Rise and Fall of Organised Labour in the 1990s**

As it has been briefly mentioned in the previous section, the late 1980s and early 1990s were years of revitalisation for the organised labour movement; after the repression of, firstly, the military dictatorship in the early 1980s, and then the anti-democratic stance of the Motherland Party (ANAP) until the late 1980s. The 1989 Spring Actions, and then the 1991 Miners' Movement were crucial reactions by the labour movement against a decade of real wage declines and political repression. Hence, these actions played a significant role in the 1989 local elections and 1991 general elections, which put an end to the single majority ANAP government (Boratav and Özügurlu, 2005, p.180).

The electorate of the coalition government of centre-right DYP and social democratic

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<sup>12</sup> The PKK was formed in the late 1970s as a Marxist-Leninist guerrilla group. However, it started its first important armed attacks in 1984. In the process of time, the organisation mainly became the representative of Kurdish nationalism, and left the discourse of Marxism behind, especially after the fall of the Soviet Union (Ahmad, 2003, p.164).

SHP government, which was formed after the 1991 elections, consisted mainly of losers of the structural adjustment policies of the 1980s; namely organised labour, agricultural producers and some segments of the business circles that were oriented towards the internal market (Öniş, 1996, p.9). Thus, some accounts of the Turkish political economy argue that the new period marked a return to ‘populism’ under competitive party politics after 1987, when the politicians of the previous period were allowed in the political arena (see Aydın 2005). However, although there were significant gains made in wages and salaries, especially in the public sector in the 1989-1993 period, this does not mean that there were income transfers from the bourgeoisie to the working class. The latter would rather occur through taxation which was clearly not the case in Turkey. Thus, this policy change should be understood as a strategy to contain the working class under circumstances where the government would not be able to cut the public expenditures because of popular discontent (Güngen, 2010, p.8).

Furthermore, the new government was not principally against the implementation of adjustment measures and privatisation, or the neo-liberal restructuring which started in 1980. For instance, it did not make any provisions against the non-standard working conditions that emerged especially after 1991; moreover the public sector itself started to employ workers through sub-contractors (tacheron system) (Cam, 2002, p.96).

One of the most significant developments of this period was the return of DISK. The radical union confederation DİSK (Confederation of Revolutionary Unions) was acquitted of charges against it in 1991, and started its activities again in 1992. However, the conditions of the repressive legal framework and its ban from activities for 12 years meant that it would be difficult for DISK to operate in a radical way as it did in the pre-1980 period (Akkaya, 2004). As a result, unionism in the 1990s would not be politicised and mainly remained defensive against the restructuring of the economy.

Nevertheless, organised labour remained as a significant impediment to restructuring especially until the end of 1995 (Savran, 2004, p.32). The year 1995 marks a peak in terms of the number of workers involved in strikes and the number of the days lost in strikes which is a direct indicator of labour militancy (see Figure 5.3). This was the continuation of the demonstrations by the workers (not necessarily in the form of strikes) in the aftermath of the 1994 crisis and the April 5 austerity measures put in place by the

coalition government.<sup>13</sup> In Autumn 1995, however, during the collective bargaining process with the government, the discontent of the unions against the attempt to restructure the social security rights – again in line with crisis management conditions – of workers led to a significant strike wave.

These strikes and protests went beyond the legal framework, and directly addressed the IMF and government. This turmoil led to some concerns on the government and army's side. Hence, the MGK (National Security Council) declared its concerns about the strikes in late September 1995 (*Milliyet*, 29.09.1995, p.19). Furthermore, the government decided to postpone the strikes on the basis of “national security” and “public health” (Çelik, 2008, p.111). The 1995 strikes ceased in late October 1995 with an agreement with the government. The strikes also played a significant role in the Çiller government's loss of ‘vote of confidence’ in parliament in 1995 which also proves their political significance (Savran, 2004, p.32).

The 1995 strikes, however, would be a “pyrrhic victory” for organised labour in Turkey, although it seemed strong. After that, the labour movement underwent a process of deradicalisation and crisis. The process, however, started in the early 1990s, as a response to the increased militancy of labour in the late 1980s and early 1990s.

To begin with, the measures taken by employers after the wage explosion of the 1989-1991 period had some negative effects. Hence, after 1991, union density started to decline steadily. In 1991, union density was 19.7%, in 1995 it declined to 13.4%, and finally in 2001 this rate further declined to 10% (OECD StatExtracts, n.d.).<sup>14</sup> In the aftermath of the 1994 crisis the privatisation process gained some momentum and this affected union

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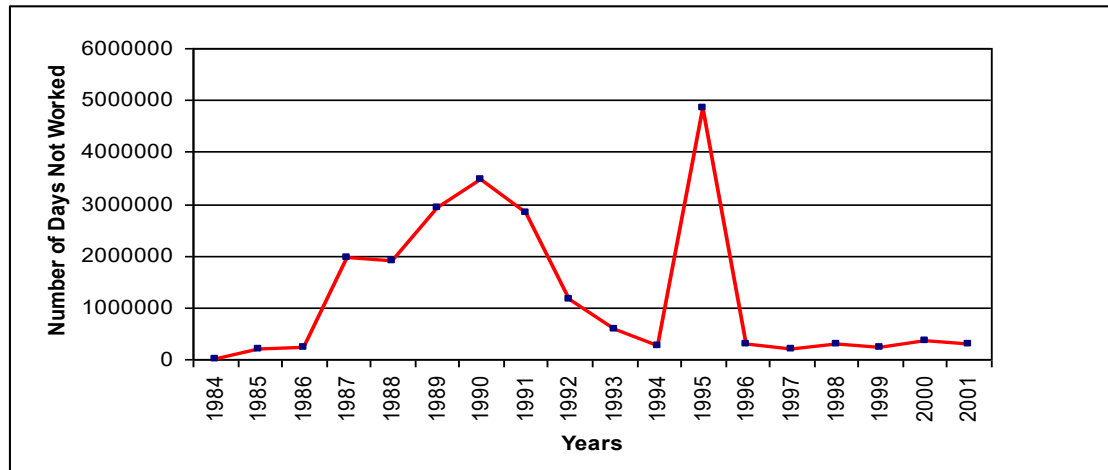
<sup>13</sup> For example, in November 1994, 100,000 workers marched in Ankara to protest against the 1995 Budget Discussions in parliament, which envisaged cuts and curtailments of the rights and remunerations of public sector workers in line with the IMF-backed April 5 stabilisation programme. The Çiller government stepped back and these amendments were cancelled to a great extent (Koç, 2010, p.422).

<sup>14</sup> The Turkish Ministry of Labour and Social Security website does not provide union membership data for pre-2003 period. Boratav and Özügürü's (2006, p.160) calculations are based on Turkish official data and the rate of unionisation in 2000 is 21.2%, according to them. However, it is a very well-known phenomenon that the official union statistics has been very problematic in Turkey. Unions declared exaggerated membership numbers in the past and the ministry did not audit. Hence, the OECD data would provide a more realistic information.



memberships further; as it has been always easier for unions to be organised in the public sector.

**Figure 5.3. Strikes: 1984-2001**



Source: Adapted by the author from Ministry of Labour and Social Security, *Strike and Lockout Statistics*, <http://www.csgeb.gov.tr/csgebPortal/csgeb.portal?page=grevlokavt> (accessed 20 April 2014).

Accordingly, the rise of temporary work, subcontracting and informal employment towards the late 1990s also affected union density. These forms of employment were not only limited to the private sector. Although State Owned Enterprises (SOEs) experienced the privatisation process slowly, the public sector also underwent a reorganisation, and forms of employment in the public sector started to change in the 1990s. For example, the level of contract labour (*tacheron*) in SOEs rose to 15% in 1996; from 4% in 1986 (Cam, 2002, p.96).

The decline of labour militancy in the aftermath of the 1994 crisis and 1995 strikes was not only related to state and capital's measures, however. The unions themselves were also responsible for the deradicalisation of the union movement. The unions increasingly remained interested only in improving their members' narrow interests (mainly through concessions by means of lobbying and court cases) which divided the working class and made informal and non-unionised workers alienated and distant (Doğan, 2014, p.192). As long as their members' conditions were kept secure, they did not directly confront neoliberal policies, which undermined their power in the long run (ibid., p.193).

**Table 5.6. Employment and Unemployment Indicators 1991-2001**

Unemployment Rate 1991-2001 Average (%)	Labour Force Participation (%)	Employment Rate (%)
Total 7.7	1991 Total 57	52.3
Urban 11.2	Male 80.2	
Rural 4.3	Female 34.1	
	2001 Total 49.8	45.6
	Male 72.9	
	Female 27.1	

Source: TurkStat, Statistical Indicators 1923-2011 (2012)

**Table 5.7. Employment by Sector, 1991-2001 (Millions)**

	1991	2001
Employment, Total (15+)	19.2	21.5
Employment in Agriculture	9.2	8.0
Employment in Industry	2.9	3.7
Employment in Construction	0.9	1.1
Employment in Services	5.5	8.4

Source: TurkStat, Statistical Indicators 1923-2011 (2012)

**Table 5.8. Employment by Status, 1991-2001 (Millions)**

	1991	2001
Employment, total (15+)	19,2	21,5
Regular (Waged) and Casual Employee	7,3	10,1
Unpaid Family Worker	6,2	4,8
Self Employed	4,7	5,3
Employer	0,9	1,1

Source: TurkStat, Statistical Indicators 1923-2011 (2012)

However, at the same time, informal labour was increasing significantly. For example, in the 1995-1999 period, the share of informal employment in total non-agricultural employment was 30.9% (OECD, 2009), and almost half of manufacturing industry workers were working in informal and insecure working conditions in the mid-1990s (Akçay and Özden, 2014).

Although it could be argued that the labour market in Turkey had always had large amounts of informal employment through the agricultural sector, there is a specific issue which differentiates the 1990s: The Kurdish question. Because of the “low-density war” between the Kurdistan Workers’ Party and the Turkish state, approximately 30 percent of the region’s population – which amounts to 3 million people – was internally displaced and forced to migrate to the coastal regions in the south and western metropolitan areas<sup>15</sup> (Cizre Sakallıoğlu and Yeldan, 2000, p.492; Cam, 2002, p.99). This also combined with the increasingly insecure employment conditions in Turkey in the 1990s. Hence, “constituting a cheap labour source, without professional qualifications and ready to work in any job they could find, displaced Kurds became a major part of the informal labour market in cities like Istanbul” (Yörük, 2014, p.237), although they were not the only segment of informal labour. The proletarianisation of the Kurds reflects how ethnic domination and class domination were intertwined under neoliberalism in Turkey.

Another effect of this internal migration was declining rates of employment and labour force participation (see Table 5.6). The historic backwardness of the Kurdish region meant that women in particular would not be eligible for work in the metropolitan areas after they migrated (Cam, 2002, p.101). Nevertheless, this decline was not only related to women, but also to a general decline in labour force participation; which was 57% in 1991 and declined to 49.8% in 2001. Furthermore, the job creation performance of the economy was also unsatisfactory, which falsifies the neoliberal assertions that ‘flexibilisation would create more jobs’ (cf. World Bank, 2006). Hence, the rise of informal employment

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<sup>15</sup> The war between PKK and Turkish state was also a source of constant ‘economic cost’ for the state, and kept the military in an efficient position in politics during 1990s. According to Ahmad (2003,p.160), the annual estimated cost of the war was US \$7 billion a year. Also, Savran (2004, p.33) asserts that the total cost of the war between 1984-1999 was over US \$200 billion, which was more than Turkey’s total public debt in the 1990s. This also contributed to the crisis-ridden atmosphere of capitalism in Turkey in the 1990s.

and exclusion from labour markets further contributed to the declining power of the unions and undermined class-based politics in Turkey.

Nevertheless, towards the end of the decade, a new front was formed under the initiative of organised labour in 1999; in response to the draft laws on social security reform, privatisation and international arbitration which were parts of the IMF standby agreement (Ercan and Oğuz, 2007, p.177). This front was named the Labour Platform and represented a broad coalition of labour union confederations from different ideologies, various chambers of professionals and societies representing pensioners (Doğan, 2014, p.194). The platform organised some effective demonstrations and campaigns. For instance, 400,000 people attended a demonstration organised by the platform in Ankara in 1999 (Koç, 2010, p.401). However, economic ‘reforms’ were legislated in the same year despite these protests. The final attempt of the Labour Platform would be in the aftermath of the 2001 crisis, which will be dealt with critically in the next chapter.

The chapter will deal with the rise of the political Islam in the 1990s, against the background of the crisis-ridden political economy and above-mentioned transformations in the labour front.

### **3.2. The Political Economy of the Rise of Political Islam in the 1990s**

One of the reasons for political instability and crises in Turkey in the 1990s was the rise of political Islam, which alarmed the Turkish military and secular segments of society towards the end of the decade. This section deals with this issue in class analytical terms and locates this phenomenon in the above-mentioned transformation of labour and crisis-ridden political economy; as well as the rise of Islamist-oriented capital groups and transformations in state-economy-society relations in the post-1980 era. This would provide a foundation for the election success of the AKP in 2002, and help explain under which transformations and conditions the AKP differentiated itself from the Islamist parties of the 1990s.

Although this rise alarmed the army in the 1990s, the promotion of the Turkish-Islamic synthesis was rather a strategy of the Turkish military in the post-1980 period, in order to

create a more coherent society, free from ‘subversive’ ideologies such as communism<sup>16</sup> (Öniş, 1997; Zürcher, 2012; Eligür, 2010; Altunışık and Tür, 2005; Buğra, 2004), as mentioned in the previous chapter. Hence, this shift in the ideology of the state paved the way for the promotion of Islamic communities (*tarikats*), the place of Islam in every aspect of daily life and a more tolerance for the Islamist parties and NGOs – whereas left and the unions were under systematic repression.

**Table 5.9. Electoral Performance of Islamist Parties (1987-2002)**

Election Years	Islamist Parties	Votes (%)
1987	Welfare Party	7.2
1991	Welfare Party	16.9
1995	Welfare Party	21.4
1999	Virtue Party	15.4
2002	JDP	34.3
	Felicity Party	2.5

Source: TurkStat, Statistical Indicators 1923-2011 (2012).

Nevertheless, the electoral success of the Islamist movement would occur in the 1990s. As it can be observed from Table 5.9 above, the Islamist Welfare Party had already increased its votes in the 1991 elections. However, this was mainly related to its electoral alliance with the neo-fascist political party MHP (Ahmad, 2003, p.158). Thus, the real

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<sup>16</sup> Hereby, it should be noted that the military’s stance was rather pragmatic, and they did not want an anti-systemic movement, such as radical Islam. Hence, for that very reason, for example, the military junta prosecuted the members of the National Salvation Party (Islamist party in the pre-1980 period) for violating article 163 of the penal code which prohibits “the exploitation of religion for political purposes”. Nevertheless, the lower cadres of the party would find room in the Motherland Party (ANAP) after 1983 and would be able to form a faction within the ANAP in that period (Marguiles and Yıldızoğlu, 1997, p.149).

rise of the Welfare Party (WP) could be seen in the 1994 local elections, and 1995 general elections.

Indeed, the 1994 local elections were a turning point for the Islamist movement, as the party took over 19% of the votes and won the mayorship of some important metropolitan cities like Istanbul and the capital Ankara (Margulies and Yıldızoğlu, 1997, p.144). In the aftermath of the 1995 general elections (after a short-lived coalition between ANAP and DYP) the leader of WP, Necmettin Erbakan, formed a coalition government with DYP and became the first Islamist Prime Minister of the Turkish Republic.

The rise of the Islamist movement relies on two factors which were the result of the post-1980 political economy of Turkey. Firstly, transformations since the 1980s had increased inequalities in society; for example, the Gini coefficient rose to 0.50 in 1994 (Öniş, 1997, p.751). The working class and urban poor were affected negatively by policies imposed since the 1980s. The social democratic left, which was the coalition partner from 1991 to 1995, could not represent the interests of the poor and informal proletariat, as the Social Democratic Party has been recognised as one of the sources of the problem, especially after the 1994 crisis (Margulies and Yıldızoğlu, 1997, p.150). The socialist left, once the mobiliser of the urban poor, the slums, and the working class, was not able to function in the same manner since it was destroyed by the military in the early 1980s. As mentioned in the previous section, the 1990s also witnessed the rise of the informal private sector and employment in urban areas, which created further deteriorating conditions for the labouring classes in Turkey. Hence, under these conditions, the Islamist WP's radical discourse and rhetoric which was named "Just Order" (or "Just Economic Order" *Adil Ekonomik Düzen*), emphasised a clear stance against inequality, poverty, 'Western imperialism' and 'big bourgeoisie' and this was crucial in "garnering the political support of the growing informal proletariat" (Yörük, 2014, p.239). As can be seen in their approach to the 28 February 1997 military memorandum, however, organised labour (except Islamist Hak-İş Confederation) was mainly against the Welfare Party and supported the military's stance. Hence it could be concluded that the informal labouring classes, urban poor, and internal migrants were a crucial part of WP's electoral base.

Although the WP was against the so-called 'Western type capitalism', it was not an anti-capitalist party. Indeed, one of the main supporters of the WP was the so-called Islamic

bourgeoisie (or ‘Anatolian Tigers’) which flourished in the post-1980 era through the export-oriented growth strategy; and they were mainly small and medium-scale enterprises based in Anatolia (Gülalp, 2001, p.439). They benefitted from increasingly flexible forms of employment, and employed labourers who were mainly unskilled and unorganised, thus receiving low wages (Cizre Sakallıoğlu and Yeldan, 2000, p.500).

The organisational manifestation of this ‘fraction of capital’ would be the establishment of MÜSİAD (*Müstakil Sanayici ve İşadamları Derneği-Independent Industrialists and Businessmen Association*) in 1990<sup>17</sup>. The MÜSİAD became a mecca for ‘pious’ capitalists in Turkey just after its establishment, and its membership grew rapidly with the participation of groups which could not be a part of Istanbul-based ‘big bourgeoisie’—TÜSİAD. For example, in 1991 the association had 400 members; in 1993 this rose to 1700; and in 1998 it reached 3000 members and represented 10,000 workplaces in the same year (Eligür, 2010, p.203; Buğra, 2004, p.134). Moreover, nearly half of the MÜSİAD member companies were founded in the post-1980 period, which is the expression of the effect of export-oriented growth (ibid, p.203).

The word *Müstakil* (Independent) refers to the so-called independent development of this capital fraction. Indeed, the association, or the ‘Anatolian Tigers’ in general were praised for developing without state support or subsidies (see Öniş, 1997; Pamuk, 2008). Furthermore, the founder and former president of the association, Erol Yarar claimed that the association represented “the real bourgeoisie. Others [TÜSİAD-big bourgeoisie] were developed through the state, but [they] did not take advantage of or exploit the state” (Haber7, 2009).

This approach – embraced by many commentators – should be challenged, as it sees the relationship between the state and the bourgeoisie as an external one. However, as Yalman (2009, p.343) puts from rather a theoretical point of view:

There is the need to come to terms with the constitution of the social classes in general, and the bourgeoisie in particular, ‘within and through the state’,

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<sup>17</sup> It is generally perceived that the “M” in MÜSİAD refers to *Muslim*, rather than *Müstakil* (Eligür, 2010, p.201).

if one is to avoid the relationship between the state and social classes being viewed as one of externality.

Furthermore, in the case of MÜSİAD, Buğra and Savaşkan's recent research (2014, p.19) shows that "we witnessed the emergence of a new vintage of politically created business actors who enjoyed favors defined by the new mechanisms of government intervention and deployed within networks that draw on cultural resources informed by religious identity." Indeed, if one investigates the relationship of this newly emerging capital group starting from the ANAP period; the tax incentives or political support through 'business trips' can be observed. This internal relationship went further when the WP first won the mayorship of key municipalities, and then became the coalition partner in 1996. Indeed, especially after 1994, MÜSİAD members benefitted from privatisations, public tenders and state support. Furthermore, while they were excluded previously, they had become regular guests on the business trips of the government to overseas, especially to Islamic countries. For example, in one of these trips, they signed significant trade contracts which amounted to US\$ 800 million (Yankaya, 2012, p.31). Although the close relationship of one capital group with the government is not the most crucial aspect of the state-capital relationship, these examples show that the state could not be excluded from the process of capital accumulation, and the narrative of 'real and independent' bourgeoisie is far from being the case.

The rise of the MÜSİAD, and the Islamist movement and WP, however, alarmed secular segments of the society, and the Turkish army and TÜSİAD in particular. Towards the end of the decade, the share of the MÜSİAD members' companies in the GNP reached nearly 10% and their members' enterprises annual revenue in 1998 reached US\$ 2.79 billion; which posed a threat to TÜSİAD in terms of capitalist competition (ibid, p.31; Eligür, 2010, p.203). Furthermore, this also had political reflections. Historically, TÜSİAD was more pro-European and secular, whereas in the 1990s, MÜSİAD (in line with the WP) was against the Customs Union agreement and emphasised the need to develop relationships with the Islamic world through an 'Islam Common Market' (Akça, 2014, p.27; Öniş, 1997, p.759; Savran, 2004, p.34; Buğra, 2004, p.138). Hence, starting in 1996, an anti-Welfare Party campaign commenced. In the National Security Council meeting of 28 February 1997, the Turkish Army blamed the Welfare Party on Islamic



fundamentalism and declared that some measures should be taken by the WP-DYP coalition against radical Islam.

The measures against MÜSİAD are generally underestimated in the literature on Turkey<sup>18</sup> (see, for example, Tuğal, 2009). However, it is significant to note that a court case was filed against MÜSİAD for anti-secular activities, and the Chief of Staff of the Turkish Army announced a list of companies that allegedly represented the ‘Islamic bourgeoisie’, asking for them to be boycotted (Akça, 2014, p.28). Meanwhile, interestingly enough, some trade union confederations (Türk-İş and DİSK) and ‘secular’ business organisations (TESK, TİSK and TOBB) organised an initiative named the “Five Civilian Initiative”, which campaigned against the Welfare Party (ibid., p.28). The representative of the big capital groups, TÜSİAD, did not attend these activities, but gave ‘low profile’ support to the activities of the Turkish army in order to force the government to step down (Savran, 2004, p.35). Apparently, the 28 February process proved effective as, shortly after 1997 decisions, the Welfare Party was closed down by the Constitutional Court in 1998 because of its anti-secular activities. The number of members of MÜSİAD decreased to 2,300 from 3,000 in this process, and the remaining members were excluded from public and military tenders (Yankaya, 2012, p.30).

This process led to the ‘adjustment’ of the MÜSİAD to the realities of the world market, and the association held a more pragmatic view on its relations with the Islamic political parties and a more pro-EU stance. The successor of the Welfare Party, the Virtue Party was also closed down by the constitutional court because of the same allegations. Hence, this led to a split within the Islamist movement in 2001. The ‘reformist’ wing formed the AKP (*Adalet ve Kalkınma Partisi-Justice and Development Party*) in August 2001, and the ‘traditionalists’ remained within the movement, and formed the Felicity Party after the closure of the Virtue Party in 2001. Hence, Islamist politics would take a new form in the 2000s – mainly represented by the AKP, whose rise will be discussed in the next

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<sup>18</sup> Some other decisions of the National Security Council against the ‘Islamist fundamentalism’ were, increase the compulsory education from five to eight years which would lead to the closure of the secondary school parts of the Imam-Hatip schools, the closing down of the private Quran courses (generally led by the *tarikats*), banning the headscarf in government offices (Altunışık and Tür, 2005, p.60).

chapter in the context of the 2001 crisis and the legitimacy crisis of the state.

#### **4. Conclusion**

This chapter analysed the political economy of Turkey in the 1991-2001 period; a crisis-ridden and volatile decade. It argued that the foundations of the crisis-ridden 1990s can be found in the transformations of the political economy of Turkey since the 1980s. The capital account liberalisation of 1989 was decisive in terms of the recurrent financial crises in the 1990s and 2001, although it was not the only reason. The escalating class struggle in the first half of the 1990s was a significant impediment to the continuity of the unobstructed restructuring of the state and economy. Moreover, the Turkish State had difficulties in 'governing over society' throughout the decade; as seemingly irreconcilable segments of society put significant pressures on the political parties, which resulted in a lack of sufficient political commitment to the restructuring process. Nevertheless, this does not mean the state did not attempt to remove impediments to the accumulation of capital. In other words, that is not to say that the spectre of 'strong state tradition' was intact and impeding the restructuring process by keeping the state in the hands of bureaucrats who did not pave the way for market forces. This chapter rather argued that towards the end of the decade, state managers attempted to find firm solutions to the problems of crisis-ridden capitalism through 'external anchors', such as IMF, WB, and EU, which would help them to restructure labour-capital relations and introduce anti-inflationary policies. However, these attempts failed as these policies could not be sustained by the Turkish state because of the constant political and economic turmoil.

Some other political problems, such as the rise of political Islam and the intensification of the Kurdish question and war paved the way for suspending 'democratic rights' and 'rule of law' and kept the military as a 'guarantor' of the survival of the Turkish State in an anti-democratic way. Also, the counter-guerrilla activities of the state led to complex relations of state-mafia-bureaucracy, which created an unpredictable political atmosphere.

In this period, the labour market became more informal and flexible, and the power of organised labour decreased towards the end of the decade. The rise of Islamic identity was another reason for the segmentation of organised labour. This also created some cleavages amongst the bourgeoisie in the 1990s. In this period, rather than following the

‘general interest’ of the bourgeoisie; the Turkish State and the army clearly favoured the more pro-Western and secular segments of the bourgeoisie, to eliminate the financial base of political Islam.

The reform process had already started in 1999. It was only with the 2001 crisis, however, that it became clear that both the economy and the state were in severe crisis; and it became obvious to the state that it was not possible to govern in the old way. The next chapter will, therefore, analyse the ‘transition period’ or ‘prelude’ to the AKP period, namely the post-2001 crisis and pre-AKP term, in the context of restructuring state and economy.

## Chapter 6

### Politics of Economic Restructuring and AKP's Rise to Power: Developments Post-2001 Crisis

#### 1. Introduction

This chapter analyses the post-2001 crisis management and its political and economic consequences. The February 2001 crisis was the most significant crisis of the neoliberal era in Turkey since 1980. Following the crisis, the political and economic instability reached unprecedented levels as the devastating effects of the crisis made themselves increasingly apparent. Thus, the crisis was not only economic, but also political, as many of the previous crises. However, the level of its deteriorating effects led also to a serious crisis of the political establishment in Turkey. Hence, there had been calls for restructuring the state and economy from Turkish bourgeoisie, the intellectuals and different segments of the society, although those were varying in nature.

From the point of view of mainstream accounts of Turkish political economy, the crisis had been viewed as an opportunity for paving the way for a new phase of neoliberalism in Turkey which would enforce the implementation of 'regulatory reforms' (Öniş, 2003, p.16; cf. Yalman and Bedirhanoglu, 2010, p.117). It is argued that the crises in Turkey in general, but the 2001 crisis in particular have "created an *opportunity space* (italics in original) or a possible opening for a *radical break* (my italics) with the previous model of accumulation" (Öniş, 2009, p.410). Hence, the post-crisis reforms would 'bring the state back in' through improving the state capacity and creating a basis for the emergence of a kind of 'competition state', in line with the post-Washington consensus and EU-IMF-WB anchors which became "more sensitive to issues relating to institutional reforms than has been the case in the past" (ibid.p.412); and represents "a more progressive approach to development" (Öniş and Şenses, 2005, p.286). The state, thus, gains some autonomy to discipline and regulate the market forces, "which was lacking during the previous two decades of the neoliberal experiment in Turkey" (Öniş, 2009, p.412).

These accounts identify the state independent of social relations whose position would change *vis-à-vis* the economy/market through its 'withering away' or 'resurgence' in

different periods, or according to different accumulation strategies. The underlying ‘philosophy of external relations’ of these accounts lead them to assess crisis resolution as a power game between the state and market, that is conceived of an exteriority.

In distinction, this chapter assesses the post-2001 crisis policies as ongoing attempts to restructure the state and economy in order to remove barriers to capital accumulation. The atmosphere of severe crisis, in this context, paved the way for a legitimisation of these policies. The massive external financing requirements of the Turkish state, the pressures from the bourgeoisie, the external anchors through conditionality, and the apparent effects of recurrent crises entailed that the then coalition government partners adopt a ‘radical’ programme.

Turkey’s ‘radical’ programme received unprecedented support from the Bretton Woods Institutions (particularly IMF) and United States. It is important and interesting to note that the Argentine state, which also suffered from a similar major crisis in 2001, did not receive such a support for management of the crisis. Turkey rigidly implemented the IMF-backed programme; however the Argentine state declared a moratorium, questioned the IMF-led policies (especially from 2003 onwards), and was left alone by the IMF as well (Özdemir, 2009; Yeldan, 2013; Öniş, 2006; Rivera-Quinones, 2014; Wylde, 2012). The Argentine case also draws attention because of the level of discontent in society which manifested itself through riots, factory occupations, general strikes, and the unemployed movement (on this see Dinerstein, 2002; 2014). The labour movement and society in Turkey, however, did not radicalise, partly due to the detrimental effects of the crisis-ridden 1990s on the labour movement.

These differences between two different country cases which experienced “an almost identical style of a financial crisis in 2001” (Yeldan, 2013) are important as they indicate the significance of domestic state managers’ preferences, the role of the class struggle, and dynamics of power relations within the capitalist world market. Hence, the differences between these two cases, and their reasons for this, will also be emphasised in this chapter where necessary in order to make a better sense of the Turkish case.

In this context, this chapter analyses the process of ‘transition’ which started in the aftermath of the February 2001 crisis and ended up with a landslide victory for the AKP. It will make sense of the depoliticisation and ‘institutional’ reform process, analyse the

‘transition to strong economy programme’ of 2001, the political scenarios (i.e. technocracy) and the class dynamics with a particular focus on Labour’s Programme in the aftermath of the crisis. Thus, it locates the rise of the AKP as a political actor under the conditions of protracted political and economic crises of the Turkish state. Indeed, the party was welcomed as a potential agency for the solution to the crises of neoliberalism in Turkey by various segments of society, including the informal proletariat and urban poor.

## **2. The Political and Economic Environment in the Aftermath of the Crisis**

After the ‘Black Wednesday’<sup>1</sup> when the financial markets collapsed, the demand for foreign exchange reached US\$ 7.6 billion, and the exchange rate was floated with the support of the IMF (IMF, 2001a) – which ended up with a devaluation of 30% against the US Dollar within a few days – thus it had become clear that the crisis was very serious and deep, reflecting the level of instability of the Turkish political economy.

In the 1990s, as outlined in the previous chapter, the banking sector became vulnerable to foreign exchange and interest rate risks through their operations based on short-term arbitrage profits. Hence, the disequilibrium in the banking sector (mainly in the state banks through duty losses) contributed to the crisis (Öniş, 2003). Put differently, “a balance of payments crisis triggered by capital outflows took place simultaneously with a banking crisis” (Bedirhanoğlu and Yalman, 2010, p.116) in November 2000 and February 2001. Nevertheless, the effects of the twin crises of November 2000 (this was rather small) and February 2001, along with increases in the interest rates and inflation, and fluctuations in exchange rate led to an adverse economic environment with serious effects on the productive sector (CBRT, 2001). Indeed, between January and September 2001, 14,540 firms and around 20% of small shopkeepers went bankrupt (Orhangazi, 2002, p.339). The contraction in the manufacturing industry was 7.5% in the first months

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<sup>1</sup> The Turkish crisis of 2001 is also named “Black Wednesday”. As discussed in the previous chapter, on the 19th of February 2001, at the National Security Council Meeting, there was a row between PM Ecevit and President Sezer over corruption claims. The tensions were leaked by the PM Ecevit and the markets started panicking. On Wednesday 21st, uncertainty and panic triggered the banks to withdraw billions of dollars from the Central Bank in hours, while overnight interest rates increased to 7500%. On the same day, the Istanbul Stock Exchange declined by 18.1% in value (*Hurriyet Daily News*, 2011).

of the crisis and capacity utilisation rate declined to 64% in June 2001, from 76.3% in October 2000 (Aydın, 2005, p.124).

Other economic indicators also deteriorated significantly in the year 2001. The Turkish economy contracted by 5.7%<sup>2</sup>, and per capita income declined from US\$ 2,986 to US\$ 2,110 in the same year. The unemployment rate significantly increased – from 6.5% in 2000 to 8.4% in 2001 and to 10.3% in 2002 (TurkStat, 2012) – as approximately 1 million people lost their jobs in the aftermath of the crisis (Öniş, 2003, p.15). The indebtedness of the economy reached crucial levels as the total debt stock (foreign+domestic) increased from 75.8% of national income to 88.5% at the end of 2001 (Orhangazi, 2002, p.339). Interest payments on domestic debts rose by 101% in 2001 (Aydın, 2005, p.123). One ‘positive’ result was, as was also the case in the previous crises, the improvement of the balance of payments after the crisis through declining imports and increasing exports. Compared to the previous year, imports declined by 26% in 2001, and exports increased by 11% - although this was a relatively modest increase (Akyüz and Boratav, 2003, p.1557). As a result, the rate of exports to imports rose to 75,7% in 2001, from 51% in 2000 (TurkStat, 2012).

Some accounts argue that the 2001 crisis affected all segments of society (see Öniş, 2003). Such accounts clearly conceal the class dynamics of the burden of the financial crisis. It is certainly true that the crisis and the worsening of the economy would also have negative repercussions on the side of capital. However, a closer investigation provides us with an insight showing who was the main loser of the crisis.

In the aftermath of the crisis, the Turkish government spent US \$47.2 billion in order to bail out the Turkish financial system (Dufour and Orhangazi, 2009, p.106). This had a twofold effect on labour: Firstly, as the taxation in Turkey is highly unequal, “workers’ labour in general provides the base income tax revenue upon which the state apparatus can socialize or draw in financial risks at times of crisis” (Marois, 2012b, p.5). Secondly, the increase of government spending which prioritised financial creditors meant that social spendings and labour costs in the public sector would be reduced (Dufour and

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<sup>2</sup> As it is mentioned in the previous chapter, this is according to the new series. According to the old series the GNP in real terms declined by 9.5% (Boratav, 2010)

Orhangazi, 2009, p.119). Furthermore, the interest payments to liquid asset owners were 40.5 quadrillion Turkish Lira, whereas 7.2 million agricultural producers were given less than 1 quadrillion in agricultural subsidies following the crisis (Aydın, 2005, p.124). Hence, a closer look at the underlying class relations and the role of the state in the recovery and crisis resolution would falsify the argument that all segments of the society were equally affected by the crisis by being ‘in the same boat’. This issue will be elaborated later in this chapter.

This state of affairs, namely an unstable and calamitous economic environment and above-mentioned ‘*selective state intervention*’<sup>3</sup>, led to a serious loss of legitimacy on the part of the Turkish state (see Öniş, 2003, p.15). Following the crisis, there were some workers and shopkeepers’ demonstrations, although they were short lived (Laçiner, 2001)<sup>4</sup>. The Turkish bourgeoisie’s response to this state of affairs, on the other hand, was much more significant and led to some political debates in the aftermath of the twin crises.

### **2.1. ‘Waiting for the Technocrats’ or Technocracy-cum-‘Democracy’**

The serious loss of confidence in the Turkish government and political parties led to a significant debate in the aftermath of the November 2000-February 2001 crises in a recurrent manner. Some parts of the Turkish capitalist groups called for a ‘technocratic government’ or an interim regime which would manage the economy and the transition period.<sup>5</sup> The debate started in late 2000, after the first turmoil in November. The president

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<sup>3</sup> ‘Selective intervention’ refers to the attempts of state managers to restore capitalist accumulation whilst simultaneously cutting social spending, or withstanding the demands of particular societal groups. However, this orientation has a risk of politicising society and might lead to questioning of the very basis of the state and capital (see Burnham, 2011; Macartney, 2013).

<sup>4</sup> As we shall see later, these segments of society would form the electoral basis of AKP in the 2002 elections.

<sup>5</sup> The ‘technocratic government’ has been witnessed many times in the history of ‘democratic’ states as a depoliticised strategy of crisis management. It stems from the view that crisis “is derived from weak state actors, [and] democratically elected officials are ill-equipped to provide the strong leadership apposite to renewed capitalist accumulation” (Macartney, 2013, p.68). Recent examples of technocratic governments in the wake of crisis are Monti Cabinet in Italy (2011-2013) and former European Central Bank vice president Lucas Papademos’ ‘unity government’ in Greece (2011-2012). These examples “clearly reflected the neoliberal strategy of depoliticisation, which defines economic policymaking as a technical process to be removed from democratic political control and entrusted instead to experts” (Macartney, 2013, p.69).



of the Istanbul Chamber of Commerce, Mehmet Yıldırım stated that “[t]he economy is going bad. The National Security Council (MGK) should take this state of affairs in hand. MGK should form a new government with 15-20 ministers, and the parliament should be dissolved” (*Hürriyet*, 2000)<sup>6</sup>. The then Prime Minister Bülent Ecevit reacted harshly to Yıldırım’s statement and declared that such irresponsible statements should also be condemned by other business groups (*Hürriyet*, 2000).<sup>7</sup> Some other sections of the Turkish bourgeoisie declared their confidence in the stabilisation programme and Turkish democracy, and declared that there was no need for any MGK intervention, although the economy was governed badly.

Nevertheless, the February 2001 crisis initiated this debate once again. Amongst the media, business circles, economic bureaucrats and some politicians, lack of confidence led to rumours that an ‘interim regime’ through the military would be a possibility if there were to be no serious measures (Savran 2004, p.36). PM Bülent Ecevit once again reflected his discontent and brought up his concerns in the agenda of the MGK meeting in late March 2001. In the MGK declaration of 31 March 2001, it was stated that “the recent rumours [interim regime] are groundless and affecting the image of Turkish democracy. The solutions to the crisis should be within the democracy” (*Sabah*, 2001). This message made PM Ecevit relieved, as he gained the support of the military, thus eliminating military intervention and putting the economic programme into effect, although some other business groups such as MÜSİAD and TOBB (The Union of Chambers and Commodity Exchanges of Turkey) urged the government to resign in early April 2001, and called for a ‘restructuring of the state and laws regarding political parties and elections’ (*Hürriyet*, 2001a; *Yenisafak*, 2001; Laçiner, 2001).

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<sup>6</sup> Hereby, to avoid any confusion, it should be noted the Milli Güvenlik Kurulu (National Security Council) is different to Milli Güvenlik Konseyi which governed the country between 1980-1983 under the military dictatorship. The former is a constitutional institution consisting of government and military representatives under ‘democratic rule’.

<sup>7</sup> Interestingly enough, when Turkey had serious balance of payment crises in the late 1970s, Bülent Ecevit was also the prime minister at that time, and he was again criticised harshly by the Turkish capitalists in that period because of his so-called ‘left wing’ stance. Although the strong labour movement and socialist struggle pushed him more to the left in the 1970s; over the course of the 2001 crisis, however, he represented a clear centre-left position with a strong belief in neo-liberal orthodoxy.

Nevertheless, the crisis-ridden situation under the coalition government caused another instability in July 2001 over the privatisation of the Turkish Telecommunication Company. The minister (of the coalition partner Nationalist Action Party) responsible for transport and communications – opposing the IMF reforms – tried to hinder the privatisation process of Turkish Telecom, and attempted to consolidate his power within this SOE through new appointments. This led to the postponement of the US\$ 1.5 billion tranche of stand-by credit from the IMF as they needed “to verify that the newly appointed Board of Türk Telekom meets the requirements set out in the authorities' May 3 Memorandum on Economic Policies” (IMF, 2001b).

This instability again led to the debate on ‘interim regime’ and technocratic government solutions as it was argued that under this coalition government a stable recovery would be impossible. The big media groups (which are owned by the big bourgeoisie) led the debate this time and the representative of the big capital groups, TÜSİAD, discussed some scenarios for a possible technocratic government, albeit implicitly (*Hürriyet Daily*, 2001b; Savran, 2004). Prime Minister Ecevit once again “warned that speculation about an interim government of technocrats was undermining confidence in democracy and shaking the markets’ confidence in the coalition’s ability to carry out the IMF reforms” (Ahmad, 2003, p.177). Ecevit clearly tried to give the message that the coalition government was loyal to the reform and recovery process. Indeed, the Minister responsible for communication who hindered the privatisation of Turk Telecom was forced to resign the day after Ecevit’s statement, as an expression of the government’s determination on the IMF reforms. The IMF credits were on track again, and IMF’s First Deputy Managing Director Stanley Fischer’s visit to Turkey in late July, in which he reassured the markets and expressed IMF’s support, ended the debates on technocratic government or interim regime scenarios (see Savran, 2004, p.37; IMF, 2001c).

In appearance, it seemed that Turkish democracy remained intact as the parliament was open and functioning, and as the possibility of a ‘cabinet of technocrats’ or military ‘interim regime’ was eliminated. The debates over a possible ‘interim regime’, however, reflected how the Turkish bourgeoisie conceived of the crisis and its resolution – that is, even sacrificing the bourgeois democracy – and it also shows the depth of the crisis in the political and economic establishment.

In fact, the marginalisation of this scenario towards the second half of 2001 was mainly due to the EU anchor and the conditionalities thereof. The Turkish state was in a desperate need of the external loans from the Bretton Woods institutions in the extreme crisis-ridden atmosphere. The EU's recognition of Turkey's candidate status in the Helsinki Summit of December 1999 meant that Turkey needed to carry out a package of preconditions which had to be fulfilled for possible entry into the European Union (Cizre and Yeldan, 2005, p.432). Hence, Turkey's candidate status was to force her to follow the Copenhagen Criteria, which includes both political and economic conditions. The crisis-ridden atmosphere, and the possible material incentives associated with the EU membership paved the way and necessitated the progress and legitimisation of 'democratic' and 'economic' reforms.<sup>8</sup> Furthermore, the "international financial community itself regards a permanent EU anchor as a crucial element guaranteeing the stability and durability of the reform process in Turkey" (Öniş, 2003, p.18). Thus, Turkey's need for external financial support, and the IMF and WB's perception of the EU process would prevent arbitrary distortions from 'reform' programme, and keep the parliamentary democracy and 'rule of law' intact, in accordance with the EU criteria (Öniş, 2009, pp.417-418).

However, a closer investigation of the economic restructuring process in the post-2001 crisis reveals a more complex situation, and it would not be credible to argue that the 'technocratic' scenario was fully eliminated, and the democratic principles were functioning. First of all, one of the first actions of the Turkish government post-crisis was the appointment of Kemal Derviş – the then vice-president of the World Bank – as the Ministry of State responsible for the economy. This appointment was outside of the cabinet, and Kemal Derviş was a technocrat<sup>9</sup>. Furthermore, as it will be discussed in the next section, Kemal Derviş's IMF-backed 'Transition to Strong Economy Programme' envisaged significant legal amendments, known as the motto of '15 laws within 15 days',

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<sup>8</sup> Indeed, during that period, the coalition government made some amendments to the legal system in line with EU legislation, including the abolition of the death penalty (Altunışık and Tür, 2005, p.64).

<sup>9</sup> The appointment of Mr. Derviş was also in line with the demands of the capital groups in Turkey. Indeed, Sakıp Sabancı, an influential capitalist who represents one of the biggest capital groups and former president of TÜSİAD, described the possible candidate who would 'fix' the economy in early March, 2001: "Let's choose a plenipotentiary shipmaster. He should have a vision and make us accomplish the objectives. If possible, this person *should not be a politician* (our emphasis) (*Milliyet*, 01.03.2001, p.7).

which were required to secure the IMF loans in mid-May (Özdemir, 2009, p.11). The way that these amendments and reforms were made was extremely technocratic, and the laws in question were “enacted without even a proper parliamentary or inner-cabinet debate, let alone any wider societal debate” (Bekmen, 2014, p.58). It was propagandised that ‘there would be no alternative’ to the programme, and that reforms and amendments should be made immediately if the crisis-ridden situation of the economy was to be put to an end. The legitimisation of the programme necessitated a “technical language of how the nation would be adjusted to the discipline of monetary and fiscal imperatives” (Cizre and Yeldan, 2005, p.400).

Hence, although parliamentary democracy remained intact and no technocratic government replaced the existing elected coalition government; the depoliticised nature of policy-making under crisis-management was highly technocratic which “isolate[d] the reform process from transformative impact of ... criticisms and pressures” (Bedirhanoğlu and Yalman, 2010, p.109) and thus rendered the praise of functioning parliamentary democracy into an artificial one. Yet, although state managers attempted to remove the political character of policy-making through technocratic measures, these processes are highly political (Burnham, 2001a). The next section deals with the details of the technocratically designed economic recovery programme which further institutionalised depoliticised economic policy-making.

### **3. Programme of ‘Transition to a Strong Economy’ and ‘Recovery’**

After Kemal Derviş was appointed as the Minister of Economy in March 2001, the Turkish public waited for the announcement of Turkey’s stabilisation programme. The programme was finally announced in May 2001, after the full extent of the external financial support for the programme became visible. The programme defined the main reasons for the crises in the 1990s (including that of 2001), as the “development of an unsustainable domestic debt dynamic” and “the unhealthy structure of the financial sector with particular problems caused by the state banks” (CBRT, 2001). Thus, broadly speaking, the main aims of the programme and the related measures were based on Central Bank independence, reforming the banking system, integration of independent regulatory institutions into the system (most importantly the Banking Regulation and Supervision Agency), restructuring the agricultural system of subsidies and the social

security system, debt management, and accelerating the privatisation process (Aydın, 2005, pp.125-126; Bekmen, 2014, p.57). Hence, the programme aimed at “restructuring the economy and achieving lasting stability... built on a strong political commitment” (CBRT, 2001, p.13).

The programme, in fact, kept the same targets as the 1999 IMF stand-by agreement, but this time with a more ‘radical’ tone. Indeed, in the *Letter of Intent* to the IMF on 3rd May 2001, Turkish policy-makers stated that:

This programme is a continuation of the one initiated in late 1999, with the support of a stand-by arrangement with the International Monetary Fund. It shares the same strategy: disinflate the Turkish economy, strengthen the fiscal accounts, and reform the structure of the Turkish economy as a condition for setting economic growth on a sustainable basis and moving Turkey closer to its goal of joining the European Union. However, the programme's policies have been significantly strengthened, in response to the recent crisis that led to the float of the Turkish lira on February 22, 2001, including through increased emphasis on transparency, accountability, and good governance in both the private and public sectors (IMF, 2001d).

Hence, the policies were in line with the process that started with the 1998 Staff-Monitored Programme, this time under severe crisis conditions with a ‘strong’ government commitment. Not surprisingly, the “Transition to a Strong Economy Programme” (TSEP) was welcomed by the IMF; and this institution provided “exceptional financing” (IMF, 2001e) by augmenting Turkey’s Stand-by agreement by US \$8 billion (SDR 6.4 billion), which brought the total to US \$19 Billion (SDR 15 Billion) since and within the 1999 Stand-by agreement (ibid.).

Once again, the World Bank was part and parcel of the external support through the post-crisis adjustment and programme, mainly through the restructuring financial system and public sector. The extent of WB’s support is generally superficially mentioned and not documented sufficiently in the literature on post-2001 crisis Turkey, like the earlier periods as well (see Aydın, 2005; BSB, 2006; Öniş, 2003). However, in December 2000, after the November turmoil, the bank provided US \$750 million Financial Sector Adjustment Loan on the Turkish Government’s request for the banking reform in 2000 (World Bank IEG, 2006, p.29).

In the wake of the February 2001 crisis, this support was speeded up and combined with the objectives of the above-mentioned IMF-backed programme. Indeed, “[u]nder the program adopted in 2001, the Bank and IMF worked closely with one another, and the institutions have continued working together. In many respects, Turkey is an example of highly effective Bank-Fund coordination” (ibid, p.15). Apart from the amount provided by the IMF, the World Bank supported the TSEP of 2001 with US\$ 3.5 Billion of new commitments in fiscal 2002, mainly in the form of Programmatic Financial and Public Sector Adjustment Loans (PFPSAL), which was “the largest lending by the Bank to any country that year” (ibid., p.8).

In late 2001, the Turkish government started negotiations with the IMF for another stand-by agreement. Declaring that they were impressed by Turkey’s commitment to economic reforms, the IMF approved a stand-by credit request which covered 3 years from January 2002 to December 2004, amounting to US\$ 16 Billion – SDR 12.8 Billion (IMF, 2002). Hence, the ‘generous’ support from the IFI’s continued increasingly, and made them a key player in economic-policy making.

The reasons why Bretton Woods institutions supported the Turkish programme in an “exceptional” way should be explained. Such an exceptional support, for example, was not the case in Argentina’s 2001 crisis (Cizre and Yeldan, 2005, p.403). One of the most significant reasons that makes Turkey a ‘unique’ case is its historical position *vis-à-vis* the West, and the U.S in particular. In a highly unstable region, Turkey is a strong ally of the Western bloc, and it has a ‘geo-strategic’ importance for the US’s foreign policy interests (Öniş, 2003, p.17; ibid.). The events of 9/11 further enhanced Turkey’s position and ‘geopolitical importance’ for the U.S and the extent of financial support further increased (Öniş, 2009, p.417), as Turkey was rewarded for being an ally of dominant powers of capitalist world market<sup>10</sup>. Moreover, as also mentioned earlier in this chapter, the ongoing EU-based reform process (such an anchor was lacking in Argentina, for instance) was another factor for facilitating huge amounts of external financial support for the implementation of Turkey’s post-crisis stabilisation programme.

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<sup>10</sup> Turkey strongly supported President Bush’s ‘war against terrorism’. The Turkish government opened its airspace and bases to US transport, for US intervention in Afghanistan (Ahmad, 2003, p.178).

Another significant factor for this support was the ownership of the IMF-crafted policies by the Turkish state managers. Indeed, although the outbreak of Turkey's major 2001 crisis was already under an IMF programme, the Turkish state managers did not question the policies which were designed in line with IMF logic, and followed an orthodox policy approach. On the other hand, the Argentine state's ownership has been questioned by the International Financial Institutions, and the Argentine state managers themselves were highly critical of the policy approaches led to their 2001 crisis, which was in line with the IMF (Özdemir, 2009; Wylde, 2012, p.102). This also led to the gradual decrease of the role of IMF anchor in Argentina.

Concomitantly, the level of social upheaval and 'IMF riots' further discredited IMF policies in Argentina (Dinerstein, 2002, p.16). There were some demonstrations by organised labour in Turkey in the aftermath of the 2001 crisis; however, they have remained less significant and did not challenge the existing policy approach of the Turkish state and its approach to the IMF, and Turkey secured massive amounts of financial support from the international lenders. These points are important as they show the significance of class struggle. It also shows that state's interaction with the international organisations is not based on 'coercion', but also shaped by government preferences in the context of governing strategies.

All in all, thanks to massive external support and a draconian austerity programme (which will be discussed in the Labour and Crisis section of this chapter), the 'Transition to Strong Economy Programme' led to a somewhat 'recovery' from the crisis as economic indicators started to improve towards the end of 2001. The growth rate for the year 2002 was 6.2% (TurkStat, 2012) which exceeded the expectation of the programme's projection of 5%. Inflation decreased to around 30% in 2002, from approximately 90% in the previous year. Improvements in exports in 2002 also contributed significantly to the recovery (Akyüz and Boratav, 2003, p.1557).

However, the cost of recovery was the further increase of the indebtedness of the Turkish State. Economic growth goals were realised largely through external and internal borrowing and support – the context of which was explained earlier – and total public debt increased from US\$ 131.2 billion in 2001 to US\$ 209.6 billion in 2003 (Aydın, 2005, p.128); although it decreased slightly as a percentage of the GDP. The targeted decline in

interest rates could not be realised as benchmark interest rates were around 60% in 2002, “in large part because of increased exchange rate and credit risks attached to lira assets” (Akyüz and Boratav, 2003, p.1557). Last but not least, the TSEP did not aim for any fundamental change in the short-term speculative capital-based policies of the Turkish economy, although the Turkish state tried to improve the ‘investment climate’ to attract FDI (Foreign Direct Investments) in late 2001, which is dealt with later in the chapter.

### **3.1. Institutionalisation of Depoliticised Economic Policy-Making and Central Bank Independence**

Thanks to these significant financial and political supports, Turkey implemented the measures and regulatory reforms which were envisaged in the Transition to Strong Economy programme to a great extent. These reforms further institutionalised the attempts to depoliticise economic policy-making that were already underway.

In this context, in late April 2001, the operational independence of the Central Bank of Turkey was enacted with Law No. 4651, and the Bank was given the duty of achieving price stability under inflation targeting, in order to restore credibility in the financial markets.<sup>11</sup> Hence, interest rates would be the only instrument of monetary policy to keep the inflation level low. The operational independence of the Central Bank would guarantee that inflation would not be under the control of elected politicians who could potentially move towards ‘populist’ expansionary policies especially before the elections (the so-called time-inconsistent inflationary preferences) (see Hay, 2004; 2001). In such a setting, fiscal policy (tax increases) is thought to be ineffective as it would be controlled by the government. The Central Bank, on the other hand, had to assume a reactive role in terms of monetary policy as in a fully liberalised capital account environment, there could

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<sup>11</sup> This was the culmination of a process which started in 1997, aimed at restructuring the relationship between the Treasury and Central Bank of Turkey (see CBRT, 2012). The meaning of such a restructuring was discussed in the theory chapter, from the perspective of the CSE approach, in terms of state managers’ management of labour and money, and imposition of deflationary policies. Such an approach differs from the neo-Gramscian interpretations of the Central Bank independence in Turkey, which deploy a fractionalist view of policy making and argues that these changes reflect a hegemonic process in which “the hierarchy of the state institutions was restructured to the advantage of agencies that acts as links between the world economy and the national economy” (Balkan Şahin, 2012, p.108).



be capital flight if it tries to reduce interest rates. Similarly, promoting exports through currency depreciation would not be ideal as international capital movements would render this policy choice ineffective. Hence price stability through interest rate adjustments would be the only objective of the Central Bank, and inflation predictions – to which the authority must remain loyal – would be shared with the market agents (BSB, 2007, pp.38-39).

This reorganisation of monetary policy has important implications in terms of both the politics of economic policy-making and labour. Indeed, responsibility for monetary policy-making was delegated to a technocratic institution and depoliticised, reflecting the ‘rules-based’ strategy. The underlying reasons and aims were to change market expectations regarding the effectiveness and credibility of policy-making (i.e. providing confidence to international investors) whilst shielding the government from the possible unrest caused by deflationary policies (Burnham, 2001a). This served to render macroeconomic stabilisation as an almost entirely technical matter, “a subject that it is simply not appropriate to render accountable in democratic terms to the electorate” (Hay, 2004, p.44).

Indeed, this depoliticised reorganisation was conceived to be of vital importance by conventional accounts of Turkish political economy, as it improves the “government’s ability to adopt a strong anti-inflationary stance and resist popular pressures for populist expansionism which had been a striking element of the earlier phases” (Öniş, 2009, p.421). Thus, counter-inflationary credibility, i.e. austerity, low wages, and tight monetary policies, as well as further competitiveness could now be achieved much more easily politically, as the independent Central Bank “allows the government to hide behind a monetary authority” by giving the impression that “the hand of government is tied” (Bonefeld and Burnham, 1998, p.48). Indeed, in parliamentary debates on the act granting independence to the Central Bank of Turkey, technocrat minister Kemal Derviş stated that “we are tying our hands, that is right, the government is tying its hands” (TBMM Parliamentary Debates, 24.4.2001, my translation).

In line with regulatory reforms and rules-based approach, the regulation of the banking sector was also strengthened. As it is briefly mentioned in the previous chapter, the BRSA (Banking Regulation and Supervision Agency) was established in 1999, as part of the

1999 IMF programme. However, it gained its full effectiveness with the crisis as it “took on the role of crisis manager by 2000-01 under the Banking Sector Restructuring Program” (Marois, 2012b, p.2). The establishment of the BRSA has been praised for facilitating a sound banking system for the 2000s, and creating a stable financial atmosphere. From a more critical perspective, however, the BRSA was effective in terms of the approximation of the banking sector with the requirements of global capital, given with “the important task of analysing and implementing the Basel II accords intended to bring Turkish risk management and capital adequacy standards in line with international norms” (Marois, 2011, quoted in Bekmen, 2014, p.57).

Apart from these two significant regulations, the programme also envisaged some other regulations and regulatory bodies in various sectors in order to “raise competition and effectiveness in the economy” (TSEP, 2001, p. 22). Those institutions established were Telecommunications Authority, Energy Market Regulatory Authority, The Sugar Authority, Public Procurement Authority, and Tobacco and Alcohol Market Regulatory Authority. These regulatory institutions would be effective in opening up the sectors in question to the discipline of global markets (Bayramoğlu, 2009, p.279).

This decentralised and depoliticised management was in line with technocrat minister Kemal Derviş’s motto of ‘separation of the economy and politics’, as he argued that the fusion of the two under ‘populist’ management of the public sector was one of the main problems of the crisis-prone Turkish economy in the past. Although the political character of decision-making aimed to be undermined through these depoliticised reforms, as Peter Burnham (2001a) suggests, these processes are “highly political”; depoliticisation as a governing strategy is an entirely political strategy.

Hereby, within the context of the depoliticisation framework, the IMF agreements and the state managers’ use of it needs to be discussed in the context of state restructuring in Turkey in 2001. Most of the critical approaches to IMF lending and stand-by agreements in Turkey assess the 2001 programme (or the process started with the 1998 IMF monitoring programme) as the manifestation of the coercive conditionality of the IMF; which imposes and dictates economic measures from the outside (an outside-in approach) under severe economic crisis in line with the demands of imperialist world order, or simply the process reflecting the internationalisation of the decision and policy-making

processes (see Boratav, 2009; Ekzen, 2009; BSB, 2006, p.86; cf. Dufour and Orhangazi, 2009, p.120).

As Marois (2012b, p.169) suggests, there is no doubt that “changes in Turkey occurred within the structural context and constraints of world market competitive imperatives”. Indeed, when it comes to ‘developing’ economies, and, for example, the specific relationship between the US and Turkey in the aftermath of 9/11 and its impact on the ‘exceptional support’ Turkey received (as mentioned in the previous chapter), there is certainly an element of truth regarding capitalist power relations on the world market. However, these analyses ignore domestic government preferences to a great extent and “denies the role of struggle in national decision-making capacity, the historical contingencies of Turkish social relations of power and class” (ibid., p.169). The fact that governments are active in the preparation of the programme and could use the IMF as both a buttress for national policies and as a scapegoat to externalise/depoliticise policy-making; helping the government shift the responsibility and/or attribute blame for unpopular decisions, is omitted in those accounts.<sup>12</sup> As the then Undersecretary of the Turkish Treasury in 2001 reveals, “the 2001 reforms were a Turkish affair, even though it is in the interests of Turkish politicians to suggest otherwise and to have the IMF absorb popular discontent” (Öztrak, quoted in Marois, 2012b, p.169). It is also significant in this context to remind that in the aftermath of the crisis in February 2001, both deputy PM Mesut Yılmaz and PM Bülent Ecevit blamed the IMF-backed programme and argued that the government fully implemented the programme but it had collapsed; thus the IMF is responsible as well (*Hurriyet*, 2001c). PM Ecevit also blamed the IMF and its approach for being ‘outdated’ (Kozanoğlu, 2001).

Therefore, from a depoliticisation perspective, it would be both a political and conceptual error to argue that reforms are merely imposed from without on a society and state (Marois, 2012b, p.169). Hence, in that context, state managers do not simply submit to the dictates of IMF, although once the conditionalities are set, they needed to be followed

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<sup>12</sup> This approach (i.e. using external anchors as a depoliticisation tactic) is developed by Rogers (2012), and in a different context (Bonefeld and Burnham, 1998; Bonefeld, 2001).

as the IMF support and successful reviews are important signs of credibility; and the Fund strictly monitors if the conditionalities are met for the successful ‘programme reviews’ and distribution of the loans accordingly.

In line with these developments are the ‘competitiveness’ attempts of the Turkish state as a part of the post-crisis readjustment. The next section deals with the improving investment climate efforts as part of the technocratic and depoliticised management post-crisis.

### **3.2. The Reform Programme for the Improvement of the Investment Climate**

One of the most important developments of the post-crisis process in terms of removing the impediments to capital accumulation was the initiation of the ‘*Reform Programme for the Improvement of the Investment Climate*’ with the Cabinet Decree on 11th of December 2001. The decree also created a coordinating body which was called ‘*Coordination Council for the Improvement of the Investment Environment (YOİKK-Yatırım Ortamını İyileştirme Koordinasyon Kurulu)*’ “with the mandate to remove regulatory barriers to private investment” (Oğuz, 2009, p.10).<sup>13</sup> Hence, the main aims of the YOİKK were to “rationalize the regulations on investments in Turkey, develop policies by determining the necessary arrangements that will enhance the competitiveness of the investment environment, generate solutions to the administrative barriers encountered by the domestic and international investors in all phases of the investment process including the operating period” (YOİKK, n.d). Within these aims the Cabinet Decree in question envisaged the initiation of technical committees in 11 areas related to formation of companies, employment, sector licences, facilitation of the places, taxation and state incentives, customs and standards, intellectual property rights, promotion of investments, and the legislation of the Foreign Direct Investments (YOİKK, 2001; Oğuz, 2009).

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<sup>13</sup> In 2004, another institution, the Investment Advisory Council was established within the context of the reform programme in question. It is defined as “an international platform established to receive the recommendations of executives of high ranking multinational companies and international institutions regarding Turkish business environment”. It should be noted that this reform programme is a ‘process’, so for the purpose of this chapter, the aim is only to show the post-crisis reactions of the Turkish state and bourgeoisie in terms of crisis resolution until 2002.

The YOİKK consisted of various government officials and bureaucrats, and, representatives of the business groups in Turkey: The Undersecretary of Prime Ministry (Head of YOİKK), Undersecretaries of Finance, Industry and Commerce Ministries; Undersecretaries of Treasury, Foreign Trade, and State Planning Organisation, and representatives of business organisations TÜSİAD, TOBB, YASED (Foreign Investors Association) and TİM (Turkish Exporters' Assembly)<sup>14</sup>. The Investment Advisory Council which was established in 2004 as a part of the 'Improving the Investment Climate' process, represents a more 'global' composition: Multinational corporations such as Citigroup, BNP Paribas, Ford, Unilever, representatives of institutions of global capitalism such as IMF, World Bank and the European Investment Bank, and the same representatives of the bourgeoisie in Turkey, TÜSİAD, TOBB, YASED and TİM (Bekmen, 2014, p.67).

The YOİKK, through its technical committees, drafted various enacted laws in the post-2001 process, including Labour Law, Turkish Employment Agency Law, the Law on Social Insurance for Workers, the Land Acquisition and Site Development Law, Law on Protection of Intellectual and Industrial Property Law, the Corporate Income Tax Law, Foreign Direct Investment Law and so forth (Bekmen, 2014, p.67; Oğuz, 2009). Thus, it seems that the YOİKK works as a quasi-lawmaker in a highly 'depoliticised' way, with the direct involvement of representatives of both 'domestic' and 'global' capital, which helps the ascertainment of the general interest of the bourgeoisie.

Thus, the state and capital's measures aimed to create a favourable environment for capital accumulation in the post-crisis period. This restructuring had significant effects on labour, however. The next section then discusses the developments in the labour front.

#### **4. Labour, Crisis, and the 'Labour's Alternative Programme'**

The 2001 crisis had devastating effects on the labouring classes in Turkey. In only the

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<sup>14</sup> This composition of the YOİKK is based on the Cabinet Decree of 2001. It had some changes after 2001, and for example, some state agencies and ministries took new forms. But the main body remained intact. It is also interesting to note that the composition of the YOİKK in the beginning reflects the power relations at that time, as, for example, the so-called Islamic business organisation MÜSİAD was not included. MÜSİAD would be included in YOİKK under the rule of AKP.

first half of 2001, more than 800,000 people lost their jobs, contributing to a rapid increase in the official unemployment rate (Aydın, 2005, p.124). In 2001 alone, the number of unionised workers declined by around one-sixth (Dufour and Orhangazi, 2009, p.115), which meant that labour union density in Turkey decreased to 10% in 2001, as noted in the previous chapter. In the crisis year, the real wages in the manufacturing industry declined by 15%, according to TurkStat. Labour's share in income decreased to 26% from 31% in 1999, as a consequence of the 2000-2001 crises (Dufour and Orhangazi, 2009, p.117). Public sector wages significantly declined as a consequence of the incomes policy of TSEP, a decline of about 22% between 2000-2002 (Aydın, 2005, 130). According to Boratav and Özügürlü (2006, p.182), minimum wages – which generally reflect the level of earnings in non-organised formal activities – also declined by 25% between 1999 and 2001. Hence, labour's material conditions deteriorated significantly, and its bargaining power against capital was further cut in the post-crisis adjustment period.

Hereby, the importance of the *Transition to Strong Economy Programme* should be emphasised in the context of this regressive movements in wages. The TPEG aimed to adjust the incomes policy to the *targeted inflation* (CBRT, 2001, p.33). The meaning of such an aim is an inevitable decrease in real wages. According to *Independent Social Scientists (BSB) Economics Group* report on TSEP (2001, pp.23-24), the programme also refers to 'income inequalities' amongst the public sector employees; namely a gap between public sector workers and the civil servants. It argues that the wages of the blue-collar workers increased by 6% in real terms *in each year* between 1991-2000, whilst the income of white-collar workers only increased by 0.6% in the same period. Hence, the programme aimed to emphasise an 'interest conflict' between these two segments of labour, which would be effective in preventing the possibility of a strong and unified opposition to the programme and justify real wage declines of the workers.

However, as it was discussed in the previous chapter, real wages, especially after 1993 and particularly in the aftermath of 1994 crisis, declined significantly, and it is not credible to argue that the real wages of the workers in the public sector increased by 6% *in each year* in the period 1991-2000. Between 1994 and 1998, real wages declined constantly. Only in 1999 and 2000 was there an 11% increase in real wages, but, nevertheless wages in 2000 were still below the 1994 levels (Aydın, 2005, p.130). Thus, the TSEP contradicts the official data of the Turkish state (BSB, 2001).

All in all, there seems no legitimate reason to justify the draconian incomes policy of the TSEP if one carefully investigates the situation of the economy in Turkey in 2001. The TSEP requested “sacrifices... by all sectors of society...which will reduce the costs of the crisis on growth and employment” (p.33). However, it would not be an overstatement to put that “the burden of adjustment appears to have been borne largely by workers and the beneficiaries of social programs”<sup>15</sup> (Dufour and Orhangazi, 2009, p.115).

In this context, the reaction of labour to these policies, and its struggle against the subversive effects of the crisis needs to be examined critically. In the post-crisis period, there were no massive ‘riots’ and/or labour resistance in Turkey, except for some short-lived reactions. Ziya Öniş explains this through the social structure of Turkish society. He argues that “the presence of strong informal networks involving the family and other informal mechanisms of social support performed a stabilizing function, helping to prevent massive social and political dislocation” (2003, p.15). We do not have sufficient empirical data to confirm this observation. However, the existence of this kind of support mechanisms is well-known in Turkey.

From a more concrete perspective, we could argue that two factors were important in terms of the weak societal or working class reaction to the restructuring. The first is related to transformations in the labour market in Turkey in the 1990s and its effects on organised labour. As it is discussed in the previous chapter, informal, insecure and flexible working conditions became increasingly widespread towards the end of the decade. As a result, as it is indicated in the beginning of this section, union density decreased to 10% in 2001. For the disorganised, insecure and already deradicalised labour movement, this was a significant of impediment to mobilising unrest.

The second factor is related to levels of destruction as a result of the crisis and the effects of crisis management processes in containing class struggle. In this context, if we once again compare Argentina and Turkey, it is observed that in Argentina, “the crisis was deeper and had wider impact on the whole society” (Özdemir, 2009, p.14). Turkey’s crisis

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<sup>15</sup> It would also be significant to note that, the very high ‘primary surplus’ targets of the programme (5.1% for 2001 and 6.5% for 2002) have a subversive effect on social programmes as a result of austerity measures that these targets entail.

was less severe compared to the Argentine case. Moreover, due to the massive extent of external financing and support from IMF – which was lacking in the Argentine case – “the fall in the standards of living in Turkey was less significant than Argentina” (ibid., p.14). The relatively fast recovery process helped in containing the unrest to some extent and directed it to the 2002 elections. Clearly, the anchors stabilised the economy, though through austerity. This helped both in containing class struggle, and in helping the AKP to achieve success in the 2002 elections, as the party had a critical stance towards the IMF in its election campaign.

Nevertheless, the Labour Platform<sup>16</sup> – “the main organisation against neoliberalism in Turkey” at the time (Ercan and Oğuz, 2007) – reacted to the effects of the 2001 crisis with some demonstrations throughout Turkey, and also with its “Labour’s Programme” which was announced in late March 2001 as a reaction to the Turkish Government’s ‘urgent action plan’ against the 2001 crisis. The main discourse of the ‘urgent action plan’ of the government was in line with the TSEP. Thus, Labour’s programme could be read as an alternative to the TSEP. The Labour’s Programme is significant in terms of providing an alternative to the TSEP, which was unopposed by the mainstream political parties from various positions. However, the tone and the demands of the Labour’s Programme remained within the limits of ‘national-developmental’ political economy, which reflects the authors of the programme, namely a combination of academics from statist, left-Keynesian and Ricardian-Sraffian political economy (Ercan and Oğuz, 2007, p.178).

For instance, the programme argued that “the means of state intervention to the economy should be strengthened, the means of national sovereignty should not be controlled by transnational capital, the welfare state should be strengthened through increasing production and investment...[and] planning should be reiterated” (Labour’s Programme,

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<sup>16</sup> As it is briefly mentioned in the previous chapter, the Labour Platform was established in 1999, against the IMF-based stabilisation programme, with the participation of labour union confederations, chambers of professionals and societies representing pensioners, from different ideological backgrounds. Major member organisations were: Centrist Türk-İş, Islamist Hak-İş, left-wing DİSK; and from the white-collar public sector unions (representing civil servants) left-wing KESK, nationalist Kamu-Sen, and Islamist Memur-Sen. Some other professional organisations were left-wing TMMOB (representing engineers and architects) and TTB (representing doctors) (Koç, 2010, p.401).



2001). Hence, the programme “[did] not address the connection between Turkish and global capitalism enough to foster an anti-capitalist politics” (Ercan and Oğuz, 2007, p.178). The programme, rather than emphasising underlying capitalist social relations, focused on the manifestations of the crisis of Turkish capitalism such as hot money flows, institutions such as IMF and WB, irresponsible governments, distribution of wealth, and lack of production capacity. Nevertheless, it should be emphasised that the Labour Platform is the pragmatic coalition of organisations from various positions; thus, these demands would reflect their minimum common interests.

All in all, Labour Platform’s attempts to reverse the effects of the crisis were not sufficient because of the above-mentioned reasons (institutional weaknesses of the unions and disciplining power of informality) and the post-crisis economic policies further decreased the power of labour *vis-à-vis* capital in Turkey.

### **5. Crisis, ‘Crisis of Politics’, and the AKP’s Rise to Power**

While the Turkish state was dealing with the economic crisis in 2001, there were also some important developments in party politics in the same year. The Virtue Party – which was the continuation of the Islamist Welfare Party after its closure by the Constitutional Court – was also closed down by the Constitutional Court in June 2001. This closure triggered an already existing tension within the Islamist movement. The movement had been divided into two groups: One is the ‘traditionalist’ radical Islamists, and the other is the ‘reformist’ wing which realised the impossibility of a radical Islamist politics under a highly secular state, thus following rather moderate and centre-right politics (Zürcher, 2012, p.436). The reformist wing could not win the leadership within the movement, and they then have established AKP in August 2001, under the leadership of Recep Tayyip Erdoğan – a former mayor of Istanbul. Hence, the AKP defined itself as democratic, conservative (or the combination of the two: ‘conservative democrat’), reformist, and modern, in order to emphasise its ‘break’ from the Islamists’ ‘*National Outlook*’ movement (Coşar and Özman, 2012; Akça, 2014, p.29).

Hereby, the roots and political economy of the development of the Islamist *National Outlook* (Milli Görüş) movement needs to be detailed and contextualised from 1970s to 2000s. The establishment of the first Islamist party in the Republican era was in 1970 and named the National Order Party (*MNP-Milli Nizam Partisi*). In the aftermath of the 1971

Military Memorandum, this party was closed. In 1972, the movement replaced this party with National Salvation Party (*MSP-Milli Selamet Partisi*). In that period, small businessmen, tradesmen, peasants, and provincial artisans formed the base of the movement (Tuğal, 2009, p.42). The movement won 11.8% in 1973, and 8.6% in the 1977 general elections (Akça, 2014, p.26). The MSP became a coalition partner with the social democratic CHP in 1974, and after the 1977 elections the party joined the “Nationalist Front” coalitions. At that time, its economic policies were supporting heavy industrialisation and statism (Tuğal, 2009, p.42).

The party was closed again under the military dictatorship in 1980, and, as it was discussed in the previous chapter, the 1990s witnessed a dramatic increase in significance of the Islamist politics under the Welfare Party (*RP-Refah Partisi*), as a consequence of the crises of neoliberalism and recomposition of the working class in the 1990s. It pursued a right-wing populist policy, which was especially effective under RP-led municipalities. Together with informal labour and urban poor, its base also consisted of emerging “Islamic capital” groups in the 1990s. Its Islamist discourse was radical and anti-establishment – although gradually decreasing – which had to be confronted by the military. In the aftermath of the 1997 military memorandum, tensions appeared within the movement which culminated with the establishment of the AKP as a distinct political party from within the *National Outlook* movement.

The AKP leaders, unlike the traditionalists, appeared to put an end to a discourse based on ‘just order’, ‘Islamic economy’, ‘anti-interest sentiments’, ‘anti-EU’, and ‘developmentalism’ (Ataay and Kalfa, 2009, p.316). This is partly related to the transformations of the pro-Islamist capital groups in Turkey after the 28 February military intervention process, mentioned in the previous chapter. As being one of the most important financial bases of the AKP, MÜSİAD – being strongly integrated to the world market towards the end of 1990s – played an important role in AKP’s ‘reformist’ discourse, which had a pro-EU, ‘pro-globalisation’ and pro-‘democratisation’ tone (Başkan, 2010, p.412).<sup>17</sup> Concomitantly, debates considering the formation of Islamic

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<sup>17</sup> It is noteworthy that in 2002 elections, 23 MPs were MÜSİAD members among AKP’s 363 total MPs.

economic institutions were marginalised in the party's discourse and these scenarios were considered as 'mere fantasies' by MÜSİAD circles (Buğra and Savaşkan, 2014, p.60). Furthermore, the leaders of the AKP declared to the military and big secular media groups that they would not use religion for political aims (Tuğal, 2009, p.51). Thus, these developments lead some accounts to define the party as 'post-Islamist', which abandoned claims over forming an 'Islamic State' (Dağı, 2013, p.102).

On the other hand, the existing mainstream political parties of Turkey were dealing with the economic crisis. However, the crisis also led to some tensions amongst them. The reason that triggered an already anxious situation in the coalition government was PM Bülent Ecevit's serious health problems that occurred in 2002, which led to some political and economic questions as the stock markets declined sharply (Ahmad, 2003, p.179). Finally, the coalition partner Nationalist Action Party's Devlet Bahçeli called for an early election scheduled for November 2002, to bring 'stability' to the political situation. At the same time, PM Bülent Ecevit's Democratic Left Party was split, as some important figures resigned. In the summer of 2002, Kemal Derviş – the Minister of Economy – resigned in order to form a new centre-left political party with politicians who left Ecevit's party. However, before the elections, Kemal Derviş joined the Republican People's Party, as the polls were showing that politicians in the coalition government would not have any chance in the coming elections.

In the November 2002 elections, the AKP won a landslide victory by getting 34.4% of the votes and had a parliamentary majority with 363 seats. The second party was the Republican People's Party with 19.3%, and 178 seats in parliament. As a result of the elections, Turkey had its first single majority government since 1991.

AKP's electoral campaign was based on the promises of ending political corruption, securing justice, and restoring growth in order to relieve the deprived masses (Kaya, 2015, p.50). Although AKP had no different or alternative economic policy approach (BSB, 2007), on the discursive level it was critical of the IMF programme.<sup>18</sup> Nevertheless, the

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<sup>18</sup> Indeed, research conducted before the 2002 elections asserts that none of the competing political parties' programmes offered a different economic policy alternative to the IMF-backed stabilisation programme (BSB, 2006).

party read political and economic developments both domestically and globally well and in the absence of a radical leftist popular alternative, it “successfully targeted the excluded peoples in Turkish society” (Marois, 2012b, p.177), and gained “consent of Turkey’s poor informal proletariat” (Yörük, 2014, p.240), while assuring both domestic and international capital circles that it did not envisage any radical break with neoliberalism – which is the defining feature of Turkish capitalism since the 1980s. Thus, “unlike the *National Outlook* parties, the AKP was ready to engage itself with the neoliberal rules, which ... brought the party a wider appeal than the religio-conservative electoral support would have provided” (Coşar, 2012, p.82).

## **6. Conclusion**

The protracted crisis-ridden political and economic situation reached its limits in Turkey towards the end of the 1990s, and the Turkish state initiated some measures in accordance with the Bretton Woods institutions. However, the existing power relations and instability were the main impediments to the full implementation of the economic and political reforms. In this context, “the 2001 financial crisis acted as a catalyst for further neoliberal reforms” (Dufour and Orhangazi, 2009, p.117) which had remained uncompleted since the 1980s. Indeed, the twin crises of November 2000 and February 2001 eliminated opposition to the restructuring of state and economy, unlike the 1994 crisis. The external anchors of IMF, WB, and EU were significant in this context through their massive financial support and the conditionalities thereof. This chapter analysed both the economic and political processes in the aftermath of the crisis period, and argued that the AKP took advantage of the crisis-ridden situation. By representing itself as the only political actor not corrupted and or responsible for the crisis; the party was successful in getting the support of both damaged segments of the society (i.e. working class and the poor) and the business circles and organisations through its adherence to the Transition to Strong Economy Programme (see Bedirhanoğlu and Yalman, 2010). In this context, AKP’s own alleged break with the traditional radical Islamist movement would mean its possible agency in terms of continuing the readjustment of the Turkish State to necessities of global capitalism with a ‘strong’ majority government in the following period. The next chapter, thus, analyses the political economy of AKP’s first term in power during the period 2002-2007.

## Chapter 7

### **AKP Takes Over the Restructuring: Political Economy of the First AKP Government, 2002-2007**

#### **1. Introduction**

This chapter analyses the political economy of AKP's first term in power. This term in power is portrayed by many commentators as an unprecedented success story. In fact, AKP's economic policies in its first term have been praised for achieving a 'tiger-like performance' (Öniş and Bayram, 2008). Indeed, the AKP government delivered high growth rates and the economy appeared stable and sound. The chapter examines the dynamics of this performance in class terms and at the world market level. Following a short-lived recession in the USA following 9/11, a global expansionary phase in the world market started and it is argued in this chapter that AKP-led recovery piggybacked this phase (see Marois, 2012b, p.193).

Commentators also identified the first AKP government as a "European-style social democratic party of the Third Way" (Onis, 2006, p.210; Patton, 2009). This echoed with the arguments of 'strong state tradition thesis' in Turkey asserting that this tradition was coming to an end as the AKP government was set to endorse liberal rule of law and democracy via the Europeanisation process, and rolling back the military; reflecting the possible exit from the 12 September 1980 political regime which was shaped by the military (Insel, 2003; Keyman and Onis, 2003). In other words, AKP was endorsed as transforming the Turkish state into a rules-based, stable and democratic polity.

In distinction, focusing on social relations of production, this chapter argues that during its first term the AKP government continued restructuring process post-2001, and the authoritarian management of labour relations – characteristic of post-1980 – through further attempts on de-unionisation, labour market flexibilisation and competitiveness, and increasing labour productivity. The AKP attempted to achieve these policies by anchoring monetary and fiscal policy on the basis of EU conditionality and IMF agreements, as indeed previous governments already had. Against the background of the crash in 2001, its policies aimed at credibility in financial markets and achieving greater

competitiveness in the productive economy.<sup>1</sup>

The chapter first discusses the context of economic policy-making in this term, including EU and IMF conditionality. Then it analyses the economic performance in AKP's first term in office, and its political significance. The second section examines the unprecedented privatisation process which gained momentum from 2002 onwards. The third section analyses the management of labour relations and containment of class struggle.

## **2. Politics of Economic Policy**

### **2.1. The Context of Economic Policy-Making and Reforms under IMF and EU Anchors**

#### **2.1.1. The EU Anchor**

In its first term in power, AKP leadership followed the economic and political reform process initiated by state managers in 1998 with the IMF staff monitored programme which was accompanied by an intensified Europeanisation process with EU Council's decision to recognise Turkey as a candidate for membership at the 1999 Helsinki Summit. Although the previous government made progress in the EU-backed democratisation process and IMF-backed economic reforms, the AKP government further accelerated these processes in a search for legitimacy *vis-à-vis* the military, sceptical segments of the bureaucracy, capital groups and also labour (Akça, 2014).

Studies on the Europeanisation process in Turkey have so far mainly focused on state-society relations, democratisation, human rights, and civil-military relations, and putting an end to the so-called 'strong state tradition' of Turkey (Keyman and Öniş, 2003; Keyman, 2010; Keyder, 2004; Yilmaz, 2015, cf. Yalman, 2007). However, as discussed in chapter 5 of this thesis, the process starting with the 1995 Customs Union agreement between the EU and Turkey, and EU's 1999 Helsinki decision were important

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<sup>1</sup> For our concern, it is only on this basis that the AKP could be associated with the political economy of 'Third Way' (on the political economy of 'New Labour Third Way', see Hay, 2001; 2004).

developments in terms of economic policy-making and for state managers to ‘externalise’ the consequences of crisis-ridden 1990s and disciplining labour for competitive imperatives. As Pinar Dönmez (2014a, p.121) notes, “[i]n such an unstable environment, which risked the exposure of the class character of the state and the escalation of social and political discontent, the EU once again appeared to be a safe haven.”

Alongside the IMF, following the 2001 crisis this anchor role of the EU further increased under AKP government, especially between 2002-2005. It was presented as a national-popular project which was “capable of bringing different and otherwise conflicting class interests and identities together under its rubric” (Güveloğlu, 2007, quoted in Dönmez, 2014, p.122). Furthermore, alongside the political conditionality, the EU became also an ‘economic anchor’ in the post-2001 crisis period through the Copenhagen economic criteria – which necessitates “the existence of a functioning market economy’ and ‘a capacity to cope with competitive pressures and market forces within the Union” (Eder, 2004, p.50) – which intensified the deepening of the restructuring process. Therefore, privatisations, enactment of new labour code, agricultural and financial restructuring, increasing foreign capital investments, competitiveness, and the neoliberal reform agenda and structural reforms in general were all components of this process (Hoşgör, 2014) whose unpopular outcomes were externalised by state managers.

Hence, in the first half of the 2000s, “state managers tied their hands in economic management in pursuit of the IMF programme and the EU membership agenda allowing them to shift responsibility and blame to the latter whenever unpopular policies were brought into the agenda” (Dönmez, 2014b). The role of the IMF in this context is discussed in the next section.

### **2.1.2. The IMF and Economic Policy-Making**

When the AKP came to power in November 2002, the preceding coalition government was in the process of implementing an IMF stand-by programme which was signed in February 2002 and would last until February 2005. Prior to elections, the AKP was critical of the IMF programme in terms of its approach to the problems of real sector and social policies, and it blamed the nature of the programme for its indifference to the ‘national circumstances’ in the context of the structural reforms (AKP Election Manifesto, 2002, p.44). However, after coming to power in the 2002 elections, the party had been loyal to

the broad aspects of the stand-by programme and continued to pursue the policies introduced through the post-2001 reforms; thus the economic policy stance of the AKP government remained on the same lines as the previous coalition government's in the post-2001 crisis, backed by the IMF (Onaran, 2009, p.245).

Hence, when it came to power, the AKP was in a contradictory position. The party had to fulfil some of the promises that were raised during the election campaign, which included the questioning of some critical aspects of the IMF programme. On the other hand, it had promised that the economy would be saved from the crisis-ridden situation and the growth would be restored with sound economic policies and discipline. Hence cancelling or rejecting the IMF stand-by agreement was not a realistic option for the AKP government (Hale and Ozbudun, 2010, p.100), as “investors and international credit rating agencies reminded the new government that the support of the IMF was critical to avoid an Argentina-like debt default” (Patton, 2006, p.517).

Nevertheless, although the AKP leadership showed its willingness to work closely with the IMF – and its economic programme was in line with the broad aspects of the IMF programme – the initial period was not without tensions. After the preceding Turkish government completed the 3rd review of the programme in summer 2002 with criticisms due to the political uncertainty (IMF, 2002a), the talks for the fourth review whose completion would mean the next loan disbursement (\$1.6 billion), did not proceed because of the same political atmosphere and election process. The pre-actions needed for the 4th review, namely tax reform bill, public worker layoffs and privatisation, had not materialised by the ‘lame duck’ government (IMF, 2002b; Patton, 2006, p.517). Hence the next loan disbursement and the fourth review talks had to be done with the AKP government.

The talks with the IMF and the newly formed AKP government started in November 2002. However, there had been a long delay in the completion of the fourth review and the disbursement of new loans, as the AKP government was reluctant on some of the Fund's conditionalities (Hale and Ozbudun, 2010, p.102) and was trying to loosen some of them. Nevertheless, this was rather an ‘ownership’ issue. As it has been declared by the then IMF's External Relations Director, “they [Turkish Government] are taking a very active role in developing the letter of intent on their own. And so this is one of the reasons



why the process is evolving in the way that it is, and this is what ownership is about” (IMF, 2003a).

The main areas of disagreement with the Fund were the Public Procurement Law, tax reconciliation, support to farmers and the government’s stance on the Independent Regulatory Agencies<sup>2</sup>. However, as the April 5th 2003 Letter of Intent of the AKP government reflects, the government realised that the apparent tensions and the delay of the completion of the fourth review is jeopardising the credibility of its programme and approach in the eyes of the domestic and international financial circles, and started working with the IMF in accordance with the post-2001 approach (Onis, 2006, p.220). As it is put by a commentator, “[t]he clashes early on between the AKP and IMF stemmed primarily from the government’s ad hoc approach to economic policy-making rather than from ideological differences” (Patton, 2006, p.526). Nevertheless, while taking measures for the capital accumulation and reassuring the financial circles, the government could also give the message to its constituency that they resisted against the IMF (ibid., p.517).

The 5th April 2003 Letter of Intent of the AKP government reflects the same economic policy approach with the 2001 programme. The elements of this approach were based on two pillars: macroeconomic stability and structural reforms (Ekzen, 2009, p.476). Tight fiscal policy was one of the very important aims of the program, that envisaged a primary surplus of 6.5% of the GDP for the decline of the public debt (Bekmen, 2014, p.60). In order to achieve this aim, there needed to be cuts from public expenditures except for the interest payments, and secondly, an increase in indirect taxes needed to generate revenues for the budget (BSB, 2006, p.68). Specifically, the measures would “include tobacco and alcohol excises, increases in motor vehicles and property taxes, rationalization of the public investment program, tight wage constraint, and steps to limit expenditure growth through efficiency gains in health care and social security” (IMF, 2003b - Letter of Intent of Turkey, p.5).

Thus, the budget prioritised the sustainability of the debt payments through a very

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<sup>2</sup> The AKP government stressed that there was a need for more political control and accountability of these regulatory bodies (which were the manifestation of the depoliticised economic management). However, according to the IMF, their autonomy is of vital importance (Onis, 2006, p.219-220).

significant primary surplus. Other stability aims of the programme included an anti-inflationary monetary policy through the independent Central Bank, restoring growth through export-led strategy, and ensuring the inflow of foreign funds through the high interest rates and exchange rate policy which kept the Turkish Lira overvalued (Bekmen, 2013, p.60). These policy orientations clearly necessitated lower wages and labour costs; and increased productivity to compete in the world market. On the structural reforms side, the elements were the restructuring of the public sector, privatisation policy, reform in the social security and health system, and strengthening the banking sector through the Banking Regulatory and Supervisory Agency (BRSA).

The 2002 stand-by agreement ceased in February 2005. Following a relative improvement in economic indicators – to be discussed in the next section – the Erdoğan government sent another Letter of Intent on the 26th of April 2005 to have another stand-by agreement. The IMF Executive Board approved a US\$ 10 Billion stand-by arrangement for Turkey on the 11th of May 2005. The new programme followed the main aims of the earlier approach with a strong emphasis on the structural reforms in which the government was rather ‘unsuccessful’. The Letter of Intent made it clear that the new programme would continue to ensure that the primary surplus was 6.5% of the GNP (IMF, 2005; BSB, 2007, p.78). The government then focused on the so-called structural reforms in the context of fiscal austerity, which included the restructuring of the social security system, tax reform and privatisation.

In order to strengthen the Banking Sector and BRSA, the government had promised a new banking law in the Letter of Intent. The 1999 Banking Law was replaced by the 2005 Banking Law which was written in accordance with the EU financial standards; and the efforts made by the AKP government to improve financial regulatory and supervisory capacity were openly praised by the IMF managing director (Marois, 2012b, p.179). The 2005 Banking Law should be conceived of as an ongoing effort to rescue the banking system from the 2000-01 crises, and these ongoing attempts linked the financial capital in Turkey to the global regulatory system of finance (Bekmen, 2014, p.61). The other important element of the structural reform pillar, the Social Security Reform, was also dealt with by the government in 2006, when the deficit in the social security system

increased to 6 per cent of the GDP in the same year; and this was the main motive for the restructuring of the system with neoliberal logic (Eder, 2014, p.209).<sup>3</sup>

Hence, after an initial tension with the IMF, the AKP government worked with the Fund with great harmony in its first term in office; and the post-2001 macroeconomic policy approach which aimed at restoring growth, delivering price stability and moving towards convergence with the EU economies was followed by the government (Karataş and Ercan, 2008).

However, the IMF was used for externalising the outcomes of unpopular policies by the government. In 2003, when confronting the critiques of the economic policies, PM Erdoğan argued that because of the wrong policies in the past, the preceding Turkish Government ‘queued up for the IMF lending’, and the Fund did not force the Turkish Government to borrow. According to Erdoğan, if governments request loans, it was the right of the Fund to set conditions to ensure that the debt would be paid back (Angın and Bedirhanoglu, 2012, p.151). That would mean that it was not the government but the IMF which imposes the economic policies, and if these policies were not implemented, there might be severe consequences as in the past, making governments ‘queue up’ for Fund lending. This discourse of Erdoğan can, thus, perfectly be understood in the context of *ex ante* justification of economic policies (on this, see Rogers, 2012, p.44).

In this context, the next section deals with the outcome of this macroeconomic framework under the first AKP government, which has been portrayed as a success story by various commentators. Thus, the performance of the economy in the 2002-2007 period is critically evaluated in the context of global economic conditions of the same period, to reveal the nature of the AKP’s ‘economic miracle’.

## **2.2. The Political Economy of the ‘Economic Miracle’ of Turkey**

The economic performance of AKP government between 2002 and 2007 has been praised

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<sup>3</sup> Both the Banking Law and the Social Security Reform Law had been vetoed by the social-democratic president Ahmet Necdet Sezer. They were re-sent to the parliament. The parliament re-passed the laws, and while the Banking Law was approved, the Social Security reform was taken to the Constitutional Court by the President. The court cancelled some of the articles. Hence the social security reform was postponed to AKP’s second term in office.

and supported by different segments of the Turkish bourgeoisie, International Financial Institutions, and the European Union. For instance, the World Bank Country Director for Turkey defined the country as the ‘emerging Euro Tiger’ in 2005 (Marois, 2012b, p.177). Similarly, in the EU Progress Report of the same year, it was declared that Turkey achieved a “[r]obust economic performance... [which] was underpinned by strong fiscal consolidation and rigorous monetary policies” (EU Turkey Progress Report, 2005, p. 43, italics in original).

It was argued that these developments constituted a “clear rupture from the unstable macroeconomic environment of the 1990s” (Öniş and Bayram, 2008, p.53). The Turkish political economy was judged to have overcome the crisis-prone economic management which were the results of “populist cycles” in the past, and thus achieved “the golden age of economic growth” (Öniş, 2012, p.143). Indeed, the economic indicators seem to support this argument. This section analyses these developments by examining the economic indicators in class terms.

The most striking indicator of the Turkish economy under the first AKP government was the high and uninterrupted growth levels. The average GDP growth rate between 2002 and 2007 was 7% approximately (see Table 7.1). As Demir notes, “[t]he only emerging markets that did as well or better than Turkey during this period were China and India” (2009, p.19). It is significant to understand the underlying dynamics of this growth performance.

First of all, when the AKP came to power, the Turkish economy had hit rock bottom and was trying to overcome the crisis. These periods are generally recognised as appropriate moments for restoring growth and, combined with the boost cycle of the world economy, the government found itself in a very favourable economic environment (Boratav, 2009, p.465). After the crises, expectedly, the capacity utilisation rate generally increases. Indeed, one of the reasons behind the growth in the post-2001 period in Turkey was the increasing capacity utilisation rate in the manufacturing industry (Akçay and Güngen, 2014, p.189). While this rate was at around 75 per cent during 1995-2001, it increased to 78 per cent during the period 2002-2007 (Demir, 2009, p.20). It was over 80% in 2004 when Turkey had a record high growth rate.

**Table 7.1. Main Macroeconomic Indicators: 2002-2007**

	1998-2001 Average	2002	2003	2004	2005	2006	2007
GDP Growth %	0.2	6.2	5.3	9.4	8.4	6.9	4.7
Inflation Rate %	64.7	45.0	25.3	10.6	10.1	9.6	8.8
Interest Rate %, Interbank Overnight	101.7	44.0	26.0	18.0	13.50	17.50	15.75
PSBR/GDP	9.93	9.98	7.32	3.63	-0.07	-1.83	0.08
Current Account Balance/GDP	-1.42	-0.27	-2.47	-3.61	-4.42	-6.01	-5.75
Ratio of Exports to Imports	62.7	69.9	68.1	64.8	62.9	61.3	63.1
Gross External Debt/GDP	44.9	56.2	47.3	41.2	35.4	39.6	38.6

Sources: GDP Growth: World Bank (data.worldbank.org)

Inflation, Interest Rates, Exports to Imports, External Debt: TUIK Statistical Indicators (2012)

PSBR: Ministry of Development

<http://www.mod.gov.tr/Pages/PublicSectorBorrowingRequirementSummaryIndicators.aspx> (accessed 10.11.2014)

Current Account: OECD, *Key Short Term Indicators*, <http://stats.oecd.org/index.aspx?queryid=21764> (accessed 10.11.2014)

The increasing domestic demand was also important for growth, and that was realised through the expansion of credit. As discussed in the previous chapter, the *modus operandi* of the banks in Turkey in the 1990s was to lend to the state with high interest rates, as the PSBR rates were very high. In the post-2001 crisis, however, through the new fiscal and monetary policy, the PSBR rate declined significantly through post-crisis fiscal austerity policies (see Table 7.1), and thus the banks had to find alternative methods of making profits (Karaçimen, 2014a, p.170).

According to Akçay and Güngen (2014, p.189), this paved the way for the integration of the labouring classes within the financial system through their deteriorating conditions, as they became more dependent on debt as a result of real wage declines, as well as developments in the labour market such as increased unemployment and job and income

insecurity (Karaçimen, 2014b, p.9), while the banks provided the loans as an alternative to loaning to the state for public debt servicing. This debt rise of households formed the basis for increasing domestic demand which was significant for growth. Indeed, the amount of consumer loans in total ‘traditional loans for interest income’ rose to 33% in 2007, from 12% in 2002 (Marois, 2012b, p.186).<sup>4</sup>

Another significant source of growth in this period was the extremely suitable global liquidity conditions. As discussed in the previous chapter, the short-term capital flows (‘hot money’) through high interest rates were one of the most important determinants of the economic model in Turkey in the 1990s. In the post-2001 period, there was no significant change in the structure of this model as Turkey continued “to offer the highest real interest rate and uncovered interest arbitrage among emerging markets” (Demir, 2009, p.14). The low interest rates of Federal Reserve (FED) in this period paved the way for the short-term capital flows to benefit from the high interest rates offered by countries like Turkey (Akçay and Güngen, 2014, p.190; Öniş, 2006). By the end of 2007, this ‘hot money stock’ increased to US\$ 108 billion in Turkey, which was a very significant amount (Boratav, 2009, p.465). In order to contain the fear of this capital flight possibility in case of political/economic instability, however, the AKP government increased the foreign reserves of the Central Bank significantly in the post-2001 crisis period. Thus, while the international reserve of the Central Bank of Turkey was US\$ 25 billion in 2000, it rose to US\$ 71.5 billion in 2007 (Demir, 2009, p.17).

It was not only short-term capital flows that showed an increase, however. The increasing

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<sup>4</sup> The increasing indebtedness of the labourers in Turkey is the reflection of a general trend in the world economy which is called financialisation. As a crucial aspect of financialisation, there is a growing literature on this issue of debt, and ‘the indebted man’ is defined as a new ‘subjective figure’ of the neoliberal era (Lazzarato, 2012; Hardt and Negri, 2011). For our concern, there are two significant consequences of this process. Firstly, capital needs to secure the future exploitation of labour for profits for the repayment of the debt (Duman, 2014, p.34). Secondly, this process has become another reason for the deradicalisation of labour, alongside other factors. Faced with the ‘fear of unemployment and financial ruin’, the ‘indebted man’ could be disciplined and controlled, and would be forced to ‘individualised struggles to maintain existing positions of employment, income and conditions’ rather than ‘social resistance against a policy of state austerity’ (Bonefeld, 1995, p.79). All in all, “debt has added new dimensions to capital labour relations by functioning as a mechanism for disciplining the labour force” (Karaçimen, 2014b, p.3).

amount of Foreign Direct Investment (FDI) under the first AKP government was celebrated and praised as a manifestation of ‘macroeconomic stability’ and ‘rising investor confidence’ in contrast to earlier periods of Turkish capitalist development (Öniş and Bayram, 2008, p.56, see Figure 7.1 below for the comparison).

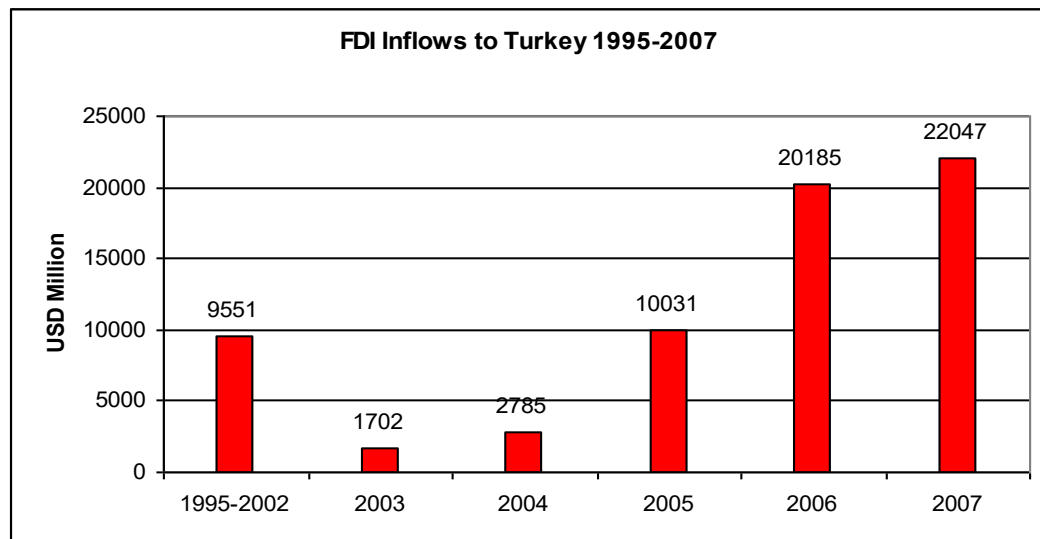
The EU anchor and especially the EU Council’s December 2004 decision to initiate accession negotiations encouraged the inflow of FDI as the “EU was playing an important role in decreasing political risks, and creating the potential for a higher FDI and financial capital inflow” (Onaran, 2009, p.247). Moreover, to remove the ‘blockages in the flow of capital’, the AKP government made significant legislative changes to encourage foreign direct investment. Specifically, the introduction of the Foreign Investment Law of 2003 was a very important attempt to remove many of the bureaucratic restrictions on FDI (Öniş, 2011, p.718).

There is a broad consensus in the literature that the short-term inflows would create volatility and financial instability. The increasing amount of FDI, however, is generally perceived as an indicator of healthy economic growth and external financing which would reduce the risk of a financial crisis (Demir, 2009, p.16). Considering the contribution of the ‘hot money’ flows to the external debt, the FDI is welcomed because it does not create indebtedness, and contributes to the employment creation, technological development and thus increase growth levels (Boratav, 2009, p.467). The composition of the FDI flow to Turkey in the post-2002 period, however, is clearly in contrast with the positive expectations and raises questions for the so-called sustainability of growth. As it is observed by a commentator, “the overwhelming majority of inflows into Turkey targeted the already existing financial and retail firms, instead of green-field investments” (Kutlay, 2012, p.133).

The acceleration of the privatisation process – which will be discussed in the next section – was an important factor in this context. Indeed, between 2002 and 2006, 83% of all FDI inflows were through mergers and acquisitions (M&As), and these were mostly from the privatisation of the State Economic Enterprises (Demir, 2009, p.16). Moreover, the share of the industry in these FDI flows was only 20.5% in 2007, whereas the finance/services and real estate received 79.5% in the same year (Boratav, 2009, p.466). Especially, the foreign capital ownership of the banks increased significantly in this period, which is the

indicator of the FDI flow into the financial sector. The ‘sound’ banking system through the restructuring in the post-2001 crisis period was a pull factor, which increased the interest of global financial players. As Marois (2012b, p.184) puts, “[g]lobal banks like HSBC and Citibank openly cite Turkey as a top priority for expansion because of the EU accession prospects, rapid development potential, and the AKP market-friendly reforms.” As a result of this ‘investor confidence’, 14 Turkish banks were sold to foreign capital in the 2004-2007 period, and the amount paid for these transactions was US\$ 26.4 billion. This amount was almost equal to 50% of the FDI flow Turkey received in the 2005-2007 period (Kutlay, 2012, p.133). As a result, the share of foreign capital control in the banking sector in Turkey increased to 15% in 2007, from 3% in 2004 (Marois, 2012b, p.183).

**Figure 7.1: FDI Inflows In Comparison with Pre-2002 Period**



Source: Undersecretariat of Treasury, Foreign Direct Investments Report (2011, p.8).

As it could be clearly understood from the empirical facts above, all the praise for the increase of the FDI inflows implying that it would decrease Turkey’s dependency and put the economy in a more healthy condition are almost baseless. Moreover, the composition of the FDI inflows caused concerns for their future sustainability and their effect on growth (Demir, 2009, p.16). Hence, the increase in the FDI flows did not mean that there would be a decrease in the short-term flows in Turkey, as both of them increased in the post-2001 period.



Turkey's chronic high inflation problem seems to be resolved under the first term of AKP. As discussed in the previous chapter, in the post-2001 crisis, with the amendments in the Central Bank Law, the Central Bank of Turkey has been made independent, and inflation targeting (price stability) became its main macroeconomic policy approach<sup>5</sup>. This aimed to secure anti-inflationary credibility through a depoliticised and 'technocratic' monetary policy – which was finally saved from the hands of "populist" politicians (cf. Ekzen, 2009, p.487). Through a high interest rate and overvalued currency policy, the inflation rate declined to 8.8% in 2007, from 45% in 2002; although the 4% inflation target by 2007 could not be achieved<sup>6</sup> (see Table 7.1).

However, as Demir (2009, pp.13-14) suggests, this radical decline was not unique to Turkey and it was rather related to this new orthodoxy of inflation targeting, as a comparison with Argentina, Chile, Brazil, Egypt, Korea and Mexico suggests. Furthermore, the Turkish economy's low inflation performance had been "achieved at the expense of declining real wages, which have not recovered since the 2001 crisis" (Onaran, 2009, p.246). Combined with the lack of an employment policy and promotion of inflation-targeting as the main macroeconomic policy, this would clearly reflect an anti-labour economic policy approach (ibid., p.246). This point will be elaborated later in the chapter with regard to labour market policy.

In this period, as discussed above, the sheer amounts of foreign capital flows made the Turkish Lira overvalued, and thus foreign currency much cheaper. As a consequence, the real exchange rate appreciated by 48% between 2001 and 2008 (Demir, 2009, p.13). The high interest rate-overvalued currency policy meant that the increasing imports would not create an inflationary pressure. On the other hand, cheap foreign currency also meant that the export boost had to rely less on exchange-rate competitiveness, and more on the increase of labour productivity (Akçay and Güngen, 2014, p.190; see Figure 7.4 on

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<sup>5</sup> It is worthy of mention that between 2002-2005, the "implicit inflation targeting" policy had been implemented by the Central Bank of Turkey. The reason for this was the initial high inflation rate which was an impediment to the predictability, and the need for the gradual institutionalisation and reliability of the new 'inflation targeting' policy, as the CBRT would gain experience in the meantime. Nevertheless, the main instrument was still short-term interest rates (CBRT, 2006, pp.16-17).

<sup>6</sup> See CBRT webpage for inflation targets ([www.tcmb.gov.tr](http://www.tcmb.gov.tr)) .

p.210). The competitiveness agenda, thus, would be achieved through the labour market flexibility, which will be discussed in the section on the management of labour relations.

As a result, another chronic problem of the Turkish economy, the current account deficit (CAD), continued to be the ‘Achilles heel’ of the economy. Encouraged by the cheap foreign currency levels, the import levels increased significantly in this period (Yeldan, 2009). The Import/GDP rate rose to 26.2% in 2007, from 22.4% in 2002 (Buğra and Savaşkan, 2014, p.69). This led to the decrease in the ratio of exports to imports (see Table 7.1) which further exacerbated the already dependent nature of the Turkish economy. As “[t]he large bulk of the CAD stems from the deficit in commodities trade—that is, the difference between exports and imports” (Öniş and Bayram, 2008, p.73), this led to a significant increase of the current account deficit: from 0.27 per cent in 2002, to 5.75 per cent of GDP in 2007<sup>7</sup>. In this period, Turkey tried to manage the current account deficit through the inflow of short-term capital inflows. The government, however, remained almost indifferent to the increase of the current account deficit, as the tax revenues received from imported goods made a significant contribution to the decrease of budget deficit (Eğilmez, 2009, p.136).

When considered from these aspects, it is difficult to recognise a ‘miracle’ or a ‘tiger-like’ performance nor a ‘structural break’ as far as the Turkish economy is concerned under the first AKP government. The improvements relied on conjunctural conditions of the world market, and the growth performance highly depended on further financialisation and the capital inflows into the economy, as well as the increased labour productivity and decreasing labour costs. However, this ‘crisis-free’ atmosphere, credibility, decisive privatisation policy and high growth rates increased the ‘legitimacy’ of the AKP government *vis-à-vis* the sceptical segments of the Turkish bourgeoisie (TÜSİAD) and the IFI’s, as well as the different segments of the society. In this period, learning from the 1990s, the AKP prioritised ‘investor confidence’, credibility, and ‘stability’ which were all significant considering the vulnerability of the economy to capital outflows (Buğra and Savaşkan, 2014, p.60).

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<sup>7</sup> Boratav (2009) and Onaran (2009) notes the (delayed) effects of Customs Union agreement with the EU in the context of increasing current account deficit.

### **2.2.1. Some Political Implications Regarding the Economic Performance of AKP**

The AKP won the 2002 elections with a strong majority. However, it had to confront the sceptical segments of the capital and military because of the Islamist roots of the party. In this context the economic performance was of vital importance for the AKP government for legitimacy concerns. Hence, the AKP leadership focused on improving the credibility and competitiveness of the economy, mainly through a depoliticised and rules-based setting. The Central Bank independence and IMF anchor were of critical importance in achieving an anti-inflationary credibility and containing post-crisis distributional unrest. The EU, apart from political reforms, was also used as an economic anchor which helped with legitimising further economic reforms in pursuit of further competitiveness and credibility in the world market.

The strategy of the AKP proved to be successful and it gained the trust of sceptical segments of capital and increased its legitimacy in wider segments of society. The inflation was controlled and radically decreased, high economic growth was achieved, capital flows and FDI increased, and PSBR radically declined. However, this was rather a fragile performance. The high current account deficit and the dependency of the economy on the 'hot money' flows continued. Furthermore, this result was achieved at the expense of declining wages and increased indebtedness of the workers. However, the 'stability' it provided and high growth rates, as well as a specific social policy regime which will be dealt with later in the chapter, helped the government keep containing the working class and the poor.

Privatisation policy was an integral and important aspect of the AKP's economic policy in this period. This policy further contributed to the deteriorating conditions of the working class. It was rather an unsuccessful aspect of state restructuring since the 1980s. Hence, the unprecedented level of privatisation under the first AKP government and its dynamics needs to be scrutinised. The next section therefore deals with the privatisation process.

### **2.3. Privatisation Policy: Free Economy and Strong State**

The purpose of this section is to analyse the dynamics behind the accelerated privatisation process in the 2000s which had effects on the state-capital-labour relations. It argues that

privatisation policy was a part of AKP's 'minimal' and 'effective' yet strong state understanding. It was also related to the immediate budget deficit reduction strategy following the 2001 crisis. Hence, it could be conceived of as a process helping state managers to open new markets and opportunities for accumulation of capital and increase public revenue by selling SOEs (Duman, 2014, p.41).

As dealt with in the previous chapters, the path Turkey entered with the 24 January 1980 economic decisions<sup>8</sup> envisaged the retreat from the ISI model of development, which is highly dependent on central planning and the pivotal role played by the State Economic Enterprises (SOEs). In this context, privatisation by conventional accounts is perceived as 'rolling back the state', and simply changing the ownership of services and assets from public to private hands (Burnham, 2001a, p.140). However, by privatisation attempts, state managers aimed at "subjecting Turkish workers more directly to competitive imperatives" (Marois, 2012b, p.104) and restructuring state-capital-labour relations. That is why this process has been a constant area of class conflict since the 1980s, as organised labour attempted to impede the process.

However, unlike the other aspects of Turkish 'liberalisation', the privatisation process remained rather problematic since the mid-1980s. The reasons for these 'unsuccessful' attempts were related both to domestic and global conditions. The lack of 'sound' legal base and bureaucratic/administrative structure for a privatisation policy until the mid-1990s was salient (Atiyas, 2009, p.106; Guran, 2011, p.39). Hence, as a result, "there was no operational harmony within the Turkish State on the question of the privatization of large-scale state enterprises up until the 2000s, and various intra-state conflicts thus prevented a systematic policy implementation" (Angın and Bedirhanoglu, 2012, p.149). Although it is not well-documented, the resistance of the unions were also a significant factor until the late 1990s, as discussed in the previous chapters.

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<sup>8</sup> Blind (2009, p.89) suggests that it was on the agenda of the Turkish State even before the 24 January 1980 Decisions. In a decree of the military government in 1972, the concept of privatisation is discussed and encouraged. This would reflect an interesting and convincing empirical finding to falsify the claims which see the pre-1980 period as a socialist rule (Öniş and Bayram, 2008) and the arguments of the strong state tradition which would want us to believe that the state/bureaucratic elites in Turkey impeded the market forces during the Ottoman/Republican history.

On the capital side, the desire for a more privatised economy during the first two decades of neoliberalism in Turkey was not without problems. The crisis-ridden macroeconomic environment and political instability affected the predictability of the privatisation attempts in the 1990s (Karataş and Ercan, 2008; Öniş, 2011). In addition, the demand for the public sector enterprises was limited in earlier periods because of the degree of maturity of the domestic private sector (Öniş, 2011, p.714). Global economic conditions affected the privatisation process in the 1990s as well. The crises in the emerging markets, such as the 1997 Asian and 1998 Russian crises, made both the domestic and foreign capital rather cautious in terms of their willingness to buy Turkish SOEs (Bedirhanoglu et al., 2013, p.326).

This situation, reflecting the problems in the legal, social, political, and economic spheres seemed to come to an end with the 2001 crisis. The crises of the Turkish economy have been important moments for the privatisation process, as mentioned in the chapter on the 1990s, in the context of the 1994 crisis and its effect on the enactment of 1994 Privatisation Law. Thus, as Angin and Bedirhanoglu (2012, p.149) puts, “it is no doubt that the 2001 crisis had a similar effect on Turkish political economy with specific implications on the privatisation process.” The economic programme adopted in the aftermath of the 2001 crisis under the coalition government put an emphasis on the privatisation of SOEs, and it was an important aspect of the IMF conditionalities. Nevertheless, “the legal infrastructure and the political will were finally combined under the AKP, enabling the move toward privatisation” (Marois, 2012b, p.178).

When formed in 2001, the AKP left the rather developmentalist discourse and reluctant position of the Welfare Party – the previous representative of political Islam – in terms of the privatisation process. In various documents of the party, the emphasis on the privatisation process could be observed, as a part of ‘structural reform programme’ (see AKP Election Manifesto, 2002, p.46; AKP Party Program, n.d.).

When the party came to power in 2002, this emphasis continued. In January 2003, the AKP government published its Urgent Action Plan, and this elaborated the means and policies which would be used in privatisation and changes in the administrative and legal structures (Urgent Action Plan of the 58th Government of Turkey, pp.49-51). In May 2003, the AKP government introduced the Turkish Privatisation Strategy Plan, with the

direct participation of representatives from the economic bureaucracy, business organisations, academics, domestic and foreign consulting companies (Balkan Şahin, 2010, p.483). The aim of this plan was to legitimate the privatisation policy to the public, through various campaigns and events, and to show the decisiveness of the government on the issue of privatisation (ibid., p.489).

In August 2003, an amendment to the 1994 Privatisation Law followed. The amendment was concerned with removing the impediments to the privatisation policy and tried to strengthen the executive. Specifically, “this amendment simplified bureaucratic procedures, expanded and consolidated prime ministerial control over the Privatisation Agency and eliminated the rules concerning partial public ownership of privatised enterprises. The changes facilitated the transfer of assets to domestic as well as foreign investors” (Buğra and Savaşkan, 2014, p.82).

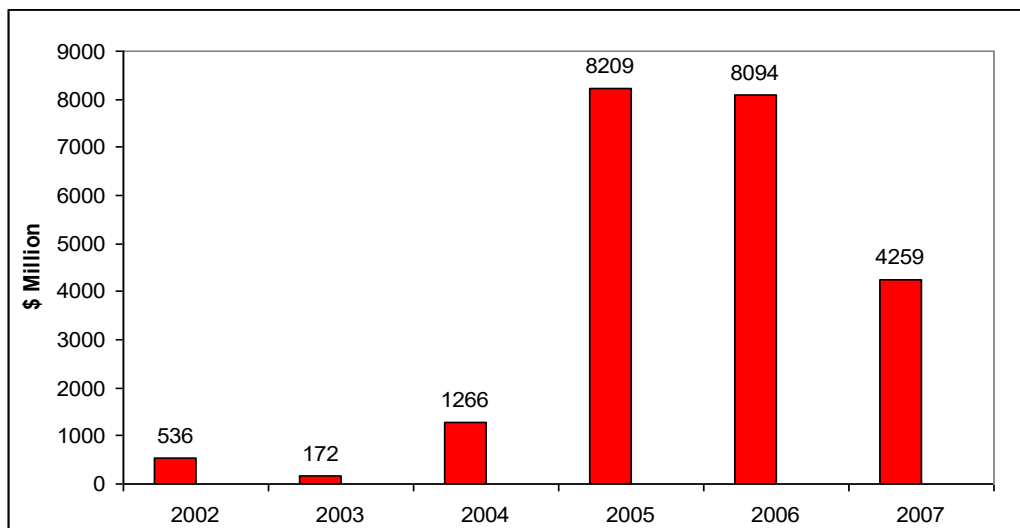
After these legal and administrative changes materialised, and macroeconomic ‘stability’ was achieved in the post-2001 era through the IMF-backed economic programme, privatisation implementations increased rapidly. The year 2004 became a turning point as the revenues from privatisation increased significantly after this year (see Figure 7.2 below), similar to the acceleration of FDI flows after that period. Actually, there is a direct relation between the FDI flows and privatisation in this period. For instance, in 2005, as Balkan Şahin indicates (2010, p.486), “more than 70 per cent of the total FDI flows coming to Turkey (almost \$ 9.7 billion) was related to privatisation transaction”. Hence, the opening up of the most profitable large-scale SOEs in Turkey attracted the foreign investors – which assessed the EU and IMF anchor and a ‘committed’ strong government as a source of stability – and this made the country “an ‘investors’ paradise’ from the perspective of international financial capital” (Bedirhanoğlu and Yalman, 2010, p.120).

Hence, as a result, unlike the 1985-2002 period when the revenues from privatisation was only US\$ 9.1 billion (Yeldan, 2005), privatisation revenues increased to over US\$ 20 billion in only three years following 2004 (see Figure 7.2). Especially, in 2005 and 2006, the sales of major SOEs such as Türk Telekom, Tüpraş, and Erdemir were significant and amounted to US\$ 13.5 billion (Karataş and Ercan, 2008, p.353). The revenues received through these implementations, however, were used to finance the current expenditures of the state. The government inherited a high level of public debt from the 2001 crisis and

the necessary fiscal adjustment policy through the IMF programme (Atiyas, 2009, p.119). This was a serious concern for the current expenditures of the state. As Yeldan (2005, p.11) eloquently puts in a class-based context:

given the fiscal deterioration and a strategic preference of non-taxation of capital incomes and of the bourgeoisie in general, the state had two options for meeting its expenditures: foreign capital inflows and privatization receipts. Thus, in the Turkish context, the current privatization attempts should be regarded as an episode of revenue generation and surplus transfer to the capital-owners via the government's budgetary deficit financing programme.

**Figure 7.2. Privatisation Implementations 2002-2007**



Source: Privatisation Administration, [http://www.oib.gov.tr/program/uygulamalar/1985-2004\\_years\\_table.htm](http://www.oib.gov.tr/program/uygulamalar/1985-2004_years_table.htm) (accessed 28.10.2014).

Hence, in the 2000s the emphasis was on revenue generation rather than 'efficiency' arguments; unlike earlier attempts to legitimise the privatisation process, and remove the barriers to private capital accumulation in different sectors. Also, the preference was generally the block sales method, rather than public offering, which raised serious concerns about government's role to support the close businessmen, and allegations of

corruption (Karataş and Ercan, 2008)<sup>9</sup>.

The privatisation process was also among the most important conditionalities of the IMF, WB, and EU, and was welcomed by these ‘anchors’. In its 2007 Progress Report, the EU appreciated the efforts to privatise the SOEs, but also draw attention to a need for further privatisation as 5% of the GDP and 15% of the value added in the manufacturing sector was still produced by the SOEs at the time (Balkan Şahin, 2010, p.490).

However, it would be inappropriate to conclude that AKP was forced to implement the delayed privatisation process in the 2000s. AKP’s domestic preferences could not be overestimated. First of all, the party and its cadres are strong believers of what has been called the ‘*free economy and the strong state*’. The PM Erdoğan clearly reflected this understanding when he declared that “they were favouring privatisation because they embraced an understanding of the state which was stronger and more active in fulfilling its fundamental functions accurately” (Angın and Bedirhanoglu, 2012, p.149). Hence, this did not mean the ‘retreat of the state’, as the state both facilitated the privatisation process and was directly involved in the process itself. The strong state, thus, would facilitate the capitalist social relations better by retreating from the *direct* responsibility for economic development. Thus, it attempts to depoliticise economic relations by withdrawing from economy.

Another reason had been the AKP’s contradictory situation *vis-à-vis* the old establishment in Turkey. During its first term in power, the AKP had difficulties in being ‘in power’ because of the exclusion of Islamists from state cadres (Angın and Bedirhanoglu, 2012, pp.149-150). Hence, to be strong in domestic politics, the party used the EU and IMF anchors and neoliberal economic policies in general, and the privatisation process in particular, to gain the support of international circles. This also helped the party gain the support of ‘sceptical’ domestic capital groups such as TÜSİAD, as the block sale of large-

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<sup>9</sup> Especially, while the process of privatisation has been welcomed by the sceptical segments of the bourgeoisie (TÜSİAD), it is asserted that it also “helped the Party create its own capital base through transferring public assets to a selected list of ‘green’ companies” (Yalman and Bedirhanoglu, 2010, p.120). Green refers here to the Islamic capital groups. The extent of this web of relations would be more apparent and would cause unprecedented developments in later stages of AKP rule in the context of corruption (see Bedirhanoglu, 2015).



scale SOEs increased the party's negotiation capacity with these traditionally secular big capital groups in Turkey (Bedirhanoglu and Yalman, 2010, p.120).

On the labour front, in this period, resistance to privatisation was unsuccessful to a great extent, unlike the earlier periods of neoliberalism. The reasons for this failure could be counted as the decreasing power of labour unions and the changing approach of the courts in terms of cancelling privatisation implementations. In the earlier periods, unions were taking privatisation attempts to the courts, and the courts took a stance to decide on the basis of 'national interest'. This changed initially with the 1999 Constitutional Court amendment which incorporated the concept of privatisation into the Constitution. Also, the Privatisation Administration improved its competence in addressing concerns raised by the legal challenges (Atiyas, 2009, p.119). As a result, the legal issues concerning privatisation had been resolved, and the court decisions relying on 'national interest' were less significant in the 2000s (Öniş, 2011, p.719). Clearly, the decisiveness of the 'strong' government was also important in insisting on the privatisation attempts. As Ertuğrul (2009, p.536) notes, the pressure on the courts for being the possible reason of economic crisis also had effects on the court decisions.

Overall, the government's privatisation policy was perfectly consistent with the overall economic policy approach that was inherited from the previous coalition government. It was also part of the EU and IMF anchors' conditionality, which believed that this was an important aspect of productivity increase and labour market reforms, as well as the government's credibility and fiscal discipline. Hence, the first AKP government aggressively dealt with the privatisation agenda and encouraged the global capital for private accumulation opportunities in Turkey. Because of the issue the chapter will now discuss, there was not a serious class-based resistance to these policies in this period.

### **3. Management of Labour: Labour Relations, Labour Market Reforms and Social Policy**

This section deals with the management of labour power under the first AKP government. It is argued that the *sina qua non* of the overall economic policy of the AKP has been the continuity of the authoritarian management of labour relations since the 1980 military coup. This was also in line with the crisis-resolution of 2001, although it clearly contradicted its Party Programme – which promised to enhance union freedoms, promote

unionism, and democratise labour relations. Hence, in line with its economic policies relying on ‘anti-inflationary credibility’ and tight fiscal policy in its first term in office; promoting further competitiveness and productivity through labour market flexibility and deregulation, and restructuring the welfare system has been one of the salient determinants of AKP’s political economy. Furthermore, increasing inclusion of labourers into the financial system through indebtedness – as a result of deteriorating conditions – is an important development in this period, as briefly mentioned earlier in this chapter.

Nevertheless, from the very beginning, the AKP has secured a massive working class support, although it had an anti-labour stance, which manifested itself in increased unemployment rates and decreased real wages. Thus, this section discusses this contradictory situation and elaborates through which means and policies this situation was possible. Some accounts argue that “the government has managed to play the religion card” which “helped... shift the emphasis from living standards to identity” (Onaran, 2009, p.246). There is clearly an element of truth within this argument in an increasing manner. However, without grasping the social policy orientation of the government – which is also interrelated with ‘religious’ sentiments – the picture would not be complete in terms of making sense of the containment of the class struggle in the 2000s.

Hence, this section discusses the elements of management of labour and regulating class struggle in the 2002-2007 period. Firstly, the legal context of the labour relations, and AKP’s trade union policy will be dealt with. Then, the structure of the labour market, i.e. employment, informality, precarity, unemployment, and the material conditions of the working class (wages), will be discussed. The discussion on the social policy approach of the government will then follow, to make sense of how the class struggle has been contained in the post-2001 period, and the AKP period in particular.

### **3.1. Labour Legislation, Industrial Relations and Labour Movement**

#### **3.1.1. The Legal Context**

The legal framework determining the union rights, collective bargaining and strikes had been determined in the aftermath of the 1980 coup d’état through Laws no. 2821 and 2822, as discussed in the previous chapters. This legal framework represented an anti-democratic and authoritarian understanding, which aimed at ‘putting an end to class-

based politics' (Yalman, 2009). During the 2002-2007 period, the AKP government did not change this legal framework and did not attempt to bring these collective rights to even ILO and EU standards, albeit the EU-backed '*democratisation*' process (Özdemir, 2012, p.59).

The novelty of this period was in the sphere of individual labour law. The demands on the restructuring of individual labour legislation had been on the agenda of the Turkish capital circles since the 1990s, since it was understood that the changes in the collective labour regulation were not sufficient "for the purposes of transferring gains from the workers to the bourgeoisie" (Özdemir and Yücesan-Özdemir, 2006, p.314). Hence, especially in the context of the 2001 crisis, the need for competitiveness in the world market entailed the intensification of capitalist work, increased flexibility and productivity. Law No. 4857, enacted in May 2003, was significant in this context, which envisaged significant changes in capital-labour relations in the workplace. This new Individual Labour Law introduced new forms of control on labour power, re-regulated the conditions of work, and facilitated flexibility and new types of contract.

Before analysing the new labour law, it is necessary to start with the 'Job Security' debate and legislation of 2002 enacted by the coalition government before the AKP, and its connection to 2003 law<sup>10</sup>. The former individual labour law no. 1475 (which passed into law in 1970), did not have any provision on 'job security'. The unions pressured for a job security regulation but the outcome of these efforts remained limited, and especially under the military dictatorship that proved to be impossible. However, with Turkey's acceptance of ILO convention No.158 in 1994, the union confederations attempted to force the governments to adjust to this convention on the legal basis, and made official complaints to ILO. The governments did not make any attempts to introduce related provisions. Nevertheless, in 2001 National Programme for the Adoption of the Acquis (EU), the government declared that job security law is on the agenda of the government as a priority (Çelik, 2003, p.44).

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<sup>10</sup> The term job security is used in the context of employers' responsibility to fire the workers with a 'just cause'. Employers would not be able to fire workers regarding their union activities, pregnancy, or because of the legal actions against them. The responsibility to prove that the layoffs have a valid reason would be on the employers as well (Yıldırım, 2006, p.246).

The Law no. 4773 which introduced ‘job security’ passed into law in August 2002 (just before the elections) with great controversy. As Duman (2014, p.142) suggests, it “was a concession made to the working class with populist motivations of the election period.” All capital circles and associations criticised the law sharply, and lobbied against it by common declarations and accused the government of ‘populism’ (*Milliyet*, 06.08.2002, p.9). According to Turkish capitalists, this regulation ‘dealt a major blow to the Turkish industry’ (Çelik, 2003, p.47). Actually, the ‘fear’ of the business associations was baseless. As Çelik argues, it was difficult to call this regulation a real ‘job security’ mechanism, since the scope of it was limited. According to the law, to be entitled to have this security, one had to work under a permanent employment contract, had to have a minimum of 6 months’ tenure, and had to work in a workplace which employed more than 10 workers (ibid, p.48). Considering the massive informal sector, and the number of workplaces with under 10 workers, the scope was indeed limited.

Nevertheless, as an outcome of pressures from the business organisations, the Labour and Social Security Minister Yasar Okuyan resigned (*Radikal*, 2002). Also, the implementation of the law was postponed to 15 March 2003. In the meantime, as a result of the 3rd November 2002 elections, the AKP came to power. AKP was in a contradictory position on this issue. When the party was in opposition, it strongly supported the enactment of ‘job security’ law, and even argued that the law was delayed, its scope was limited and the government acted under the pressure of ‘certain pressure groups’ (Yıldırım, 2006, p.246). However, when Recep Tayyip Erdoğan became the Prime Minister, “his very first decree was pertinent to postpone the implementation of the act until June 2003” (ibid, p.246). Nevertheless, this was cancelled by the then President Ahmet Necdet Sezer, and then the law became effective in March 2003 (Çelik, 2003, p.49).

The business organisations reflected their discontent with the law, and called on government to introduce the new individual labour law which would also cover the ‘job security’. It was also on the AKP’s policy agenda, as the Urgent Action Plan of the government envisaged the introduction of non-standard employment regulation in the Labour Law (p. 81; p.90). Hence, under these conditions, the AKP government enacted the Labour Law. No. 4857 in May 2003.

This law reversed the already limited scope of ‘job security’. With the new law, the job security protections would only cover the enterprises which employed at least 30 workers (World Bank, 2006). This was 10 workers in the earlier legislation. The implication of this change was the exclusion of almost half of the registered labour force from job security (Çelik, 2003, p.58), not to mention the informal sector workers. Also, with the new law, the compensation that the employer had to pay if the dismissal of the worker is based on an unjust cause had been decreased to 4-8 months’ wage, from 6-12 months (Çelik, 2010, p.70). Thus, the new Labour Law further limited the already narrow scope of job security, and was welcomed by all the capital circles.

The new Labour Law also introduced flexible working conditions<sup>11</sup> through legal recognition of atypical/non-standard employment contracts, namely part-time, temporary and contract labour; and new concepts such as ‘work on call’, ‘compulsory work’, and ‘overwork’, ‘intensified working week’, ‘the right to transfer the worker to another employer’ (Mütevellioglu and Işık, 2009; Özdemir and Yücesan-Özdemir, 2006). The law also gave the employers the right to “discharge workers collectively ‘in times of crisis’” (Oğuz, 2009, p.12). Hence the new labour law gave the employers much greater power in managing labour relations, ranging from determining the type of contracts to organising the working day at their discretion (up to 11 hours), and to extending the application of sub-contraction mechanism. Needless to say, this restructuring further paved the way for precarity, insecurity and de-unionisation in the labour market, and an increase in the rate of the exploitation.

The new labour law also envisaged the cancellation of severance pay and aimed at introducing a special fund for seniority payments, hence decreasing the responsibility of the employer. Severance pay, in the Turkish labour legislation, functions as a ‘quasi job security’ as it makes it more difficult for the employer to fire the worker for the possible costs (Çelik, 2003, p.61). Because of that, the unions harshly criticised this change and

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<sup>11</sup> As it was discussed in the chapter of 1991-2001 period in Turkey, the Turkish capitalists had already *de facto* introduced these types of employment as a measure of the revitalisation of labour movement in the early 1990s. It is also important to bear in mind that 50 per cent of total employment, and approximately 30 per cent of non-agricultural employment had been informal for the most of these periods, thus there is virtually no regulation applied to almost half of the total labour force (Mütevellioglu and Işık, 2009, p.184).

threatened the government with a possible general strike. This led to the postponement of the restructuring of severance pay indefinitely (Doğan, 2014, p.194).

Hence, overall, the new labour act restructured the conditions of the ‘capitalist work’ and employment contracts in the Turkish context, enabled further flexibility, and was also in line with the overall restructuring process and increasing competitiveness in the post-2001 crisis period. This would have significant effects on the labour movement and labour markets.

### **3.1.2. Unions, Labour Movement and Labour Relations**

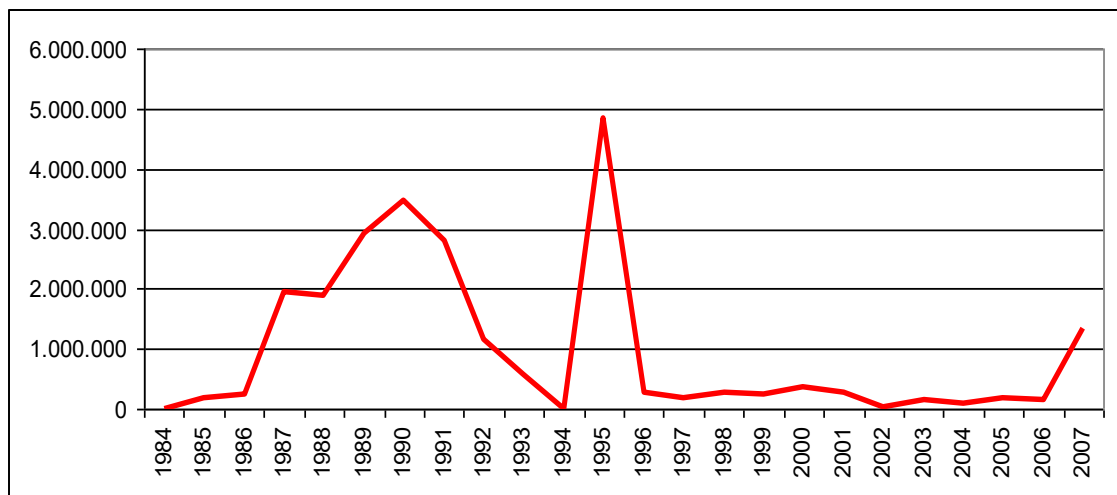
The already decreasing influence and the militancy of the organised labour were further exacerbated in the 2000s in Turkey under AKP governments. This was an ongoing tendency since the 1980s, as discussed in the previous chapters. The trade union policy of firstly the military junta, then the subsequent governments limited the impact of labour movement on policy-making, and after a brief revitalisation in the 1989-1995 period, organised labour could not intervene in politics in the crisis-ridden political economy of Turkey.

First of all, the legal framework of unionism and collective bargaining (Law No. 2821 and 2822), including the constitutional provisions (1982 Constitution), limited the strength of the unions in terms of organising and representing workers, and the means they could use were also limited (Çelik, 2012a). Secondly, the increasing tendency to privatise SOEs and the increasing informality and precarity were among the other important reasons.

Hence the unions were restrained by these conditions in the aftermath of the 2001 crisis. Also, after the crisis, the unions generally had difficulties because of the increasing unemployment and job insecurity, and decreasing living standards which reduced their militancy in terms of bargaining (Onaran, 2009, p.250). Furthermore, the increased debt levels of households following the 2001 crisis accompanied the developments in the labour market, which further exacerbated the dismantling of the social and collective resistance against austerity and led to individualised survival strategies.

Union density was 10% in 2000; it decreased to 7.8% in 2005 and to 6.6% in 2007. The underlying reasons for this decrease are mostly the same as the ones already explained in the previous chapters, that is: privatisation, increase of precarious employment, informality, sub-contracting, the repressive legal and political context, union-busting strategies of the employers, the non-confrontational unions (mostly new ‘Islamic’ unions) (Doğan, 2014; Çelik, 2012a). As a result, the struggles of the labour movement against privatisation, and other restructuring attempts (e.g. social security and labour law) remained mostly ineffective in the 2000s, because of a lack of a common strategy on the part of the unions. The relatively effective organisation of the 1990s, the Labour Platform, also lost its strength in this period because of the above-mentioned developments (Çelik, 2012b).

**Figure 7.3. Number of Days not Worked Due to Strikes, 1984-2007**



Source: Adapted by the author from Ministry of Labour and Social Security, *data on Strikes and Lockout*,

[http://www.csgeb.gov.tr/csgebPortal/ShowProperty/WLP%20Repository/csgeb/istatistikler/1984\\_2014\\_grev](http://www.csgeb.gov.tr/csgebPortal/ShowProperty/WLP%20Repository/csgeb/istatistikler/1984_2014_grev) (accessed 22.11.2014).

The number of striking workers was around 10 thousand in 2001. This number decreased to 5 thousand in 2002, 4 thousand in 2005 and 2 thousand in 2006 (Koç, 2010, p.468). Also, as it can be observed from figure 7.3, the number of days not worked because of

the strikes – which is a direct indicator of labour militancy – decreased significantly in the 2000s<sup>12</sup>, starting from the late 1990s.

Apart from this tendency to de-radicalisation, one cannot ignore the role of the state in repressing strike actions. For instance, in this period, the AKP government “did not hesitate to use its legal powers to postpone strikes deemed as “damaging national economy” (Yıldırım, 2006, p.251). Indeed, between 2002 and 2006, five important strikes in glass, mining and rubber sectors were postponed by the government on the grounds of “national security” and “public health” (Çelik, 2014)<sup>13</sup>. Clearly, the main concern of the government here was issues related to the ‘national economy’, rather than ‘national security’<sup>14</sup>. The government officials openly reflected these concerns. The then government spokesman Cemil Çiçek stated that the government postponed the strike in glass industry because they believed that it would damage the automotive sector and the economy in general (Çelik, 2008, p.124). Similarly, AKP’s then deputy president responsible for social policies stated that at a time when the country was trying to overcome the economic crisis it was not appropriate to go on a strike, as “you cannot risk losing your markets” (Yıldırım, 2006, p.252). Concomitantly, during this process, both domestic and international capital circles lobbied and pressured the government. The competitiveness agenda and crisis-resolution clearly showed the limits of the ‘democratisation’ process of the time, whose discourse clearly omitted the notion of class.

This continuation of crisis-resolution policies and authoritarian framework of labour relations further deteriorated the material conditions of the workers, and had significant impacts on the labour market, which is discussed in the next section.

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<sup>12</sup> The increase in 2007 was related to an exceptional strike in Turk Telekom (Çelik, 2012b).

<sup>13</sup> The term ‘postponement’ is dubious in this context. Under the current legislation, the strike can be postponed for 60 days. However, it does not automatically resume after 60 days. For this to happen, the administrative jurisdiction needs to inhibit or cancel the government’s decision. Otherwise, postponement means cancellation of the strike for an indefinite period (Çelik, 2014).

<sup>14</sup> It is interesting to note that even the National Security Council declared that the strike in the glass sector was not against ‘national security’ (Yıldırım, 2006, p.251).



### 3.1.3. Labour Market, Wages and Employment/Unemployment

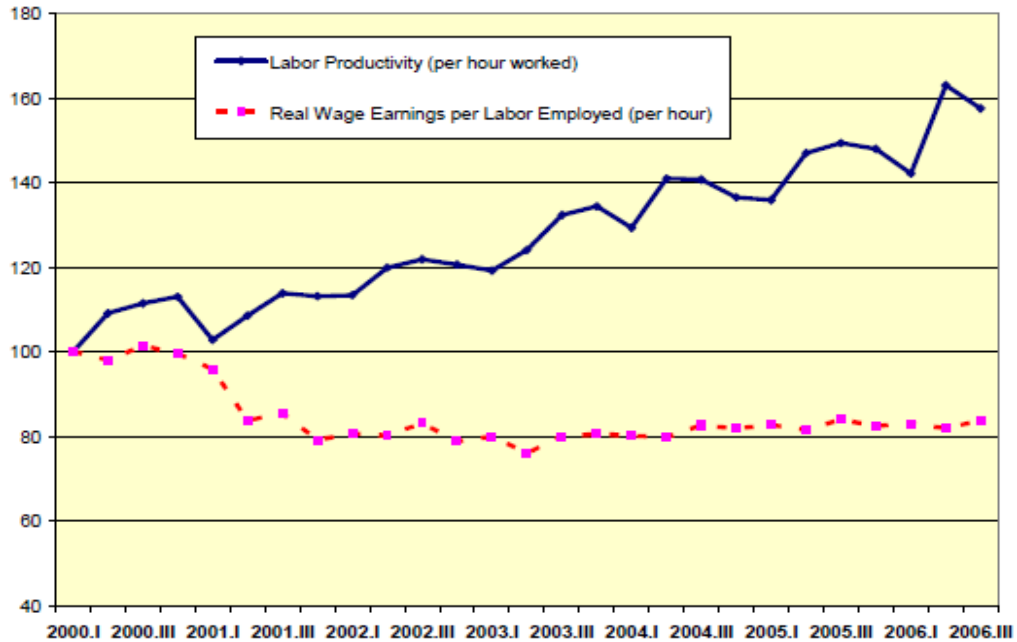
During the first AKP government, the effects of the 2001 crisis persisted in the context of labour markets indicators and wages. The ‘recovery’ process caused significant adjustments in the labour market, and led wage-labour to be the “absorber of the adjustment”, as it could be observed (Figure 7.4 below) from the gap between real wages and labour productivity following the 2001 crisis (Yeldan, 2009, p.17).

In the first three years after 2001, real wages decreased by 24.5%. The recovery starting from 2004 was not significant, as real wage levels were still 21.5% lower than their level in 1979, although there were significant productivity increases during this period (Onaran, 2009, p.251). Slowed wage growth was a result of labour market reforms and deflationary policies following the 2001 crisis, and this increased the demand for credit and therefore indebtedness of households through the extension of consumer credit to low-income people, reflecting the tendency in developing countries (Karaçimen, 2014b, p.11). A special report published in *Financial Times* indicates that the ratio of household debt to disposable income was negligible in Turkey in the beginning of the 2000s; however it increased to 36.6% in 2008 from 7.5% in 2003 (Zalewski, 2014), and further increased following the global financial crisis – dealt with in the next chapter.

Concomitantly, the monetary policy based on anti-inflationary credibility post-2001 crisis paved the way for the competitiveness based on increased labour productivity, rather than exchange-rate adjustments to boost exports (Akçay and Güngen, 2014, p.190). Hence both the absolute and relative surplus value extraction intensified in the post-2001 period. Following the 2001 crisis labour productivity figures showed a significant increase. There was a 27.8% increase in labour productivity between 1997 and 2003 (Duman, 2014, p.147). The average weekly working hours were 53.5 hours in dependent employment in 2006 (OECDStat, n.d.). Concomitantly, the manufacturing labour cost per unit value added was 0.27 in 2004 which was the lowest relative to comparative countries such as Mexico and Korea (World Bank, 2006a, p.22).

Another important characteristic of the post-2001 and first AKP government in Turkey had been the “jobless growth” pattern of the economy (Yeldan, 2009; BSB 2006). Immediately after the crisis, as discussed in the previous chapter, the official unemployment rate increased to 10% from 6.5% in 2000. Hence, despite the high growth

**Figure 7.4. Real Wages and Labour Productivity in the Turkish Manufacturing Industry, 2000-2006**



Source: Yeldan (2009),

performance of the economy following the crisis, the unemployment rate remained over 10% in 2007 (Table 7.2).

Moreover, there was a significant amount of ‘discouraged’ workers, who are ready to work but do not have any hope to find a job. The number of these labourers was around 1 million in 2001, and that increased to almost 2 million in 2006. With the inclusion of ‘discouraged’ workers, the real unemployment rate increases to 15.5% for the same period (Yeldan, 2009, p.4). This is in sharp contrast with the expectations that further flexibility and declining costs would create more employment (Onaran, 2009, p.252).

Informal employment also remained high during this period (see Table 7.2). The main reasons for the informality remained the same in this period, which were discussed in the chapter on 1991-2001. In this period, another significant factor was the effects of the 2001 crisis and further intensified privatisation implementations. The workers lost their jobs after the crisis and privatisation processes contributed to the persistence of informal

labour (Mütevelliöğlu and Işık, 2009, p.181). Employers chose this type of employment as the labour costs are low and the unionisation would not be a threat.

**Table 7.2. Labour Market Indicators, 2002-2007**

	2002	2007
Labour Force (Million)	23,818	23,114
Unemployment %	10.3	10.3
Labour Force Participation %	49.6	46.2
Employment %	44.4	41.5
Informality (Non-Agricultural) %	28.03	32.33
Union Density*	9.5	6.6

Sources: TurkStat (2012); \*OECD Statistics, *Trade Union Density* [https://stats.oecd.org/Index.aspx?DataSetCode=UN\\_DEN](https://stats.oecd.org/Index.aspx?DataSetCode=UN_DEN) (accessed 02.11.2014).

As Bozkurt and Yalman (2011, p.8) suggests, there seems to be an unspoken agreement between the state and the bourgeoisie, as there had been no systematic policy initiative for the reduction of the informal employment, although the problem was widely recognised in social policy and labour market documents.

#### **3.1.4. Neoliberal Social Policy Regime as a Containment Strategy**

In the post-2001 crisis period, and under the first AKP government, the working class had been affected in a negative way, as, it has been discussed in this chapter so far. The AKP followed the pattern of post-2001 crisis resolution and showed its commitment to the restructuring process in public finance, industrial relations, and the labour market spheres (Özden, 2014, p.158). Yet, despite this assault on labour, the party secured the support of

the labouring classes, especially the informal labour and the urban poor<sup>15</sup> (Çelik, 2010; Gürel, 2014). This could not be explained through the so-called ‘false consciousness’ of the working masses. Rather, it is significant to explain the specific means and policies that the Turkish state followed during this period, and how it contained the class struggle in the 2000s through neoliberal social policy regime. As Özden (2014, p.157) puts, “the current episode of neoliberal transformation in Turkey... is hard to understand without a proper assessment of the role new poverty alleviation strategies have played in co-opting, assimilating or appropriating potential opposition to market reforms.”

The social policy measures and social assistance strategies were indeed strategic for the AKP to sustain its ‘legitimacy’. The Turkish state thus had to administrate and alleviate the unpopular outcomes of the restructuring process, e.g. pauperism. In this context, the new approach of the World Bank and the logic of the AKP’s social policy approach – social assistance based on local municipalities, faith-based charitable organisations and public poverty reduction programmes (Özden, 2014, pp.168-169) – were perfectly consistent. Indeed, “Turkey has emerged as one of the first countries where the new organizing concept of the World Bank’s social protection strategy, that is, risk management, was put into practice in the current decade” (Yalman, 2011, p.234).

In the aftermath of the 2001 economic crisis, the World Bank and Turkish government agreed on a World Bank designed poverty alleviation strategy, the Social Risk Mitigation Project (SRMP). According to the World Bank Turkey representative, “the project aimed at reducing the negative impact of the February (2001) crisis on poor families” (Zabcı, 2006, p.111). Nevertheless, “it made a lasting impact on social welfare provisioning in Turkey” (Özden, 2014, p.169). The amount of the loan provided through the SRMP was US\$ 500 million (ibid.). Initially, the project was meant to cease in 2005, however it was extended by the AKP government until 2008, and then its components were taken over by the government (Yükseker, 2009, p.272). Thus, the “new approach to social policy was also enthusiastically embraced by the AKP cadres, who were aware... that targeted social aid produces greater electoral returns and far wider credit for politicians” (Özden,

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<sup>15</sup> In 2002, the party had been successful even in industrial towns and cities where a highly organised industrial labour constitutes the significant proportion of the population (Yıldırım, 2006).

2014, p.170).

The Bank decided that the ‘Fund for the Encouragement of the Social Cooperation and Solidarity’ would be the implementing body of the SRMP. The institution had been established in 1986 as an extra-budgetary fund, and it was transformed into the General Directorate of Social Assistance and Solidarity in 2004, operating through 931 Social Solidarity Foundations across the country (Bozkurt and Yalman, 2011, p.4). With this institutional restructuring in 2004, the Directorate gained a significant degree of autonomy, increased its resources from the extra-budget funds, and was moved away from public scrutiny and only accountable to the Office of Prime Ministry (Eder, 2014, p.211).

Conditional Cash Transfers (CCTs) became the most important component of the SRMP in the AKP period (Yükseker, 2009; Yücesan-Özdemir, 2012; Özden, 2014). This “innovative program”, according to the World Bank, “targets assistance to the poorest 6 percent of families in ways that both provide immediate assistance and help lift the next generation out of poverty in a sustainable way”<sup>16</sup> (World Bank, 2006b, p.42). The political impact of the CCTs was significant<sup>17</sup>. Hence, it became a very important component of the social assistance strategy of the AKP government, as even after the expiry of the SRMP, it maintained the CCTs through domestic resources (Yalman, 2011, p.239; Buğra, 2008, p.234). As it is noted in the World Bank SRMP report, the government of Turkey greatly exceeded the target coverage of 1.1 million people for the CCT program, and by January 2007, it had extended coverage to 2.63 million people (World Bank, 2008, p.8).

Although it was not initiated by the AKP government, the scope of the ‘Green Card’ programme implementation – the free health access provided by the state for the poor – expanded significantly and was used for political purposes arbitrarily by the AKP in this

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<sup>16</sup> The Conditional Cash Transfers were a part of the Bank’s new emphasis on ‘human capital formation’, which would be achieved through better education and health (cf. Yalman, 2011). This was also in line with AKP’s education policies aiming to increase the competitiveness of the economy through increasing human capital (İnal, 2012).

<sup>17</sup> In Eastern and South Eastern regions of Turkey, the rate of the population that benefitted from the CCTs was 14%. Hence, Buğra argues that the AKP’s significantly increased electoral success in 2007 in these regions reflects the impact of these transfers (2008, p.234).

period. For example, in 2002, the number of green card owners was 13 million; this increased to 13.4 million in 2004, and decreased to 6 million after 2004 local elections. It again increased to 9.3 million in 2005, and to 14 million in 2007, then decreased to 9 million after the 2007 general elections (Bakırezer and Demirer, 2009, p.168; Çelik, 2010, p.75).

In addition, various social assistance programmes were implemented during this period both through ministries and municipalities, as well as ‘civil society organisations’. These took the form of both in-kind and cash aids; varying from food, coal, clothes to direct cash transfers. In this approach, the religious and faith-based organisations play an important role, which complements the ‘civil society’ aspect of AKP’s social policy<sup>18</sup>, which is “communitarian-conservative” and “liberal” (Yücesan-Özdemir, 2012, p.146).

The critiques of the new social policy orientation in Turkey focuses on the mismanagement, clientelism, corruption, irregularity and arbitrariness of these implementations, and thus advocates a rights-based approach to poverty (see Buğra 2008, cf. Yalman, 2011). Hence, they do not “problematise the contradictory relation of labour and capital but poverty, which is itself an outcome of this relation” (Bozkurt and Yalman, 2011, p.5).

Indeed, the new social policy orientation, which actually manifests a continuity with the 1980s, attempts to exclude social problems such as poverty from the capital-labour relations. It tries to manage, alleviate, and contain the unpopular outcomes of the transformations in the social relations of production. This new approach helped move the debate away from the notion of class, distributional conflicts and employment policies of the government. Organised labour and collective rights are the targets of the state and capital for competitiveness and political purposes, which increases the dependency of the labouring masses on the various social assistance strategies.

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<sup>18</sup> For example, the two major charity organisations with an Islamic understanding, *Deniz Feneri* and *Kimse Yok mu* were awarded the status of Association of Public Interest by the Council of Ministers in 2004. This status gives them significant privileges such as collecting donations without prior permission from the state and tax exemptions (Özden, 2014, p.169). The impact of these organisations are huge and they gained further importance in this period. For example, according to the activity report of *Deniz Feneri*, the charity reached 470,000 families and gave them financial aid (ibid.)

This, in turn, helped the AKP to secure its electoral success by giving the message that the party takes inequalities seriously. The AKP, following a domestic crisis with the military over the presidential election in 2007, won the general elections with a greater majority, and would govern Turkey for another term. The next chapter will analyse the political economy of its second term in the context of continuities and ruptures.

#### **4. Conclusion**

The chapter argued that the 2002-2007 period, namely AKP's first term in office reflected a continuity with the post-1980 and post-2001 restructuring processes in terms of political economy and state-class relations. It dealt critically with the economic policies of the AKP government, and the 'success' in respect thereof. It argued that the period in question was marked by suitable world market conditions, which helped the Turkish economy to achieve high growth rates through its aims of securing credibility in the financial markets and competitiveness through labour market flexibility and productivity. The EU and IMF anchors were also significant in this context, which helped secure the inflow of capital with credibility signals, and helped state managers to shift responsibility for the fiscal austerity and tight money. Although the policy agenda was in the same direction as Turkey's neoliberal orientation in the 1990s, the 'novelty' of the 2000s was their seemingly 'successful' outcomes for the state managers; unlike the crisis-ridden 1990s. Hence, this era was conceived of as a 'rupture'.

However, the labour remained the object of the economic reform process, which further decreased the strength of organised labour. Furthermore, the legal changes and privatisation process put labour in a more subordinate position, by increasing precarity, insecurity and informality. 'The making of the indebted man' has been observed this time in Turkey in this period as a result of deteriorating conditions and deepening financialisation. The AKP, in line with WB poverty alleviation strategies and 'human capital formation', tried to contain the class struggle through various social policy measures, which reflect an amalgamation of neoliberalism, religious conservatism and community-family values in an increasing manner. The EU-backed 'democratisation' process did not bring about any change in authoritarian management of labour and state-class relations, which is the continuing character of the post-1980 political economy.

The crisis with the military in the 2007 presidential election process, and the 2007 election

results would pave the way for a more confrontational AKP in its second term, which would lead to a more authoritarian regime and the increasing influence of Islamist politics, as a response to both domestic political crisis and the global economic crisis.



## Chapter 8

### **Crisis, Confrontation, and Consolidation: AKP's Second Term in Power 2007-2011**

#### **1.Introduction**

This chapter analyses the political economy of AKP's second term in office, from July 2007 to the June 2011 elections. This period is marked by domestic conflicts within the Turkish state, and also the reverberations and impacts of the Global Financial Crisis of 2007/2008 on the Turkish political economy. When the global crisis made itself felt further in 2008 after the collapse of Lehman Brothers, the Turkish Prime Minister Erdoğan argued that “the crisis will pass at a tangent to Turkey” (Strauss, 2009). Considering the highly dependent nature of the Turkish economy on external financing conditions, the credibility of this famous statement has been questioned by many commentators (see BSB 2009; Aydin, 2013; Eğılmez, 2009), and the global crisis hit Turkey severely in 2008-2009.

AKP government's crisis management and its approach to economic policy-making during and in the aftermath of the crisis has been criticised particularly by big capital groups (i.e. TÜSİAD) on the basis of the slowing down of ‘economic reforms’ and increasing discretionary management by abandoning the IMF and EU anchors – which made the AKP loyal to rules-based management in the previous era. The AKP, in this period, started to show elements of a ‘clientelist’ approach towards its core constituency and close capitalist groups – i.e. MÜSİAD. However, this did not mean that depoliticised policy-making fully ceased. In particular, the conduct of monetary policy continued to be depoliticised by keeping the independence of the Central Bank intact. Also, in certain policy areas (i.e. banking supervision), an arm's length control was maintained. Nevertheless, well-known contradictions and tensions between depoliticised and politicised strategies – stemming from the capitalist crises – became apparent in AKP's second term. Discretionary policy-making was accompanied by increased practices of clientelistic approach towards core constituencies.

The chapter will therefore demonstrate that there have been elements of rupture within continuity in this era. There has been a continuity in the management of labour in an

authoritarian manner, and restructuring of labour markets for further competitiveness, flexibility and productivity, against the background of crisis. However, this term also witnessed AKP's gradual loosening of rules-based policy in managing the crisis. Faced with a military memorandum in 2007, and a party closure case in 2008, and also the effects of the global crisis which put the AKP in a politically precarious position; the party attempted to consolidate its power and confronted the 'old secularist establishment' within the state. These developments increased the contradictions in AKP's management of capitalist social relations, and led to further crises in AKP's third term, following the 2011 elections.

The chapter first evaluates the impact of the global crisis on the Turkish political economy. It then deals with the manner in which AKP handled this crisis-ridden state of affairs, namely the economic and political management of the crisis, and state's management of labour in the context of the 2007-08 crisis. The final section discusses the political crises and AKP's consolidation of its power.

## **2. Global Crisis and Turkey**

### **2.1. The Impact of Crisis on the Turkish Economy**

As mentioned in the introduction, Turkish state managers and the PM Erdoğan were optimistic when assessing the strength of the Turkish economy *vis-à-vis* the global turmoil. The first reaction of the state managers was to reassure the markets, and emphasise the 'sound' Turkish economy which was argued to be the result of the post-2001 reforms. Especially, the 'soundness' of the banking system – through the bank restructuring post-2001 – and the comfortable international reserves position were highlighted<sup>1</sup>, and the government adopted a 'wait and see' attitude (Öniş, 2012, p.143; Aydın, 2013, p.101). However, in the meantime, growth was already slowing down (it was 4.7% in 2007) and this made itself felt further towards the end of 2008. Following a 27 quarter of positive growth rate, from the first quarter of 2002 to the third quarter of

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<sup>1</sup> Foreign reserves were at a record high amount, US\$ 77 billion in September 2008; and Turkey's banking system boasted one of the highest adequacy ratios in the world (Öniş and Güven, 2010, p.11).

2008, the Turkish economy was contracted by 7% in the last quarter of 2008<sup>2</sup> (TurkStat).

**Table 8.1. Main Macro-Economic Indicators 2008-2011**

	2008	2009	2010	2011
GDP Growth %	0.7	-4.8	9.2	8.5
Inflation Rate %	12.0	5.3	5.7	8.9
Interest Rate %, Interbank Overnight	15.0	6.5	1.50	5.0
PSBR/GDP	1.62	5.05	2.36	0.14
Current Account Balance/GDP	-5.38	-1.89	-6.09	-9.64
Ratio of Exports to Imports	65.4	72.5	61.4	56.0
Gross External Debt/GDP	37.9	43.6	39.9	39.6

Sources: TurkStat (2012), World Bank Data, Ministry of Development

The previous chapter showed that Turkey's 'success story' in the post-2001 crisis was based on shaky grounds, and it did not change the country's fragile position in the world market, and thus its dependency on external flows of capital. As global liquidity conditions started to be unfavourable with the global crisis, however, financial capital inflows declined dramatically (Marois, 2012b, p.193). From August 2008 to January 2009, the 'hot money' flows declined by 45% (Durmuş, 2009, p.18). Also, as a consequence of the short-term capital outflows, there was a serious depreciation of the Turkish Lira, which fell in value by approximately 30% against the dollar, and 20% against the Euro (Hale and Özbudun, 2010, p.116). Following the crisis, not only the 'hot money' flows, but also the Foreign Direct Investment (FDI) flows decreased significantly, from US\$ 22 billion in 2007 to USD\$ 8.6 billion in 2009 (see Figure 8.2).

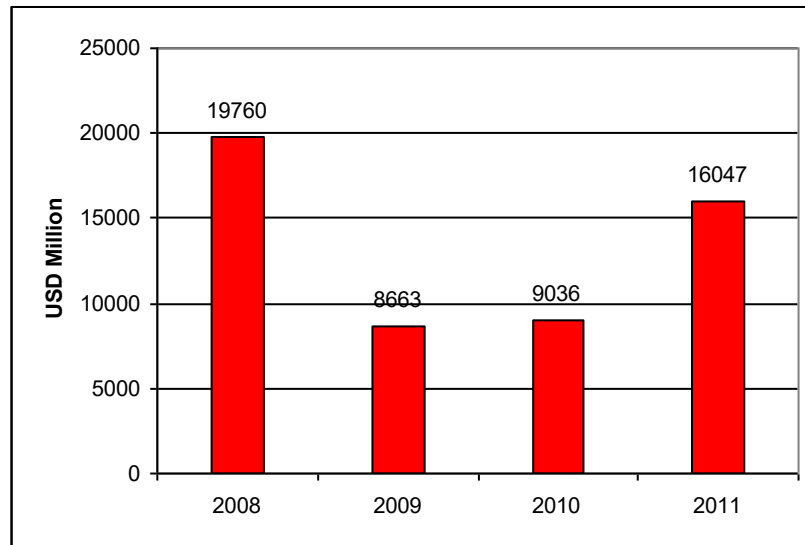
As a consequence of the crisis in the European markets – Turkey's significant trade

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<sup>2</sup> Concomitantly, the closure case against the AKP by the judiciary had already created some uncertainty in early 2008. Thus, for example, the second quarter growth rate in 2008 was only 1.9 % (Hale and Özbudun, 2010, p.115).

partner, the volume of foreign trade also declined. Exports declined by 22.7%, and imports declined by 29.9% in 2009. It is important to note that Turkey's export diversification, namely the gradual increase to Middle Eastern and other Islamic countries, helped to compensate for the loss caused by the crisis in European markets to some extent, but overall the export performance of the pre-crisis era had decreased (Bekmen, 2014, p.65). Nevertheless, the decline of foreign trade volumes had a positive

**Figure 8.1. Foreign Direct Investment Flows 2008-2011**



Source: Ministry of Economy, Foreign Direct Investment Report (2012)

impact on the current account deficit and the rate decreased to -1.89% in 2009 (see Table 8.1). However, once the same path was followed, it again started to increase significantly in 2010.

As a result the real sector was negatively affected by the crisis. In 2008, 37,000 enterprises were closed down, which was a 58.3% increase in closures compared to 2007. The Industrial Production Index (IPI) also declined by 14.9% in the last month of 2008. The capacity utilisation rate decreased to 64.6% in December 2008, from 80% in the same month of the previous year (Durmuş, 2009, p.19; CBRT Statistics). The most affected segment of industry was the small and medium sized enterprises (SMEs). With the contraction in these enterprises, the conditions of the working class were effected and the labour market reflected the impacts of the crisis. The unemployment rate jumped to 14%

in 2009, from 9.9% in 2008 in official figures (Öniş and Güven, 2010). Concomitantly, the industrial sector shed approximately 400,000 jobs and non-agricultural unemployment rose to 17% in February 2009 (Yeldan, 2013, p.128). Wages were also declined immediately and adjusted to the crisis conditions because of the weak union movement and resistance. From September 2008 to December 2009, the unit wage index in industry fell by approximately 17.5% (Öniş and Güven, 2010, p.5).

Gross external debt also increased in 2009. This indicator had significantly decreased in the aftermath of the 2001 crisis. Yet, this still did not resolve the Turkish economy's dependence on foreign capital. Also, the indebtedness of the private sector rapidly increased following the 2001 and 2008 crises. Contrary to the 1990s, there was no sovereign debt problem, but "the burden was passed entirely on the private sector, which relied on external funds to compensate for the chronic gap between weak levels of investment and much weaker levels of domestic savings" (ibid., p.9). Hence, the overall debt increase of the private sector increased by 350% between 2003 and 2008, which led to a fear of debt repayment crisis for the private sector<sup>3</sup> (Durmuş, 2009, p.19).

This picture and the empirical facts clearly contradicted the statements and expectations of the state managers, as the Turkish economy could not be thought of as isolated from the crisis-ridden world market and global circuit of capital. State managers argued that the economy was under control as the main indicators were significantly better compared to the previous crises. Turkey had its own banking crisis in 2000/2001 and now the temporary turmoil in the real sector could easily be contained through the strong financial structure (Aydin, 2013, p.102). There was an element of truth in the context of the banking sector as a result of the restructuring process following the 1999 and 2001 crises. Indeed, post-2001 reforms gave a resilience to the banking sector, as "immense political and social resources have been dedicated to re-aligning the relationships between the state apparatus, the banks, and Turkish labour" (Marois, 2012b, p.194). Therefore, in the context of "politics of blame attribution", the AKP government argued that they had done everything to keep the economy strong, and this was clearly not a problem of the Turkish

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<sup>3</sup> It is argued that big capital groups especially demanded an IMF agreement because of the level of their debt (Durmuş, 2009).

economy, but an externally-generated crisis, belonging to Western financial markets over which they had very little control (Öniş, 2012, p.143).

Nevertheless, this could not prevent declines in the GDP in 2007 and 2008. The Turkish economy's growth was only 0.7% in 2008, and it contracted by 4.8% in 2009 (see Table 8.1). There were serious warnings from the Turkish bourgeoisie throughout this process, urging the government to take measures. The chapter now assesses the management of the crisis, the measures taken, and tries to make sense of the mechanisms through which growth was restored starting with 2010.

## **2.2. State, Capital and Labour: Economic and Political Management of the Crisis**

### **2.2.1. Economic Measures: Removing Barriers to Accumulation**

As argued earlier in this chapter, the first reaction of the AKP economic management was 'wait and see', and "to quell financial instability and to restore the confidence of capital" (Marois, 2012b, p.194). The underlying reason for this was the 'policy obsession' of the policy-makers with sustaining the fiscal and monetary balances; and the policy orientation of the Turkish Treasury, Central Bank and BRSA reflected the aim of ensuring liquidity in the system without jeopardising the fiscal and monetary balances (Öniş and Güven, 2010, p.14). The government seemed to be uncompromising in terms of budget discipline, and PM Erdoğan urged the Turkish capitalists not to pressure the government for a crisis package (ibid., p.15).

Initially, the Central Bank, concerned with price movements and inflation target<sup>4</sup>, implemented a contractionary set of monetary policies in early 2008 (Dönmez, 2014b). In May, June and July 2008, it increased policy rates by 150 points (Serel and Bayır, 2013, p.62). However, the effects of the crisis led to the initiation of liquidity enhancing strategies in late 2008, without contradicting the overall price stability duty of the Central Bank (CBRT), in line with its depoliticised setting. In this context, the CBRT intervened in order to support the foreign exchange market by increasing its transaction limits and by extending lending maturities from one week to one month (Marois, 2012b, p.195).

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<sup>4</sup> Starting in 2006, Central Bank ended the 'implicit inflation target', and moved to "full-fledged inflation targeting" as its monetary policy strategy (CBRT, 2010, p.40).

Then, in late October, the Central Bank announced that it would provide foreign exchange liquidity through foreign exchange auctions as a response to capital outflows (CBRT, 2008). In order to increase liquidity further, the Central Bank decreased the banks' foreign exchange liability reserve requirements from 11 to 9 percent (Marois, 2012b, p.195). Following these, the Central Bank started to intervene through interest rates. Starting from November 2008, the Central Bank gradually reduced the overnight policy rates (Öniş and Güven, 2010, p.13). The Turkish policy-makers then expected that these liquidity enhancing measures and the soundness of the banking system would be sufficient to contain the damage in the real sector through improved credit options, which would, according to them, prove that the situation was contingent rather than structural.

However, the economic indicators and the pressure from the industrialists would mean that the government needed to change its attitude towards crisis management from early 2009 onwards (Aydin, 2013; Öniş and Güven, 2010). Also, increasing unemployment (16% in February 2009) and deteriorating conditions of the labourers were creating some discontent – reflected itself in a big demonstration in the capital city Ankara in November 2008 with the participation of 100,000 workers (Bianet, 2008). Combined with the overall economic downturn, this unrest was creating legitimacy problems<sup>5</sup> and showing the limits of depoliticisation strategies. As “the onset of serious financial crisis, industrial/civil unrest and widespread welfare/security concerns will always result in pressure for the state to ‘do something’ about problems in society” (Burnham, 2006, p.305), AKP government started to introduce more serious stimulus measures and packages starting in early 2009. Overall, the economic measures mainly relied on tax reductions and subsidies to promote investment and employment (Yeldan, 2010, p.20).

The first stimulus package was announced in March 2009 which attempted to boost demand and stimulate industrial capital. Specifically, Value Added Tax was decreased from 18% to 8%, and there were some additional tax reductions in large item consumption and real estate dealings (Marois, 2012b, p.195). Following these measures, in June 2009, the government loosened its ‘fiscal discipline’, and “public investments, consumption

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<sup>5</sup> Hereby, it is important to note that from 2002 to 2014, the only election where the AKP's votes decreased was the March 2009 local elections. The party had 38% which was its lowest share since the 2002 elections.

expenditures and budget transfers were expanded to offset the declining investment trend. Infrastructure investments were stepped up and electricity costs were reduced” (Oğuz, 2009, pp.13-14).

One of the most important aims of the post-2001 measures was ‘improving the investment climate’, which was reflected in the institutional structure of the YOİKK (*Council for Improving the Investment Climate*, introduced in Chapter 6) consisting of major business associations/representatives and state managers, and IFI representatives. The main purpose of this reform was increasing the competitiveness of Turkish industry in the world market and encouraging global capital for investment. Hence, as Oğuz suggests, the post-2008 measures which aimed at stimulating investments also reflect the continuation and consolidation of this policy orientation (2009, p.14).

Particularly important in this context were the various stimulus packages which were introduced in summer 2009; and it was envisaged that these measures would support Small and Medium Sized enterprises (SMEs) and new investments (Öniş and Güven, 2010, p.13). Specifically, for exporter SMEs, the government offered interest-free credits and allowed them to pay their debt in 2 years rather than 1 year (Yeldan, 2010, p.22). In the context of investment supports, the July 2009 Cabinet Decree on Government Subsidies draws particular attention since it introduced some sectoral and spatial/regional investment subsidy regime alongside corporate/income tax reductions, the payment of employers’ social security contributions by the Treasury, interest subsidies and land allocation for investors. According to their socio-economic development index, four regions were determined and each would be facilitated through specific incentives for investments varying from high technology to labour-intensive investments to improve ‘competitiveness’, which was perfectly consistent with the logic of improving the investment climate, and thus would create ‘investment paradises’ for capital (see Oğuz, 2009, pp.14-16).

As demonstrated earlier in this thesis in the context of the 1979-1980, 1994, and 2001 crises, the *sine qua non* of removing barriers to accumulation and increasing competitiveness is the restructuring of the labour market, an authoritarian union policy, and restructuring of social policy. In this context, the chapter now turns to measures



related to labour markets in the aftermath of crisis, in order to, once again, give a better sense of class-based crisis resolution.

### **2.2.2. Crisis and The Management of Labour: Restructuring of Labour Market, Labour Movement and Social Policy**

The working class was hit hard by the 2008 crisis in Turkey, similar to the earlier crises of 1994 and 2000/2001. That is to say, the workers and the wages took the burden of adjustment in the previous crises, as demonstrated in earlier chapters. Although a similar pattern could be observed in wages following the 2008 crisis – which will be dealt with later in the chapter – the specificity of the 2008 crisis stems from its effects on unemployment levels, which jumped to 16% in February 2009 from 10.3% in 2007, and ended up with 14% overall in 2009<sup>6</sup>. This meant that the number of unemployed people increased to 3.4 million in 2009, from 2.3 million in 2007 (TurkStat, 2012, p.132). With the inclusion of ‘discouraged workers’<sup>7</sup>, according to the Research Institute of DISK (Confederation of Progressive Trade Unions) the real unemployment rate was over 20% during 2009 (DISK-AR, 2009).

The persistence of high unemployment levels during the 2000s, and the dramatic rise of it during the 2008 crisis, are related to the post-2001 growth pattern of the economy which was defined by various commentators as ‘jobless growth’ (see, among others, Yeldan, 2010, p.15; BSB, 2007). The economic policy of AKP neither changed this situation nor included a consistent employment policy; it focused rather on anti-inflationary monetary policy and credibility (Onaran, 2009). For Turkish state managers and capitalists, the main problem regarding the issue of unemployment was believed to be the ‘rigidity’ of the labour market in Turkey. In the aftermath of the crisis, the Minister of Finance Mehmet Şimşek, for example, blamed the strict employment conditions and severance pay for the high unemployment rates (Çelik, 2015, p.8). Not surprisingly, this was used

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<sup>6</sup> Another characteristic of this unemployment was its duration. The yearly average of long term unemployment (those who had been unemployed for six months and more) was already 42% in 2008. This increased to 49% in 2010 (Yeldan, 2013, p.129).

<sup>7</sup> The official TurkStat survey defines this group as: “Persons not looking for a job yet ready to work if offered a job:(i) Seeking employment and ready to work within 15 days, and yet did not use any of the job search channels in the last 3 months; plus (ii) discouraged workers” (Yeldan, 2013b, p.126).

as a justification for further flexibilisation attempts following the crisis. Thus, combined with the persistent unemployment rates, “the flexibilisation and active labour market policy agenda has accelerated by the late 2000s, especially during and in the wake of the 2007-2009 crisis” (Bozkurt and Yalman, 2011, pp.8-9).

Before the stimulus packages related to the real sector, an employment package was announced in May 2008; in line with the further flexibilisation agenda and reducing the non-wage costs of employers, as well as containing social discontent. The May measures included the following: 5% reduction in social security premiums; employers hiring young workers (aged 18-29) or women would be excused from paying all their social security contributions for the first year, 80% in the second year and 20% in the fifth year; payments for the unemployed were increased by 11%; private enterprises would be exempt from providing sport facilities and infirmaries, and they would not have to employ convicts (Yeldan, 2010, p.21; Hale and Özbudun, 2010, p.117).

In February 2009, there were additional measures which introduced the extension of the short-term employment programme (reduced working time fund<sup>8</sup>) from three to six months and payments from this fund rose by 50%. While the number of people engaged with the programme was not over 300 between 2002 and 2007, this number increased to 503,279 in 2009, which shows the severity of the impact of the crisis. Another package followed in May 2009 which stipulated coverage of the employers’ share of social security premiums from the unemployment insurance fund, should they hire additional workers from April 2009 onwards (Yeldan, 2010, p.21). In June 2009, a temporary public employment programme was introduced. This included a new scheme for temporary public employment that aimed to directly create temporary public employment in a ‘Keynesian’ manner (renovating schools and hospitals, refurbishing public parks etc.), and also introduced public internship, vocational training and so on to increase the ‘employability’ of workers (Öniş and Güven, 2010, p.13; Yeldan, 2010, p.21).

Following these so-called ‘protective’ and cost-reducing measures, in August 2009 the

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<sup>8</sup> Reduced working time was first introduced in 2003, with Law.No. 4857 (Labour Law). It regulated the payment support to workers who work less or stop working because of their workplace’s economic and financial difficulty during crisis times.

government drafted new law amendments for further flexibilisation, as the ‘rigidity’ was the main complaint of employers. This law, which was known as the “new slavery law” by the general public, introduced the establishment of ‘private employment agencies’ through which companies would hire temporary workers. Hence, a private employment agency could transfer the worker to another employer for up to 18 months. The main employment contract would be between the private employment agency and the worker, thus the employer would be exempt from covering the worker’s social security and severance payments (Oğuz, 2009, p.16). Clearly, this would sever the employment relationship and would make union organisation almost impossible for these type of contracts. Strangely enough, however, President Abdullah Gül (former AKP member and foreign affairs minister), vetoed that part of the regulation because of pressure from ‘government-friendly’ labour unions’ (Doğan, 2014, p.199). The law, however, also allowed the use of Unemployment Insurance Fund for other purposes, such as incentive packages for investors through transferring sources to the Treasury, payments of the workers’ social and health insurance premiums, and infrastructure investments especially in the South-eastern Anatolia Project (Oğuz, p.17). Indeed, only 28% of the expenditures of the fund were disbursed as insurance payments as of June 2010. However a major component (over 50%) was transferred to the central budget for regional development and infrastructure plans for Southeastern Anatolia Project (Yeldan, 2010, p.30). As Oğuz puts, “all these measures once again show that the crisis was indeed turned into a tremendous opportunity for capital” (2009, p.17).

The government also started to discuss a more systematic and long-term restructuring process aiming for further labour market flexibility from 2009 onwards. Thus, in 2011, the National Employment Strategy was launched, covering labour market policies in the short and medium term. The strategy intended to reintroduce the vetoed temporary work through private employment bureaus, envisaged more flexible employment contracts, replacement of job security with ‘flexicurity’ alongside further decreasing non-wage costs for the employers, and introducing active labour market policy schemes (Özden, 2014, p.166; Bozkurt and Yalman, 2011, p.9). However, the government waited for its third term in power to enact this strategy officially. This was partly because of its purpose of reducing/eliminating severance payments, which was also opposed by the pro-government unions.

Hence, labour market policies as a response to soaring unemployment during, and in the aftermath, of the crisis led the government to have a more systematic approach to flexibilisation and introduce more capital-friendly measures in order to increase competitiveness. As Bozkurt and Yalman (2011, p.10) assert, these measures were also presented as possible remedies for the informality in the labour market “despite the fact that informality has already constituted an important form of flexibility for the employers with the opportunities it presents like exemptions from social security contributions and other ‘labour costs.’”

**Table 8.2. Labour Market Indicators, 2008-2011**

	2006	2007	2008	2009	2010	2011
Labour Force (Million People)	22751	23114	23805	24748	25641	26725
Unemployment %	10.2	10.3	11.0	14.0	11.9	9.8
Labour Force Participation %	46.3	46.2	46.9	47.9	48.8	49.9
Employment %	41.5	41.5	41.7	41.2	43.0	45.0
Informality (Total) %	46.9	45.4	43.5	43.8	43.2	42
Informality (Non-Agricultural) %	34.0	32.3	34.3	34.8	33.4	32.1
Union Density	7.5	6.6	5.8	5.9	5.9	5.4

Sources: TurkStat (2012), OECD Stats (Union Density)

Moreover, if the ‘success’ of these policies in the aftermath of the crisis are assessed, the result reflects the continuation of the highly informal and precarious structure of the labour market. The new jobs created through the employment and crisis packages were mainly centred over informal or small scale services and they were mainly not decent paying jobs (Yeldan, 2010, 31). Especially, the increase of employment in the agricultural sector draws attention. During 2008 and 2009, agricultural employment rose by 2 million, whereas manufacturing industry (which generally consists of formal and relatively unionised workers) employment fell and could not recover its pre-crisis levels in June

2010 (*ibid.*, p.33). This rapid shift to agriculture contributed to the persistence of informal employment and declining wages simultaneously.

The relative improvement in unemployment, employment and labour force participation rates was not significant (see Table 8.2), and reflected the scale and the level of success of the post-crisis measures, which were “short-term precautions to prevent potential social crises and explosions, rather than systematic, long term policies for the elimination of the root causes of the problems of poverty and unemployment” (Bozkurt and Yalman, 2011, p.10).

During this period, trade unions could not resist effectively against this ongoing restructuring process and crisis management. The AKP had a more confrontational and authoritarian stance in this period and attempted to restructure the unions through its increasing political power. The transformation within the biggest union confederation, Türk-İş (Turkish Labour Unions Confederation) is significant. As Doğan (2014, p.198) puts, “from the mid-2000s onwards, in a series of extraordinary congresses, the pro-AKP union bosses, most of whom were the financial managers of those unions, took the lead in Türk-İş.” The AKP desired a government-controlled or ‘symbiotic’ unionism, and the increase in the membership of pro-AKP and non-conflictual Islamist unions (mostly in the public sector employees, civil servants) reflects this attitude well (Çelik, 2012a, p.47). As a result, the unions were further marginalised in this period and their already weak mobilisation and radicalisation diminished significantly.

Concomitantly, AKP’s labour market and union policy perpetuated the informality and precarity leading to a further decline of the overall membership of the unions. Between 2002 and 2011 the unionisation rate declined by 38%, which made Turkey the country with the lowest union density amongst OECD countries. It is also significant to note that, during 2000 and 2011, the demographic base of unionisation expanded by 42% percent. (*ibid.*, p.45). Thus the decline in the unionisation rate becomes even more striking with this fact.

The most significant resistance against this labour market restructuring and increasing

precarity came from the TEKEL<sup>9</sup> workers in this period. The AKP government offered TEKEL workers insecure and precarious jobs in the public sector, after the privatisation process of the factories, which is known as 4-C status<sup>10</sup>. The resistance of the workers took the form of encampment, and lasted 78 days in late 2009 and early 2010 at the heart of capital Ankara, received a widespread popular support (Doğan, 2014, p.200), and also gained a political character shortly. Although the resistance ceased without significant gains, it was effective both in terms of challenging the conformist stance of the Türk-İş Confederation, and in creating a short term legitimacy crisis and confusion in the AKP cadres, as it was the “most sustained industrial unrest to confront the government... since 2002” (BBC, 2010). This was well reflected in PM Erdoğan’s words and gave an indication of further authoritarian attitudes by the government towards labourers: “We will never permit such a thing to happen again” (Özüğurlu, 2011, p.186).

In line with the overall restructuring process and management of labour power, the main development in social policy in this period was the enactment of a new social security law in 2008, Law No. 5510 – *Social Insurance and Universal Health Insurance Law*. As discussed in the previous chapter, this social security and health reform had been on the agenda of the Turkish state since the 1999 IMF stand-by agreement, and it was repeatedly emphasised in various Letters of Intent to the IMF in the 2000s, with some amendments taking place in the system since then. The AKP enacted the law in its first term in power in 2006, but some parts of it were initially vetoed by the then President, and then cancelled by the Constitutional Court. The AKP government reintroduced this reform in its second term and it was passed by the parliament. With the approval of the new President, the reform came into effect in October 2008. The increased deficit in the social security system – which was 6% of the GDP in 2006 – was the main motivation behind this restructuring.

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<sup>9</sup> Tekel was the state owned enterprise and monopoly of tobacco and alcoholic beverages which had been subject to privatisation attempts since 2003 and more recently it was sold to British American Tobacco in 2008. Now it is completely privatised. Before privatisation, it was employing 12,000 workers in 43 factories and in 21 cities in Turkey.

<sup>10</sup> The meaning of 4-C status was the decrease of wages by 30% approximately, and a shift in the employment contract from a permanent basis to 10 month period contracts with no guarantee of renewal (Özüğurlu, 2011, p.180).

The labour unions protested against the reform with some strikes and work stoppages, although their impact was limited due to the weakening of the union movement. The main reasons for the protests were the government's plans for further commercialisation of the social security and health system, and also "the increase in retirement age and the increase in the minimum number of days for which premiums are to be paid before retirement" (Eder, 2014, p.209). On the other hand, another purpose of the reform was to unify three separate public health insurance schemes under a single umbrella; that is the General Health Insurance scheme, with the purpose of "dismantling the previous hierarchy between state employees, workers and the self-employed" (Özden, 2014, p.168). It is argued that this would make the system more coherent and egalitarian, by questioning and changing the existing inequality in the 'old corporatist welfare regime' (Buğra, 2008, p.234; Hale and Özbudun, 2010, p.117; Eder, 2014).

The element of truth here is that the health reform increased the accessibility and coverage of larger amounts of the population, and "had obvious appeal for the poorest segments of the population (namely the unemployed and 'marginal' sector workers) and helped the AKP to win wider credit" (Özden, 2014, p.168). According to the reform, a minimal general healthcare for the poor would replace the Green Card scheme, however its implementation was postponed to 2012. Nevertheless, the law envisaged a more commercialised and privatised health system in general terms. For instance, the unemployed would have to pay premiums if their families' household income were to rise above two thirds of the minimum wage. For the workers, the co-payments to the system were gradually increased in the process of time. Furthermore, through the discourse of 'public-private partnership', the introduction of more competitive regulations (efficiency, performance management, being customer-oriented), and the encouragement and promotion of private hospitals made the country an 'investment paradise' for the private health and insurance sector<sup>11</sup>. As a result, the number of private hospitals increased to 450 in 2009, from 270 in 2002, and the private health expenditure of households tripled between 2002 and 2010 (Eder, 2014, p.210; Özden, 2014, p.167).

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<sup>11</sup> The Social Security Institution became the "largest customer buying and financing *both* public and private hospitals" (Eder, 2014, p.210). It is also important to note that the privatisation boom started before the 2008 law, through the AKP government's Health Transformation Programme which started to be implemented in 2003.

The discourse of Prime Minister Erdoğan and his government was quite effective in marginalising the opposition of the organised segments of society (unions and chambers of professionals) to the restructuring process in labour markets and social policy during this process. PM Erdoğan was able to present these restructuring processes as the aspirations of the unemployed, informal, and disadvantaged segments of society, and he directly attacked organised labour by defining them as ‘privileged’, ‘elitist’ and the supporters of ‘status quo’ (Özden, 2014, pp.167-168; Bozkurt, 2013, p.389). Such a discourse was also used to undermine public sympathy for the above-mentioned TEKEL workers, as they were presented by Erdoğan as ‘slack’ and privileged public sector workers.

Hence, the overall labour market restructuring strategy and discourse of the AKP in this term proved to be successful. The government used the global financial crisis as an opportunity for increasing competitiveness, which mainly relied on further flexibility in the labour market, increased productivity and stagnant wages, which will be demonstrated in the following recovery section.

### **2.2.3. Dynamics of Recovery: Class and Crisis-Ridden World Market**

The Turkish economy had a rapid recovery process in the aftermath of the crisis, unlike advanced capitalist countries. Indeed, the GDP growth rate was 9.2% in 2010 and 8.5% in 2011 (from 0.7 in 2007 and -4.8% in 2008) (see Table 8.1), which was the second highest rate of economic growth in the OECD area (Öniş, 2012, p.144). During this process of crisis management and recovery, the fiscal costs of the various stimulus packages as a ratio to the GDP were 0.99% in 2008, 3.41% in 2009, and 2.23% in 2010 (Yeldan, 2010, p.20). As a result of the AKP government’s stimulus packages and loosening of fiscal policy, the public sector borrowing requirement (PSBR) increased to over 5% in 2009 (Table 8.1; Marois, 2012b). As discussed earlier in the chapter, these various stimulus packages aimed to restore the ‘investor confidence’ and enhance capital accumulation whilst making Turkish labour more flexible, productive and thus competitive.

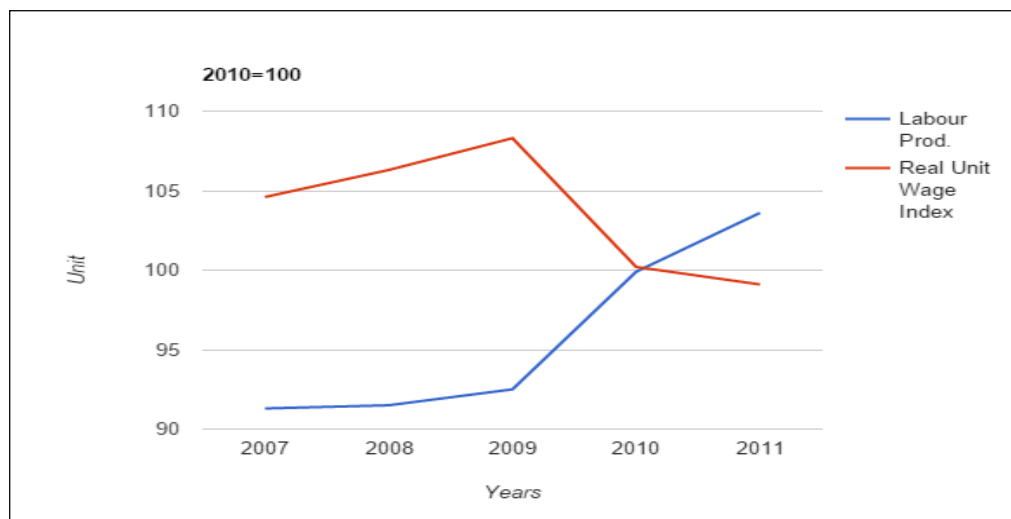
The crisis-ridden world market context, paradoxically, was very conducive for the AKP government and was one of the main reasons behind the quick recovery. The monetary policy of the developed countries in the aftermath of the crisis facilitated the conditions



for the so-called ‘emerging markets’ to attract foreign capital. In particular, the Quantitative Easing (QE) policy of the US Federal Reserve made cheap money available and, combined with the low growth and interest rates in advanced capitalisms, led to inflows of capital to ‘developing’ economies such as Turkey (Marois, 2012b, p.195). Whilst this served the basis for a rapid economic growth and recovery, however, it also led to the return of the same ‘vicious cycle’ similar to that seen in earlier periods. The inflow of capital caused the overvaluation of the Turkish Lira once again. This led to a significant rise in imports, which in turn led to an ever increasing current account deficit: The Current Account Balance/GDP increased to -6.09% in 2010 and to -9.64% in 2011 (see Table 8.1) which further increased the dependency and fragility of Turkish capitalism (Akçay and Güngen, 2014, p.191).

Concomitantly, the flexibility and ‘cheapness’ of labour power, as well as increased productivity, have been crucial for the recovery process. Indeed, as Figure 8.2 below demonstrates, the crisis and the recovery process led to a striking gap between labour productivity and real wages in Turkish industry. This is again an indicator of how crisis resolution is intrinsic in class dynamics, as it is well observed in the previous crises of the Turkish political economy.

**Figure 8.2. Labour Productivity and Real Unit Wage Index in Industry, 2007-2011**



Source: Adapted by the author from Ministry of Development, *Employment and Wage Statistics*, <http://www.mod.gov.tr/Pages/MainEconomicIndicators.aspx> (accessed 10.08.2015)

Furthermore, the effects of the 2008 crisis on the workers (unemployment and wage declines) further aggravated their dependency on debt, following the tendency which was discussed in the previous chapter (Karaçimen, 2014b, p.9). This was another source of demand and thus growth in the wake of the crisis. Indeed, household debt as a share of disposable income further increased to 47.4% in 2011, from 31.1% in 2007 (Zalewski, 2014). Moreover, this trend rather affected the low-income households most, as 42% of the borrowers of consumer loans were people earning less than TL 1,000 (Karaçimen, 2014b, p.2).

**Table 8.3. Exports According to Country Groups (%), 2007-2012**

	2007	2008	2009	2010	2011	2012
EU 28	56.6	48.3	46.2	46.5	46.4	39.0
Near and Middle Eastern	14.1	19.3	18.8	20.5	20.7	27.8
North Africa	3.8	4.4	7.3	6.2	5.0	6.2
OECD Countries	57.5	50.3	51.1	50.4	49.7	43.5
Organization of Islamic Cooperation	18.9	24.7	28.0	28.5	27.7	36.2

Source: TurkStat, *Foreign Trade Statistics*,  
[http://www.turkstat.gov.tr/PreTablo.do?alt\\_id=1046](http://www.turkstat.gov.tr/PreTablo.do?alt_id=1046) (accessed 10.12.2014).

The only different element which draws attention in the aftermath of the crisis and in the context of the recovery process is the composition of Turkish exports by countries and economic regions (see Table 8.3. above). Apparently, the Turkish policy-makers attempted to diversify the export markets in the wake of the crisis, as Turkey's traditional export destinations (EU and OECD countries) were negatively affected by the global crisis. On the other hand, this was also related to AKP's 'pro-active' foreign policy orientation which tried to influence the Middle East and North Africa as a legacy of the 'Ottoman Era' (Tanyilmaz, 2014, p.162).

All in all, the recovery process in the post-crisis era has been once again dependent on the availability of foreign funds, which increased import-dependency and made the current account deficit prone; which, in turn, made the economy increasingly sensitive to external shocks and made its position more ‘fragile’ *vis-à-vis* the global circuit of capital. This process also led to a further deterioration of the conditions of the workers. However, because of these dynamics discussed above (indebtedness, precarious and flexible work, unemployment), the working class has become more dependent on the ‘stability’ and social assistance strategies, ostensibly provided by the AKP, as chaos would mean ruin in their conditions. Concomitantly, the AKP government has been successful in manipulating the identity-based demands of these masses, moving class-based demands and economic policy away from workers.

AKP’s second term in power also brought the contradictions and tensions in its management of social relations to the fore, as both the economic crisis and domestic political crises led the party to have a more confrontational and authoritarian stance to further consolidate and grip power. Crisis led to a rather centralised management of capitalist social relations. Also, there have been tensions between the rules-based policy and discretionary management, as the AKP became critical of and gradually abandoned EU and IMF anchors, as the rules-based constraints believed to impede its electoral aims against the background of the crisis. This led to apparent tensions between big capital groups (TÜSİAD) and the AKP, as the party was blamed for following ‘particular’ capitalist interests. The following section thus deals with the politics of restructuring and its contradictions in AKP’s second term.

#### **2.2.4. Politics of Crisis Management and the Contradictions Thereof: Retreat from Rules-Based Management?**

When AKP took power with the 2002 elections, it had a strong adherence to the post-2001 restructuring logic. It sustained coherent relations with the EU and IMF to a great extent in its first term in power, and also pursued depoliticised and rules-based economic management to a great extent. This provided the government with a certain degree of legitimacy in managing capitalist social relations, against the background of its fragile position *vis-à-vis* the military and sceptical segments of the Turkish bourgeoisie. However, this stance started to change since 2006-2007 with the EU, and in the aftermath

of the 2008 crisis with the IMF. In this context, AKP's second term in office represents a more complex and contradictory management of capitalist social relations, as elements of "co-existence of politicised and depoliticised strategies" (Burnham, 2014) have been observed in this era. This process led to tensions between some segments of the bourgeoisie and the AKP over concerns of abandoning rules-based strategy.

AKP's politics of crisis management initially remained within the limits of a 'wait and see' attitude, and the government did not want to 'politicise' crisis management. As discussed earlier, when the crisis started to show its impact on the Turkish economy, the government blamed global conditions and argued that the crisis had nothing to do with Turkey's political economy, but was an 'externally generated' crisis over which they had no control (the so-called preference shaping depoliticisation, see Flinders and Buller, 2006). However, as discussed, there were serious demands from both capital, and to some extent, from labour as the impacts of crisis started to make themselves felt through rising unemployment, decreasing growth, and decreasing industrial output and exports.

This state of affairs had implications for the management of capitalist social relations and economic policy-making in this period. Whilst monetary policy has been kept depoliticised and Central Bank Independence has been maintained – albeit its failures on inflation targeting – the government attempted to have a closer control on some other economic policy areas which manifested itself in incentives and stimulus packages, and wider fiscal policy areas including proposals to increase Treasury borrowing (see Dönmez, 2014b). This led to a gradually more centralised decision-making process and further increased the authority of the executive branch over the legislative branch; apparently in order to facilitate a more flexible crisis management environment for the government (Oğuz, 2009; Özel, 2012).

Indeed, in order to manage crisis efficiently, the 'Economic Coordination Council' was established in early 2009 with Law No. 5838, consisting of ministers responsible for economic and financial affairs. The Council would be able to invite bureaucrats, private sector and civil society representatives to its meetings (Official Gazette, 28.02.2009). In practice, almost all "major decisions concerning crisis management were made in the 'Economic Coordination Council' meetings where top bureaucrats came together with the representatives of various capital fractions" (Oğuz, 2009, p.17). This process of

centralised decision-making continued, for example, with the establishment of the Financial Stability Committee towards the end of AKP's second term in office (in June 2011), chaired by the Minister responsible for the Treasury, and consisting of financial bureaucracy; with the main duty being "to determine and monitor systemic risks that might spread to whole financial system and to identify necessary measures and policy proposals in order to mitigate them" (Decree Law No.637, Article 38). It is rightly argued that this was an approach that put the government in control of the decision making process in these areas (Atiyas, 2012, p.78).

Concomitantly, in AKP's second term in office, similar to the Özal governments in the 1980s, governmental decrees and omnibus bills gradually became the AKP's "default legislative mechanisms... to speed up or to by-pass the normal administrative and/or judicial processes" (Bekmen, 2014, p.68). Various decree laws and omnibus bills were issued to manage capitalist social relations and contradictions – from privatisation to labour flexibility and restructuring of the judiciary – as a consequence of AKP's 'strong majority government'. Amongst them, Law no. 6111 draws particular attention, as this omnibus bill "changed more than 80 laws and decrees concerning work and employment, unemployment benefits, civil service, social security and health services" (Aydin, 2013, p.105). These changes had an impact on the right to unionise; and they further intensified labour market flexibilisation through expanding the extent of temporary, insecure and flexible work (ibid., p.105; Hoşgör, 2014).

Hence as a result, this process of policy-making and crisis management clearly helped to insulate policy-making from democratic demands (as it closed channels of democratic intervention and participation) and was the manifestation of more authoritarian management<sup>12</sup>; although in economic management, it increased the relative control of the government over the crisis dynamics (Dönmez, 2014b). However, this form of management has a potential to create legitimacy problems, as observed in TEKEL workers' resistance in 2009-2010 and the 2009 local elections where the AKP lost a significant amount of votes.

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<sup>12</sup> This process and management of crisis is discussed in the context of the Poulantzian term 'authoritarian statism' (see Oğuz, 2009). The term was developed by Poulantzas in his later work in order to define the changing form of the capitalist state as a reaction to the crises of 1970s (see Poulantzas, 2000).

Apart from centralised economic decision-making, another important area in terms of economic policy-making was AKP's contradictory and oscillating attitude towards the IMF. The 19th stand-by agreement with the IMF ended in May 2008, just before the impacts of the global crisis started to be felt in the Turkish economy. In July 2008, Turkey was the largest debtor of the IMF, accounting for 79% of the total credits from the General Resources Account and 52% of total outstanding credit and loans; and also had the highest quota/usage ratio with 608% of its quota (Demir, 2009, p.12).

Moreover, since 1998, the IMF anchor had been a major component of economic policy-making and economic policies, and it was also used as a 'scapegoat' by the state managers. This increasingly led to a significant anti-IMF sentiment in society (Aydin, 2013). At the same time, there were two upcoming elections in 2009 (local elections) and in 2011 (general elections) which the AKP was determined to win as its political position was fragile because of the tensions with the military, and the judiciary's closure attempt of the party. An IMF agreement in this context would put constraints on the government in terms of fiscal discipline and state expenditures which needed to be loosened before the elections (Hale and Özbudun, 2010, p.116). That is why the government remained indecisive and reluctant to sign a new stand-by agreement immediately after the end of the 2005-2008 stand-by agreement.

However, with the deterioration of the economic and financial outlook towards the end of 2008, the government started negotiations with the IMF, as "IMF support is considered as a signal of credibility to all international financial markets" (Özdemir, 2009, p.2). The preliminary talks started in October 2008 and full negotiations started in January 2009 with the aim of an agreement for a rather short-term (2 years) period (Hale and Özbudun, 2010, p.116). However, the negotiations did not reach a conclusion over a long period of time.

In this period, the two major business organisations, TÜSİAD (representing big capital groups) and MÜSİAD (mostly representing the SMEs, 'Islamist' and pro-government) pressured the government for different policy approaches in the context of IMF negotiations, and the difference between their interests became clearer. For TÜSİAD, a new stand-by agreement was of vital importance and the talks with the IMF had to be

finalised as quickly as possible<sup>13</sup> (*Hurriyet*, 2009). The main concerns for TÜSİAD were the external borrowing needs of the big manufacturing sector, preserving the ‘gains’ of the post-2001 measures, and the possibility of AKP government’s reluctance to sustain imposing fiscal discipline due to the party’s electoral concerns. On the other hand, for MÜSİAD, economic growth was more important than fiscal discipline; and a possible IMF agreement would impose new tax burdens for SMEs, reduce public spending and limit transfers to municipalities which would jeopardise the public tenders through which their members have been making significant profits because of their close relations with the AKP-run municipalities (Aydın, 2013; Buğra and Savaşkan, 2014, p.141; Bekmen, 2014, p.65).

Indeed, the major disagreement between the IMF and the AKP government was on two conditionalities regarding, firstly, the tax administration reform which would entail establishing an autonomous tax agency (a reform insisted by the IMF and WB since 2003), and secondly, cuts in municipal resources (Öniş and Güven, 2010, p.19). Turkey’s Minister of Finance Mehmet Şimşek stated that the government was expecting that “the IMF will be less orthodox and more reasonable, taking into account the extraordinary circumstances Turkey is facing” (Davis, 2009). However, negotiations with the IMF came to an end in March 2010 without an agreement, as economic indicators showed the signs of major improvement, and capital inflows increased (Aydın, 2013, p.104). Nevertheless, during this period, the Turkish government used the possibility of an IMF agreement “as a market-assuring pseudo-anchor at a time of economic free fall” (Öniş and Güven, 2010, p.18) as part of its strategy for increasing the credibility of its policies, giving the message that the government does not aim to implement discretionary policies.

Prime Minister Erdoğan repeatedly used the decision not to sign an IMF agreement as a political opportunity to use in domestic politics and election campaigns, as putting an end to unpopular “IMF tutelage” in the wake of a crisis would increase his popularity further and would also appeal to ‘national pride’. He stated that the country “can stand on its feet

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<sup>13</sup> It was not only TÜSİAD who immediately wanted an IMF deal though. The Central Bank Governor Durmuş Yılmaz also warned the government about an urgent deal with the IMF (Öniş and Güven, 2010, p.18).

and no longer needs money” from the IMF<sup>14</sup> (Strauss, 2010).

Another contradictory and ambiguous step in economic policy-making was in the area of the infamous ‘Fiscal Rule’. Following the end of negotiations with the IMF without a stand-by agreement, the Turkish government started to work on and drafted a ‘Fiscal Rule Law’, which would set binding rules in borrowing and budget deficit – i.e. limiting the government to a deficit of 1% of the GDP. Apparently, the record high (at least for the 2000s) 2009 PSBR rate of 5% (EU Rules for members is 3%) led the government to take measures on this for the credibility of policy-making, and to show the government’s commitment to fiscal discipline prior to the 2011 general elections (*Hürriyet Daily News*, 2010a). Since the 1998 IMF Staff Monitoring Programme, Turkish state managers relied on the IMF anchor for its budget plans and securing investor confidence, which required a 6.5% primary surplus. Lack of the IMF and upcoming elections would send a bad signal to the markets, and would increase the risks. Indeed, the Turkish State Minister responsible for Economy, Ali Babacan – who was the main defender of the rule – stated that “[c]redibility is everything in public administration and the faster we can implement this, the faster our risk premium will fall” (*Hürriyet Daily News*, 2010b). There had been a strong business support for the implementation of the Fiscal Rule, although TÜSİAD – despite its support – was slightly critical of the fact that the Ministry of Finance, rather than an independent (i.e. depoliticised) body, would monitor the implementation of the Fiscal Rule Law (*Hürriyet Daily News*, 2010c).

However, the drafted law also created some tension amongst the government members. Prime Minister Erdoğan eventually ruled out the implementation of the law, stating that the government had just put an end to IMF conditionality, there was no need to impose fiscal rules with such laws, and the country needed investments to boost growth. He also added that “[t]here is no need to create our own IMF” (BBC Turkce, 2010). Apparently

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<sup>14</sup> The use of external anchors in this way is common among politicians. As Bonefeld and Burnham (1998, p.41) explain in the context of Britain’s membership of the European Exchange Rate Mechanism (ERM) in early 1990s: “British government saw the purpose of ERM membership as a buttress for national policies. It was a source of authority outside the “nation” which could be appealed to for help, blamed for unpopular policies which were also the policies of the government itself, and, in case of political difficulties, either caricatured or, if need be, rejected as a German dominated European force that trampled the rights of Britain underfoot”



the government was rather concerned about the upcoming constitutional referendum and elections, and did not want to reduce spending. This move increased the already tense relationship between the AKP and TÜSİAD<sup>15</sup>, as the association emphasised that abandoning the implementation of Fiscal Rule “is a significant deviation from the rules-based policy-making” (TÜSİAD, 2010).

TÜSİAD’s complaints were not new, but increased in AKP’s second term. AKP’s policies, especially in its second term gradually disturbed the TÜSİAD, especially the significant amendments made in the Public Procurement Law (Buğra and Savaşkan, 2014, p.141), which turned into a base for ‘clientelistic’ relationship between the government and close businessmen. The association strongly criticised the amendments in Public Procurement Law in 2008, stating that the changes were against the EU acquis and fair competition; and would pave the way for ‘arbitrary’ decision-making (TÜSİAD, 2008). Furthermore, there were serious tensions between the AKP and TÜSİAD because of TÜSİAD’s emphasis on secularism, EU and IMF anchors, and its critical stance on the 2010 Constitutional Referendum<sup>16</sup> (Savran, 2014; Tanyilmaz, 2014). Erdoğan gradually increased his populist discourse and attempted to force TÜSİAD to declare its stance on the referendum, stating that “[h]e who is neutral will be eliminated”. Furthermore, he also added “[w]e will not leave this country to the hegemony of capital. You were able to play with governments as if you were playing with cats and dogs in the past, but you cannot do this with this government” (Champion and Parkinson, 2010). With this populist discourse, PM Erdoğan attempted to present the AKP as an anti-establishment force.

Although these tactical behaviours of the government at that time would not affect the fundamental relationship between the state and capital, this rather discretionary management in certain aspects of economic policy-making and gradual favouring of

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<sup>15</sup> It is hereby important to note that TÜSİAD member companies realise 80% of Turkey’s foreign trade, employ about 50% of Turkey’s labour force, pay 85% of corporate tax, and produce 65% of industrial production ([www.tusiad.org](http://www.tusiad.org)).

<sup>16</sup> In 2008, the AKP attacked the mainstream Doğan Media Group which is the biggest media group and holds a secular and rather critical stance towards government. The AKP imposed the highest tax fine in the Republican history (US \$3.8 Billion) on the Doğan group to punish its critical stance and restructure media power (Bekmen, 2014, p.66; Buğra and Savaşkan, 2014, p.97).

capitals or groups of capital close to government increased the contradictions and tensions in AKP's rule, which would become more apparent in its third term in power.

For the AKP, the (external) anchors were no longer useful, and, faced with global crisis and domestic political crisis, increased control over crisis dynamics and consolidating its power became more important. It therefore abandoned the anchors, although it still retained the depoliticised character of policy-making in certain areas (i.e. independent Central Bank, and independent Banking Regulation and Supervision Agency) in order to secure its credibility in the financial markets (see Bekmen, 2014).

In this sense, it could be argued that depoliticised management was successful following the 2001 crisis until 2005-2006, or in AKP's first term in general. In AKP's second term, there had been contradictions and cracks in depoliticised management under crisis-ridden social relations; although the government continued to be shielded to a certain extent by managing the tensions between depoliticised and politicised management (see Dönmez, 2014b).

### **3. Consolidating Power: AKP and Political Restructuring**

AKP's second term also represented elements of rupture within the political realm of the Turkish state. As previously mentioned, AKP's first term in office was marked by the possibility of EU membership, and a 'reform process' in state-society relations. Alongside the IMF, during this period the EU anchor helped the government to externalise/depoliticise especially economic policy-making and shift responsibility for the consequences of a wider restructuring process. Concomitantly, the EU reform process was also useful for the government in order to gain the support of sceptical capital groups, civil society, and intelligentsia; thus it helped government to increase its legitimacy and make attempts to isolate and decrease the role of the military. It is on this basis that the AKP rule was identified with democracy and rule of law, and the process started with the 2002 elections was seen as a rupture in state-society relations, or the AKP rule in general was identified with a 'revolution' on the basis of EU-backed democratic reforms (see Keyman, 2010; Keyman and Öniş, 2007; Barkey and Çongar, 2007; cf. Yalman, 2012). Relying on the 'strong state tradition's arguments, these accounts argued that AKP represents the democratic 'civil society', and therefore represents the 'struggle' against the 'centre' – namely the (anti-democratic) state relying on the power of military and

judiciary; thus the party should be supported against this anti-democratic state structure. The 2002-2006 period is crucial for these accounts, as it is argued that the party materialised an ‘unprecedented’ democratic reform process.

However, from 2006 onwards, the EU negotiation process slowed down as a result of the rejection of the EU constitution in France and the Netherlands, and the election of leaders who were against the membership of Turkey. Finally, the crisis over the Cyprus issue decreased the influence of EU membership in Turkey (Akça, 2014, p.34, *The Economist*, 2007a). It gradually became apparent that the AKP’s EU-backed democratic reforms were a legitimisation strategy for the government, rather than representing a genuine democratisation process. Furthermore, the extent of this reform process was very limited and selective; and the effects of this process on restructuring class relations and the exclusion of workers’ socio-economic rights from the ‘legal reform process’ have been omitted in the above-mentioned accounts, which showed the limits of ‘democratic reforms’. Hence, “there is a *great consensus* among liberal intellectuals at home and abroad of eliminating issues of class in the analysis of Turkey’s experience with the AKP” (Yalman, 2012, p.31, italics in original).

Nevertheless, even this limited reform process came to an end by 2005-2006, and AKP started to increase authoritarian practices gradually. The new Penal Code which was enacted in 2005 “redefined terror crimes in a way that included many legitimate political and social protest acts” (Akça, 2014, p.38). Also, changes in the Anti-Terror Law in 2006 expanded the definition of ‘terrorist crimes’ and the concept of ‘terrorist organisation’ (ibid., p.38). This led to the ‘criminalisation’ of any dissident political voice and protest. For instance, as a result of these changes, dissident Kurds were arrested in 2009 for allegedly being members of Kurdish Communities Union (KCK) (Aydin, 2013). Concomitantly, amendments to the Law on Powers and Duties of Police in 2007 expanded the police forces’ ‘right to use force’ and thus increased the ‘torture’ and ‘violence’ practices of the police, which would be quite functional in terms of repressing the dissent (Bedirhanoglu, 2009, p.61). The old State Security Courts were abolished; however they were replaced by Special Courts for Serious Crimes which were used for exceptional trial processes (Akça, 2014).

Another important step in AKP’s consolidation of power was the 2007 elections. The July

2007 general election was marked by the political crisis over the election of the president prior to the general elections. The military issued a memorandum over the candidacy of Islamist AKP member Abdullah Gül – the then Minister of Foreign Affairs; warned the government against anti-secular activities and made it clear that the military would remain as the guardian of the secular state. After the first round in parliament, the opposition Republican People’s Party argued and made a claim to the Constitutional Court that the parliament lacked a quorum for the election of the president (*The Economist*, 2007b). The Constitutional Court’s verdict was in favour of the military and the opposition, and AKP’s candidate was blocked. Thus, the AKP called an early election for July 2007 to resolve the crisis, which resulted in a landslide victory for the party (47% of the votes).

This outcome strengthened AKP’s hand, and the government adopted a more confrontational stance against the military and high judicial bodies in its second term. Although the government gradually increased its authoritarian stance; for many intellectuals the AKP had to be supported against the military, as already mentioned, because it was seen as the representative of the civil society against the state, or the democratic force against anti-democratic state. Following this, in AKP’s second term, the government “launched an offensive against the military, based on allegations of military-inspired plots to overthrow the government” (Akça, 2014, p.36). On this basis, the *Ergenekon* trial began in 2008 to prosecute an allegedly ‘gladio-like’ organisation, and this led to the arrests of academics, politicians, journalists, lawyers, businessmen and high-ranking serving and retired military officials. Such a confrontation with the military had not been observed in Republican history, and it was praised by intellectuals as the AKP was believed to be trying to abolish the ‘anti-democratic military tutelage regime’ and the so-called ‘strong state tradition’. Following this process, the AKP increased its power over the military, and there were further court cases against the alleged coup and plot attempts (e.g. *Balyoz* case in 2010). The AKP also hindered the appointment/promotion of high-ranking generals in 2010 and 2011, who were thought to be engaged in coup d’état attempts (Akça, 2014, p.36).

Another significant development in terms of AKP’s confrontational attitude was related to high judiciary bodies. In March 2008, the Chief Public Prosecutor of the Court of Cassation initiated a closure case against the AKP, accusing the Party of being at the centre of anti-constitutional and anti-secular activities which would jeopardise the main

principles of the secular Turkish Republic (Hale and Özbudun, 2010, p.74). The Constitutional Court's verdict was not to ban the party, however the court noted that the party violated the secular character of the regime. Alongside various court decisions which had been against the political practices of the AKP, this was the main motivation for the government to restructure the judiciary system. This aim was achieved through the 12 September 2010 constitutional referendum<sup>17</sup>, which was mainly related to constitutional amendments on the operation of the Constitutional Court and High Council of Judges and Public Prosecutors. With these amendments, the executive (the president and the government) gained the necessary powers in the appointment of the new judges to these institutions (Özdemir, 2012, p.50; Akça, 2014, p.37). Hence, these above-mentioned developments “culminated in the serious weakening of Kemalist ranks within Turkey's civil and military bureaucracy” (Bekmen, 2014, p.68).

Although the EU candidacy scenario was gradually marginalised in this period, the AKP government used it for legitimacy purposes when needed<sup>18</sup>. It represented the above-mentioned processes as necessities for achieving Turkey's membership bid. It is also important to note that, albeit with some hesitations, the EU supported these processes as necessary steps for democratisation and rule of law (see EU Progress Reports, 2009; 2011).

From a critical perspective, it could be concluded that this so-called democratisation project was actually a project of replacing military tutelage with a more authoritarian neoliberal (beyond already authoritarian capitalism, in Turkey and globally) and

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<sup>17</sup> The date of the referendum had a symbolic meaning, which was the 30th anniversary of the 12 September 1980 military coup. This tactical behaviour of the AKP government was well presented by the party. They claimed that with this referendum, the 12 September regime would come to an end, since the amendments would allow the trial of the military junta members of the 12 September 1980 coup. The changes also envisaged the ban of gender discrimination and enhanced civil liberties and personal privacy, as well as introducing collective bargaining right to civil servants (excluding the right to strike, however). Thus, this also had an appeal to some of the 'left wing' parties and organisations, which supported the amendments. The amendments included various anti-democratic measures, however, and the government did not allow voting on the amendments separately. Hence, some measures were added only for “democratic window-dressing”, to gain wider support (Özdemir, 2012, p.50; Aydın, 2013, p.106)).

<sup>18</sup> The government referred to EU *acquis* also when drafting the Fiscal Rule, or implementing the Social Security Reform, implying that they were needed for converging EU standards.

gradually more Islamist regime<sup>19</sup> (see Akça et al., 2014, p.3), whose contradictions would become more apparent in AKP's third term, following the 2011 elections. The dynamics of this tendency, however, became gradually apparent in AKP's second term, namely in 2007-2011, against the background of global financial crisis and domestic political crisis.

#### **4. Conclusion**

This chapter analysed the AKP's second term in power in the context of changes and continuities. Being dependent on the global circuit of capital, Turkey was naturally affected negatively by the Global Financial Crisis of 2007-2008, despite the expectations of the AKP government. The management of labour under crisis conditions represented a continuity with the overall neoliberal restructuring process since the 1980s. The measures and stimulus packages which emphasised the need for further competitiveness entailed labour having the burden of adjustment and recovery, and led to further flexibilisation of the labour market as well as the persistence of informal and precarious employment. Organised labour was thus further marginalised and deradicalised in this period as a result of continuing authoritarian management of labour power and AKP's trade union policy.

The 'historical' anchors of policy-making in Turkey, the EU and the IMF, lost their significance to a great extent, although the government utilised them for credibility purposes when needed, and likewise rejected in order to appeal to nationalist sentiments. Particularly, the government presented the end of 'IMF tutelage' as a success story, as the Fund has been used as a scapegoat for unpopular policies in the past. Hence, following both the domestic political crisis (military memorandum and party closure case) and the global crisis, the government further centralised state power under its control in an increasing manner (Bekmen, 2014; Hoşgör, 2014). This led to the management of the contradictions of capitalist relations of production increasingly under the executive, rather than the legislative mechanisms. The lack of external anchors and AKP's stance on Fiscal

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<sup>19</sup> For example, the importance and density of religious education was increased by the government, and the number of Kuran courses increased from 3811 in 2003 to 13051 in 2012, and the budget of Directorate of Religious Affairs (Diyanet) increased fourfold since 2006, as well as its bureaucratic significance (Lepeska, 2015; Buğra and Savaşkan, 2014).

Rule led to the debates on AKP's abandoning the rules-based approach, and its preference for discretionary management. Certainly, the lack of EU and IMF anchors led the AKP to have more discretionary management, but for credibility concerns, monetary policy was kept depoliticised and the independence of Central Bank was not questioned in this term (Dönmez, 2014b).

Following a rapid recovery because of the ongoing crisis in the advanced capitalisms which again created favourable conditions for Turkish capitalism in the short term, and in the absence of a strong opposition as well as the deradicalisation of labour movement, the AKP was ready for its third election victory in the June 2011 elections. However, the marginalisation and exclusion of some segments of the population, and increasing authoritarian political Islamist tendencies of the AKP government, against the background of the end of 'easy growth' years as a result of global recession, would mean that it would not be possible to 'govern' in the old way in its third term in power.

## Chapter 9. Conclusion

### 1. Research Summary and Findings

The aim of this thesis was to offer a critical and class-based approach to the restructuring of the Turkish political economy in the 2000s. The developments in this decade were marked by the infamous February 2001 economic crisis, and the AKP's rise to power with the November 2002 elections. The thesis located the rise of political Islam in Turkey in general, and AKP's rise to power in particular, within crisis-ridden capitalist democracy and social relations following the 1980 military coup. Unlike the governments of the 1990s, this thesis argued that the AKP seemed to provide a stable polity, and was rather successful in its first two terms in office in regulating class relations and containing class struggle, while consolidating its power within the state.

In its first term, the AKP continued the depoliticised economic management which had been initiated by state managers especially following the 2001 crisis. It was successful in containing the class struggle and achieving capital accumulation – partly due to the appropriate external conditions – and the party gained a significant degree of legitimacy. The domestic crisis with the military and the judiciary in 2007-2008 helped consolidate its electoral power, as the party presented itself as the force of democracy against the anti-democratic state structure, namely the so-called 'military tutelage'. Its popularity also helped it to confront these powers in its second term, whilst allowing the party continue the economic and labour market restructuring against the background of the 2008 global financial crisis and its effects on Turkish political economy.

The 2008 global financial crisis, and the party's attempts to consolidate its power *vis-à-vis* the 'old secularist establishment' increased social tensions and led to questions about the AKP's ability to 'govern'. These developments came about in a context in which the government gradually abandoned the EU and IMF as an external anchor in economic policy-making. The result was a gradual increase in discretionary policy-making in certain policy areas; whilst retaining a formally depoliticised framework in some other areas due to credibility concerns. This government strategy was increasingly criticised by the big capital organisations (i.e. TÜSİAD) as a deviation from 'rules-based' policy. Discretionary policy-making was seen as a manifestation of clientelism at the expense of



rule of law.

External anchors proved both inconvenient and impractical as the party set out to win two consecutive elections (2009 local elections and 2011 general elections) through restoring growth via deficit financing strategies and expansionary policies. The deradicalisation of the working class and the containment of class struggle also “allowed the state to easily pursue recovery policies without a need for legitimisation by international institutions” (Duman, 2014, p.192). Following a quick recovery and high growth rates in 2010 and 2011, the party won the 2011 elections with a landslide for the third time. However, the increased tensions and further authoritarian tendencies – combined with unfavourable world market conditions this time – would prove the AKP government’s third term to be crisis-ridden, the roots of which could be observed in its second term.

This account, it is argued in the thesis, is radically different from conventional approaches to the period in question which assess the post-2001 crisis, and AKP’s coming to power in 2002 as a progressive rupture. The accounts in question rely on the epistemology and methodology of conventional political economy and IPE approaches, which reject a *philosophy of internal relations* (Ollman, 2003). Hence, the relations between apparently diverse phenomena, i.e. the state and the market or society, are seen as relations between ‘thing-like’ institutions which ‘interact’ with each other only externally. Such a reading in the Turkish context, for instance, does not focus on restructuring processes in terms of class, and labour becomes external to the restructuring of state and economy (Burnham, 1999). Similarly, the state is seen as a ‘thing’ losing power to markets, say, in the aftermath of ‘globalisation’ or capital account liberalisation in 1989. It then regains the control through the ‘regulatory state’ in post-2001 crisis. However, from the perspective of the CSE approach, this thesis argued that these are the strategies developed by state managers in order to restructure labour/capital relations as a means of managing crises in a capitalist society.

Hence, this thesis, against the conventional approaches to the Turkish state in general and the AKP period in particular, aimed to develop a “systemic analysis of the relation between the capitalist state and its basis, capitalist exploitation of the working class in the process of accumulation” (Holloway and Picciotto, 1978, p.7).

From this theoretical perspective, the thesis emphasised the significance of a class-based account of capitalist development in Turkey, and argued that the pivotal 1980 military coup is best understood against the background of militant class struggles of the 1970s. In the perception of the Turkish bourgeoisie and the state, the Turkish political economy was seen to be under threat of a ‘revolutionary’ situation. This led to the unification of the demands of the bourgeoisie in the direction of a radical political and economic restructuring. The economic restructuring programme could not be implemented because of the highly unstable and politicised conditions and societal opposition. The military coup of 12 September 1980 thus cut the ‘Gordian Knot’, and paved the way for the restructuring.

Drawing upon Yalman’s analysis (2009), the thesis argued that the post-1980 regime aimed to put an end to class-based politics. During the 1980s, labour relations were reframed in an extremely authoritarian manner, and the militant labour unions of the 1970s were disbanded and their leaders were imprisoned, if not shot.

The 1980s also witnessed the introduction of a new form of economic integration to the world market; that is export-oriented growth strategy based on exchange-rate adjustments, export incentives, and, most importantly wage repressions. However, towards the end of the 1980s, revitalisation of the labour movement reversed this trend. The problems in the capital accumulation process led the ANAP government to make an early decision towards capital account liberalisation in 1989, in order to remove barriers to accumulation. Despite expectations that productivity increase and sustained growth would be achieved as a result of this move, capital account liberalisation was the triggering factor of the crises in the 1990s under highly unstable coalition governments, leading to ‘credibility’ and predictability problems. The peak point of this process was the February 2001 crisis.

The post-1980 economic and political developments also provided an appropriate environment for the Islamist movement, which remained marginal under the highly secular political establishment prior to 1980. In contrast to accounts which emphasised the ‘independent’ Islamist bourgeoisie (emerging in the 1980s as a result of export-led strategy) and its role for the development of this so-called ‘civil society’ movement, this

thesis argued that a ‘controlled Islamisation’ was preferred by the post-1980 establishment against the background of the threat of socialism of the previous era.

Furthermore, rather than engaging in ‘culturalist’ explanations, throughout the thesis, the rise of Islamist politics or political Islam has been explained in class analytical terms in Chapter 5. The neoliberal policies aggravated inequalities within the society. The ‘social democratic’ parties of the post-1980 era did not address the anti-labour policies especially in the 1990s, rather they were the bearers of these policies – being part of coalition governments. Under these conditions, the ‘radical’ discourse of the Islamist Welfare Party had an appeal among the increasing informal labour and the so-called urban poor. Although this discourse was abandoned gradually, and the ‘reformist’ wing of the Islamist movement developed a more pro-capital discourse through the AKP, these segments of society continued to be contained through the representatives of the Islamist movement.

Hence, unrest and dissatisfaction with the establishment reached peak levels with the 2001 crisis, which created legitimacy problems for the existing political parties, and the state itself to a considerable extent. Chapter 6 discussed this process of legitimacy crisis and debates around technocratic government scenarios, and showed how resolution of the crisis of the political economy was attempted through technocratic and depoliticised management. This chapter located the rise of the AKP within this process of crisis and its resolution. The AKP was seen as the only ‘uncorrupt’ political actor, and won a landslide victory – also benefitting from the anti-democratic electoral system – and formed the single majority, ‘strong’ government in 2002, for the first time since 1991.

As discussed in chapter 7, the AKP’s first term has been praised by many commentators, and its economic performance has been regarded as a real success story. It is argued that the democratisation process through the EU, and the tremendous economic reform and growth performance backed by the IMF, WB as well as the EU, would put an end to the problems of the Turkish state – hence a progressive rupture in the direction of a democratic, accountable, effective state. Thus, liberal accounts argued that economic reforms and changes were underpinned by a process of deepening democracy (see Acemoğlu and Üçer, 2015). Also, AKP’s embracement of the post-2001 reforms has been praised by the sceptical big capital groups represented in TÜSİAD, which was an important legitimacy source for the AKP *vis-à-vis* the military.

Instead of engaging in ‘progressive rupture’ claims, however, this thesis focused on the fundamental continuities in the restructuring of state-class relations since the 1980s. In this context, it is argued that the AKP’s first term in power represented further labour market flexibilisation and competitiveness (2003 Labour Law, wage discipline, increased labour productivity), a comprehensive privatisation policy (through an improvement of the legal context and the help of external anchors in providing credibility), and continuation of authoritarian management of labour relations relying on the post-1980 politico-legal framework (trade union policy). In line with competitiveness aims, the AKP governments pursued policies aimed at improving the ‘investment climate’. The AKP restored ‘investor confidence’ through anti-inflationary credibility achieved by depoliticised monetary policy-making (i.e. Central Bank independence, introduced as a part of 2001 reforms). Declining wages and increased unemployment in the post-2001 and AKP period were also part and parcel of this new policy-making.

Hence, the novelty of the post-2001 period could be found in this new depoliticised economic policy-making which, unlike earlier attempts, was seen to be ‘successful’. However, this thesis did not assess it in the context of state-market dichotomy and a rupture, or a kind of progressive, ‘social neoliberalism’ (the so-called post-Washington consensus), as some approaches argued. The ‘regulatory state’ and depoliticisation strategies were, in this thesis, conceived as part of crisis management of the state managers – a reflection of ongoing state restructuring. IMF relations and the EU process were also important components of this depoliticisation process. Indeed, “state managers tied their hands in economic management in pursuit of the IMF programme and the EU membership agenda allowing them to shift responsibility and blame to the latter whenever unpopular policies were brought into the agenda” (Dönmez, 2014b).

Concomitantly, AKP’s social policy regime, which was an amalgamation of World Bank’s new approach of risk management and human capital formation on the one hand, and the AKP’s conservative and family-oriented approach on the other, was an important factor of containing class struggle in the 2000s. Whilst welfare retrenchment policies and restructuring of the social security system and privatisation of the health system were on the agenda, the partly charity-based and partly state-supported (through the WB Social Risk Mitigation Project) arbitrary social assistance system served to contain the demands of the urban poor and informal labour.

These developments led to the AKP's second election victory in 2007, with the party winning 47% of the votes this time and forming a majority government once again. However, this period was marked by important developments and crises. Partly as a result of 2007 military memorandum, and the 2008 party closure case against the AKP, the Erdoğan government had a confrontational stance against the 'old establishment' – the Kemalist cadres especially within the bureaucracy and army. The AKP government initiated police and juridical operations against its opponents including journalists, academics, politicians and army generals (the Ergenekon, Balyoz, and Odatv cases were significant) (Yörük and Yüksel, 2014). With the 2010 constitutional referendum, the Erdoğan government also finally had an opportunity to control the high judiciary bodies.

Alongside these developments, from late 2007, the global financial crisis started to affect the Turkish economy. Contrary to expectations, the crisis demonstrated the shaky foundations of the post-2001 growth miracle. As shown in Chapter 8, the crisis led gradually to a more centralised and discretionary economic policy-making, and further strengthened the executive. Indeed, towards the end of AKP's second term, the external anchors lost their importance, which in turn paved the way for more discretionary economic management. The favourable global conditions for the 'emerging capitalisms' such as Turkey helped to restore the growth in 2010 and 2011. Also, prior to the 2011 general elections, the Erdoğan government initiated a 'democratisation' process towards the Kurds and Alevis, whilst repressing the demands of the labour movement (the famous TEKEL workers' resistance). Hence, the government attempted to contain the masses through an identity-based discourse (including Islamism, and an emphasis on pro-Ottoman foreign policy), while brutally repressing class-based demands. These processes led to the third decisive electoral victory of the AKP in the June 2011 elections, this time with almost 50% of the votes.

Against this background, the thesis argued that the process which started with the 2007 elections and 2008 crisis would contain elements of rupture within continuity. Although there has been a direct continuity in state-labour relations in terms of increasing competitiveness and flexibilisation, as well as deunionisation policy; the political developments implied a process of intensified authoritarianism and Islamism beyond the already authoritarian form of Turkish capitalism. This process was accelerated after the 2011 elections.

Authoritarianism came to the fore against the background of the global financial crisis of 2008 (as discussed in chapter 8). As mentioned earlier, the domestic political crisis and global financial crisis led the AKP to consolidate its power within the state and have more direct control over aspects of the state and the economy. These crises unveiled intra-class and social tensions whose earlier successful management and containment was dependent on high economic growth rates – the growth itself also being dependent on external financing conditions in ‘emerging countries’ like Turkey (Şenalp, 2012, p.74).

With the global economic crisis, however, the era of easy growth would come to an end gradually, if not immediately. Hence, although a high growth performance was achieved in 2010 (9.2%) and 2011 (8.8%), it decreased to 2.1% in 2012, 4.1% in 2013 and 2.9% in 2014. In the aftermath of the 2008 crisis, and especially after 2009-2010, the government relied on the construction sector for boosting economic growth. At the centre of this policy is TOKİ (Housing Development Administration – Toplu Konut İdaresi) and its private sector partners. Through this process, in an attempt to restore growth, significant urban transformation projects were developed. This mechanism – through various amendments and deviations in ‘regulatory reforms’ and rules-based policy<sup>1</sup> -- has also facilitated and enhanced profit-making opportunities for pro-government and mostly ‘Islamist’ business circles (see Akçay, 2013).

Concomitantly, the authoritarian policies of the AKP further combined with increased Islamist motivations; reaching significant levels by 2013. These policies included the

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<sup>1</sup> The ‘cracks’ in rules-based management and ‘rule of law’, as discussed in Chapter 8, started to be observed in AKP’s second term in power. Following the June 2011 elections, this tendency increased. The Prime Minister Erdoğan – with a motivation of boosting growth – repeatedly criticised and questioned the interest rate policy of the Central Bank; and under this criticism the Central Bank decreased its policy rates whenever possible (Karakaya, 2014). Furthermore, just after the 2011 elections, the Deputy Prime Minister responsible for economy, Ali Babacan, stated that “It is time for the independent agencies to redelegate their authority”. In this context, the June and August 2011 Government Decrees are significant. The June Decree states that “the IRAs may be directly attached to the respective ministries, based on the order of the Prime Minister and the President’s approval”. Moreover, the August Decree states that “the [respective] minister has the authority over all transactions and activities of the related, attached and affiliated agencies” (Özel, 2012, p.120). Although this manoeuvre did not completely reverse ‘arm’s length’ control, and formally retained the ‘independence’ of regulatory bodies; it nevertheless increased government supervision and thus led to questions regarding the government’s commitment to the rules-based approach.

restructuring of the education system – leading to further Islamisation, new union legislation which made organisation more difficult, an authoritarian stance towards Kurds and Alevis, Islamisation of everyday life (e.g. limitations on alcohol, debates on abortion), a sectarian foreign policy stance (especially towards Syria), increased control on the media and newspapers, and increased police brutality and criminalisation of almost every oppositional movement and demonstration – repression of the workers in May Day celebrations being the most significant case.

Against this background, in June 2013, a spontaneous popular uprising emerged, which was initially against a decision to demolish Istanbul's Gezi Park as a part of an urban development project. The protests rapidly became a country-wide wave of anti-AKP insurrection, as over 2.5 million people took to the streets. Police violence and the unresponsive attitude of Erdoğan government radicalised and politicised the wider population against the AKP's authoritarian neoliberal Islamist rule. As Pinar Donmez (2014b) notes, this was also the failure of the 'depoliticisation' strategies of the government, as "full responsibility for failures and unpopular policies has inescapably been levied upon the government. This was indeed the broader context within which the "Government resign!" slogan of June uprising matured." The government assessed and presented these protests as a part of a 'global conspiracy' and an 'attempt of coup d'état', in an attempt to legitimise its repression of protesters. Thus, repression and authoritarianism increased further in the aftermath of the Gezi uprising.

In December 2013, another unprecedented political development unsettled the AKP government. A corruption probe (reflecting the intra-Islamist clash within the state) regarding PM Erdoğan, his bureaucrats, ministers and various close businessmen showed the extent of corrupt practices. The level of institutionalisation of these practices within the state under AKP rule and the centrality of PM Erdoğan's personalised rule in these processes, especially in the aftermath of the 2008 crisis, as Bedirhanoğlu (2015) suggests "constitute a fundamental challenge to the reproduction of the modern bourgeois form of the capitalist state in Turkey."

In this context, this process led to the *de facto* end of bourgeois form of 'rule of law' in Turkey in late 2013 early 2014. Simultaneously, the government's credibility in financial markets was shaken as Erdoğan's endless criticisms towards Central Bank for not

delivering lower interest rates – which Erdoğan thought necessary to boost growth – increased concerns over rules-based/depoliticised monetary policy; and combined with crisis within the state, led to capital flight and economic turmoil.<sup>2</sup> However, against all these developments, Erdoğan benefitted from the polarisation in society (which he aimed to create in any event), increased the tone of Islamism, and secured victory in the Presidential election in August 2014.

In this context, liberal critiques of the government constantly call for a return to the post-2001 reform period. “Rolling back reform has led to this malaise in Turkey” (Acemoğlu and Üçer, 2015) they argued. The big bourgeoisie, liberal intelligentsia, even social democratic opposition CHP praised the post-2001 and 2002-2007 ‘reform’ and high growth process, and called on the government for a return to ‘rule of law’, and ‘rules-based’, ‘predictable’, and ‘democratic’ polity.

In contradistinction to these accounts, however, this thesis argued that the restructuring and ‘reform’ process post-2001 intensified technocratic and depoliticised management (i.e. insulated from democratic pressures), anti-labour policies, and further institutionalised the rule of money. The AKP governments in the 2000s, I argued, have been the agent of ‘successful’ capital-labour restructuring by providing a neoliberal strong state, managing social tensions and containing class struggle. I further argued that these attempts at restructuring reflect the continuation of the authoritarian management of labour relations and go back to the 1980s, in particular the military coup of 1980, which took on Turkey’s militant labour unions and attempted to put an end to class-based politics.

Furthermore, the seemingly successful management of the AKP and uninterrupted high growth rates in 2002-2008 were achieved through favourable global conditions prior to the global financial crisis. The end of easy growth years since the global crisis, and increased politicisation of social relations mark the further authoritarian and Islamist attitudes of the AKP government. Increasing authoritarianism of the AKP government

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<sup>2</sup> This was also a result of the US Federal Reserve’s decision to further slow its bond buying programme (Quantitative Easing), which triggered capital flight especially from the so-called ‘fragile five’ countries (i.e. Turkey, Brazil, India, Indonesia, and South Africa) in early 2014 (Monaghan, 2014).



since 2008 therefore reflects its contradictions and difficulties in managing capitalist social relations and suggests an impasse, in the context of the crisis-ridden world market. This interpretation differs sharply from conventional critiques of Turkish political economy, and implies the importance of bringing class and class struggle back in against authoritarianism, rather than bringing back the spirit of the 2001 or 2002-2007 period.

As Marx (1991) once wrote, "...all science would be superfluous if the outward appearance and the essence of things directly coincided" (p.956). By focusing on notions of class and capitalist social relations, therefore, it is hoped that this thesis contributes to the understanding of the restructuring process in the 2000s and helps reveal the dynamics of Turkey's allegedly and ostensibly progressive political economy under AKP rule.

## **2. Limitations of the Study and Suggestions for Further Research**

This research's theoretical approach, namely the CSE (or 'Open Marxist') approach to state, capital, and class has provided me with clear advantages in making better sense of the restructuring of social relations in Turkey in the 2000s. Indeed, the CSE approach allows the researcher to think about capitalist social relations and the distinct forms (i.e. the capitalist state) taken by those relations. It understands these social relations in a world market context, which are processed by national states (as a constant restructuring process) in a contradictory form. It also brings about the sophisticated analysis of the particular management of capitalist social relations by state managers (i.e. depoliticised or politicised). In this context, my thesis showed the limitations of conventional accounts which have no conception of the capitalist social relations and are therefore unable to account for the relationship between the market and state.

The research focus of this thesis, therefore, has been in the area of restructuring state-capital-labour relations against the background of crisis-ridden development of the Turkish political economy. However, the period in question (or generally the 'neoliberal era' since the 1980s) witnessed wider transformations in state-society relations and the development of the state in Turkey. Although I have attempted to make sense of some of these developments in a class-based context and located them within the 'neoliberal transformation' of the Turkish state since the 1980s, it could be argued that the CSE approach leads to too restrictive an understanding of state-society relations to the extent that it focuses attention on economic development or class relations, and avoids other

aspects of domination such as asymmetrical gender relations, ethnic questions, or the role of religion<sup>3</sup>. There have been significant developments in these areas (i.e. from the Kurdish question to the government's 'body politics', and from foreign policy to Islamisation attempts of education, as well as transformations in urban politics and contradictions thereof) in the last decade under AKP governments. Clearly, these areas are significant; and the lack of focus of this research on these spheres implies a limitation of my theoretical approach. However, it is also significant to note that studies focusing on above-mentioned areas and rejecting the 'ontological priority' of class fail to offer an account for, say, intensifying authoritarianism against the background of crisis-ridden political economy or relative convergence of anti-democratic principles in a global context in the neoliberal era. Nevertheless, there is still a need for studies to make sense of or build connections between different facets of authoritarian political, economic, and societal restructuring processes.

Along similar lines, the use of the CSE-inspired 'depoliticisation'/politicisation debate in this thesis would potentially be the other limitation of this study. Generally, the concept and the debate offers a highly analytical and critical tool in terms of conceptualising management of capitalist socialist relations, which is more sophisticated than competing IPE accounts. However, the debate concerning depoliticisation and the concept itself was developed mostly in the British context (see Burnham, 2001a; Bonefeld and Burnham, 1998; Kettell, 2004), and mostly expanded to European states (see Rogers, 2012; Macartney, 2013) where state managers operate within 'established liberal democracies' and (capitalist) rule of law. Although sophisticated contributions were made by Dönmez (2014a; 2014b) in the Turkish context, potential limitations and differentiations in authoritarian capitalist social formations like Turkey need to be considered. This also entails a greater degree of engagement with the wider use of the concept and the debates in the context of depoliticisation (see, among others, Hay, 2007; contributions to the special issue of *Policy&Politics* 42 (2) on depoliticisation), which this thesis did not cover to a great extent in order to remain within the CSE framework.

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<sup>3</sup> Some critics of CSE approach also argued that its focus on capitalist social relations and this tendency of totalising human social practice (thus neglecting all other social relations) leads to an *epistemological austerity* in this approach (Bruff, 2009, p.337).

In this context, the recent developments in the Turkish political economy, i.e. ever intensifying authoritarian practices of the state, repercussions of recent popular movements like Gezi uprising, constant labour market restructuring and reactions against it, intra-state and intra-bourgeoisie conflicts, difficulties of economic management against the backdrop of a crisis-ridden world market and the discourse of state managers for a 'new paradigm' in economic policy (including the restructuring of monetary policy-making), would be the starting point of future research and potentially bring about new challenges for critical analyses on Turkey. This would also be a fertile ground for CSE-inspired research agenda as it would provide a conceptual framework (from state analysis to depoliticisation, and from crisis to meaning of revolt) to make sense of these developments in a world market context.

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