

Washington Consensus and Augmented Washington Consensus in Brazil and Turkey

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ABSTRACT

Following the economic crisis of the 1970s, many countries began to implement neoliberal economic policies first under the Washington Consensus Principles in the 1980s and then the Augmented Washington Consensus Principles (AWC) in the mid-1990s. It is argued that Brazil and Turkey have followed different paths in the implementation of these principles. This dissertation aims to analyze the policy differentiations in the implementation of the Washington Consensus and the AWC principles in Brazil and Turkey. This dissertation will draw on the Marxist theory of the state that asserts that the state cannot be conceptualized separately from the economic structure of society. In particular, it will make use of the Open Marxist framework. The main contribution of the Open Marxist framework is that it shows that the neutrality of the capitalist state is only an illusion and the capitalist state exists as a rigidified form of social relations. The capitalist state depends on the continuation of capital accumulation. Nevertheless, beyond sustaining capital accumulation, the state cannot act as an instrument of capital or function in the best interests of capital. In all class societies, conflicting interests constantly struggle to influence the state and state decisions reflect a particular resolution to conflicting class interests rather than reflecting the national interest. Open Marxist state conceptualization led me to reach certain conclusions. My main argument is that the Washington Consensus and the AWC principles were applied differently in Brazil and Turkey. The main difference is that due to the strength of labor organizations in Brazil these principles were executed in a more labor-friendly manner in this country.

Keywords: Open Marxism, Washington Consensus, Augmented Washington Consensus, Brazil, Turkey.

ÖZ

1970'lerdeki ekonomik krizin ardından birçok ülke, önce 1980'lerde Washington Uzlaşması prensipleri ve ardından 1990'ların ortalarında Özgün Washington Uzlaşması (AWC) prensipleri altında neoliberal ekonomi politikalarını uygulamaya başladı. Bu prensiplerin uygulanmasında Brezilya ve Türkiye'nin farklı yollar izlediği ileri sürülmektedir. Bu tez, Brezilya ve Türkiye'de Washington Uzlaşması ve AWC ilkelerinin uygulanmasındaki politika farklılıklarını analiz etmeyi amaçlamaktadır. Bu tez, devletin toplumun ekonomik yapısından ayrı olarak kavramsallaştırılamayacağını öne süren Marksist devlet teorisinden yararlanacaktır. Özellikle Açık Marksist çerçeveden yararlanacaktır. Açık Marksist çerçevenin temel katkısı, kapitalist devletin tarafsızlığının yalnızca bir yanılsama olduğunu ve kapitalist devletin katılmış bir toplumsal ilişkiler biçimi olarak var olduğunu göstermesidir. Kapitalist devlet, sermaye birikiminin devamına bağlıdır. Bununla birlikte, devlet, sermaye birikimini sürdürmenin ötesinde, sermayenin bir aracı olarak hareket edemez veya sermayenin çıkarları doğrultusunda işlev göremez. Tüm sınıflı toplumlarda, çatışan çıkarlar sürekli olarak devleti etkilemek için mücadele eder ve devlet kararları, ulusal çıkarı yansıtmaktan ziyade çatışan sınıf çıkarlarına belirli bir çözümü yansıtır. Açık Marksist devlet kavramsallaştırması beni belirli sonuçlara ulaşmaya yöneltti. Benim temel argümanım, Washington Uzlaşması ve AWC ilkelerinin Brezilya ve Türkiye'de farklı şekilde uygulandığıdır. Temel fark, Brezilya'daki işçi örgütlerinin gücü nedeniyle bu ilkelerin bu ülkede daha emek dostu bir şekilde yürütülmesidir.

Anahtar Kelimeler: Açık Marksizm, Washington Uzlaşması, Özgün Washington Uzlaşması, Brezilya, Türkiye.

DEDICATION

To My Family

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TABLE OF CONTENTS

ABSTRACT	iii
ÖZ	iv
DEDICATION	v
ACKNOWLEDGEMENT	vi
LIST OF TABLES	x
LIST OF FIGURES	xi
LIST OF ABBREVIATIONS	xiii
1 INTRODUCTION	1
2 THEORETICAL FRAMEWORK: THEORIES OF STATE	12
2.1 Liberal Approach.....	12
2.2 Institutional Approach	15
2.3 Marxist Approach.....	18
2.3.1 Classic Marxist Theory.....	18
2.3.2 Recent Marxist Theories.....	23
2.3.2.1 Miliband and Poulantzas Debate.....	26
2.3.2.2 State Derivation Debate	31
2.3.2.3 Open Marxism.....	38
2.4 Conclusion.....	44
3 WASHINGTON CONSENSUS AND AUGMENTED WASHINGTON CONSENSUS	49
3.1 Classical Liberalism.....	50
3.2 Keynesianism.....	53
3.3 Neoliberalism.....	54

3.3.1	The Washington Consensus	57
3.3.2	The Augmented Washington Consensus	71
3.3.3	Post-Washington Consensus	80
3.4	Conclusion	86
4	BRAZILIAN AND TURKISH ECONOMY: A HISTORICAL BACKGROUND	89
4.1	History of Brazilian Economy	89
4.1.1	Coffee Economy.....	90
4.1.2	Sweeping Economy.....	91
4.1.3	Import Substitution Industrialization	96
4.2	History of Turkish Economy	111
4.2.1	Protectionist Statist Industrialization	111
4.2.2	Introduction of Liberal Policies	115
4.2.3	Import Substitution Industrialization	120
4.3	Conclusion	132
5	WASHINGTON CONSENSUS POLICIES IN BRAZIL	135
5.1	Introduction of Neoliberalism in Brazil.....	135
5.2	Washington Consensus policies in Brazil.....	145
5.3	Conclusion	165
6	WASHINGTON CONSENSUS POLICIES IN TURKEY	168
6.1	Introduction of Neoliberalism in Turkey	169
6.2	Washington Consensus Policies in Turkey	174
6.3	Conclusion	200
7	AUGMENTED WASHINGTON CONSENSUS POLICIES IN BRAZIL	203
7.1	Augmented Washington Consensus policies in Brazil.....	204
7.2	Conclusion	229

8 AUGMENTED WASHINGTON CONSENSUS POLICIES IN TURKEY	232
8.1 Augmented Washington Consensus Policies in Turkey	233
8.2 Conclusion	269
9 CONCLUSION	274
REFERENCES.....	296

LIST OF TABLES

Table 1: Policies of the Washington Consensus	58
Table 2: Policies of the Washington Consensus and the AWC	73
Table 3: Brazilian Economic Indicators, 1950-1964	99
Table 4: Economic policies and strength of classes, 1930s-1970s	133
Table 5: Strength of classes in Brazil, 1980s-1990s	166
Table 6: Strength of classes in Turkey, 1980s-1990s	201
Table 7: Strength of classes in Brazil, late-1990s and 2010	230
Table 8: Strength of classes in Turkey between the late-1990s and 2010	271
Table 9: Organization activities of labor class in Brazil and Turkey through the years	281

LIST OF FIGURES

Figure 1: GDP growth of Brazil (annual %), 1961-1980.....	104
Figure 2: Inflation of Brazil, GDP deflator (annual %), 1961-1980.....	105
Figure 3: External debt stocks of Brazil (DOD, current US\$), 1970-1980	106
Figure 4: Inflation of Turkey, (%), 1960-1980	129
Figure 5: External debt stocks of Turkey (DOD, current US\$), 1970-1980.....	130
Figure 6: GDP growth rate of Turkey, (%), 1961-1980.....	130
Figure 7: Poverty headcount ratio at \$5.50 a day of Brazil (2011 PPP) (% of population), 1981-2010.....	137
Figure 8: Inflation of Brazil, GDP deflator (annual %), 1980-2010.....	137
Figure 9: External debt stocks of Brazil (DOD, current US\$), 1980-2010	138
Figure 10: GDP growth of Brazil (annual %), 1980-2010.....	144
Figure 11: Total reserves of Brazil (% of total external debt), 1980-2010.....	145
Figure 12: Foreign Direct Investment, net inflows of Brazil (% of GDP), 1980-2010	159
Figure 13: Exports and Imports of goods and services of Brazil (BoP, current US\$), 1980-2010	160
Figure 14: Unemployment of Brazil (% of total labor force), 1991-2010.....	164
Figure 15: Inflation of Turkey (%), 1980-2010	173
Figure 16: Exports and imports of goods and services of Turkey (BoP, current US\$), 1980-2010	177
Figure 17: GDP growth rate of Turkey (%), 1980-2010.....	182
Figure 18: External debt stocks of Turkey (DOD, current US\$), 1980-2010.....	183
Figure 19: External debt stocks of Turkey (% of GNI), 1981-2010	184

Figure 20: Central government debt of Turkey, total (% of GDP), 1990-2010.....	188
Figure 21: Total reserves of Turkey (% of total external debt), 1981-2010	190
Figure 22: GDP per capita of Turkey (\$), 1980-2010.....	197
Figure 23: Unemployment of Turkey (% of total labor force), 1991-2010	197
Figure 24: Gini index of Brazil, 1981-2010.....	208
Figure 25: GDP per capita of Brazil (current US\$), 1980-2010.....	221
Figure 26: Foreign trade of Turkey (% of GDP), 1981-2010	241
Figure 27: FDI net inflows of Turkey (% of GDP), 1981-2010	242
Figure 28: Health expenditure of Turkey (% of GDP), 2000-2010.....	250
Figure 29: Poverty headcount ratio at \$5.50 a day of Turkey (2011 PPP) (% of population), 1987-2010	254
Figure 30: Total debt service of Turkey (% of GNI), 2001-2010.....	262

LIST OF ABBREVIATIONS

AKP	Justice and Development Party (Adalet ve Kalkınma Partisi)
ANAP	Motherland Party (Anavatan Partisi)
ANC	National Constituency Assembly (Assembleia Nacional Constituinte)
AP	Justice Party (Adalet Partisi)
ARIP	Agricultural Reform Implementation Project
AWC	Augmented Washington Consensus
Basın-İş	Türkiye Basın, Yayın, Gazetecilik, Grafik-Tasarım, Baskı ve Ambalaj Sanayi İşçileri Sendikası
BNDES	Brazilian Development Bank (Banco Nacional de Desenvolvimento Econômico e Social)
BRSA	Banking Regulatory and Supervisory Authority
CCT	Conditional Cash Transfer
CHP	Republican People's Party (Cumhuriyetçi Halk Partisi)
CONTAG	National Confederation of Agricultural Workers (Confederação Nacional dos Trabalhadores na Agricultura)
Cosipa	National Steel Company (Companhia Siderurgica Nacional)
CSE	Conference of the Socialist Economists
CUT	Unified Workers Central (Central Única dos Trabalhadores)
DEİK	Foreign Economic Relations Board (Dış Ekonomik İlişkiler Kurulu)
DİSK	Confederation of Progressive Trade Unions of Turkey (Türkiye Devrimci İşçi Sendikaları Konfederasyonu)
DP	Democratic Party (Demokrat Parti)
DSP	Democratic Left Party (Demokratik Sol Parti)

DYP	True Path Party (Dođru Yol Partisi)
ECLA	Economic Commission for Latin America
EEC	European Economic Community
FDI	Foreign Direct Investment
Fed	US Federal Reserve System
FKF	Fikir Kulüpleri Federasyonu
FP	Virtue Party (Fazilet Partisi)
FRL	Fiscal Responsibility Law
Fundeb	Education Maintenance and Development Fund (Fundo de Manutenção e Desenvolvimento do Educação Basica)
Fundef	Basic Education Maintenance and Development and Teachers' Fund (Fundo de Manutenção e Desenvolvimento do Ensino Fundamental e de Valorização do Magisterio)
Gıda-İş	Türkiye Gıda Sanayii İşçileri Sendikası
GNI	Gross National Income
GSS	General Health Insurance (Genel Sağlık Sigortası)
HAK-İŞ	Trade Union Confederation (Hak İşçi Sendikaları Konfederasyonu)
HEPPs	Hydroelectric Power Plants
HP	Liberty Party (Hürriyet Partisi)
IMF	International Monetary Fund
INCRA	National Institute for Colonization and Agrarian Reform (Instituto Nacional de Colonização e Reforma Agrária)
IRA	Independent Regulatory Agencies
ISI	Import Substitution Industrialization
Lastik-İş	Türkiye Petrol, Kimya ve Lastik Sanayii İşçileri Sendikası

Maden-İş	Türkiye Maden İşçileri Sendikası
MCMV	Minha Casa Minha Vida (My House My Life)
MDA	Ministry of Agrarian Development (Ministério do Desenvolvimento Agrário)
MDB	Brazilian Democratic Movement (Movimento Democrático Brasileiro)
MHP	Nationalist Movement Party (Milliyetçi Hareket Partisi)
MNP	National Order Party (Milli Nizam Partisi)
MSP	National Salvation Party (Milli Selamet Partisi)
MST	Landless Workers' Movement
MUT	National Union of Workers' Movement (Movimento Unificador das Trabalhadoras)
MÜSİAD	Independent Businessmen and Industrialists Association (Müstakil Sanayici ve İşadamları Derneği)
OECD	Organization for Economic Cooperation and Development
OEEC	Organization for European Economic Cooperation
OYAK	Turkish Armed Forces Assistance and Pension Fund (Ordu Yardımlaşma Kurumu)
PAA	National Food Procurement Program (Programa de Aquisição de Alimentos)
PAC	Growth Acceleration Program (Programa de Aceleração do Crescimento)
PBM	Greater Brazil Plan (Brasil Maior Plan)
PCB	Communist Party of Brazil (Partido Comunista do Brasil)

PDP	Productive Development Policy (Política de Desenvolvimento Produtivo)
PITCE	Industrial, Technological and Foreign Trade Policy (Política Industrial, Tecnológica e de Comércio Exterior)
PMDB	Centrist Brazilian Democratic Party (Partido do Movimento Democrático Brasileiro)
PND	National Privatization Program
PNRA	National Plan for Agrarian Reform (Programa Nacional de Reforma Agrária)
PRN	National Reconstruction Party (Partido da Reconstrução Nacional)
PROCERA	Special Credit Program for Agrarian Reform (Programa de Crédito Especial para Reforma Agrária)
PRONAF	National Program for Strengthening Family Farming (Programa Nacional de Fortalecimento da Agricultura Familiar)
PSDB	Party of Brazilian Social Democracy (Partido da Social Democracia Brasileira)
PT	Workers' Party (Partido dos Trabalhadores)
PTB	Brazilian Labor Party (Partido Trabalhista Brasileiro)
PWC	Post Washington Consensus
RMA	Civil Society Associations
RP	Welfare Party (Refah Partisi)
SCT	Special Consumption Tax
SHP	Social Democratic Populist Party (Sosyaldemokrat Halkçı Partisi)
SMEs	Small And Medium-Sized Enterprises

SNAS	National Secretariat for Social Assistance (Secretaria Nacional de Assist�ncia Social)
SOE	State Owned Enterprise
SP	Felicity Party (Saadet Partisi)
SPO	State Planning Organization
SRMP	Social Risk Mitigation Project
SYDGM	General Directorate of Social Assistance on Solidarity
TBKP	United Communist Party of Turkey (T�rkiye Birleřik Kom�nist Partisi)
TINA	There Is No Alternative
TİM	Turkish Exporters Assembly (T�rkiye İhracat�ılar Meclisi)
TİP	Workers Party of Turkey (T�rkiye İřçi Partisi)
TKP	Communist Party of Turkey (T�rkiye Kom�nist Partisi)
TOBB	Union of Chambers and Commodity Exchanges of Turkey (T�rkiye Odalar ve Borsalar Birlięi)
TOKİ	Mass Housing Development Administration (Toplu Konut İdaresi Bařkanlıęı)
TSEP	Transition to Strong Economy Program
TUSKON	Turkish Confederation of Businessmen and Industrialists (T�rkiye İřadamları ve Sanayiciler Konfederasyonu)
T�rk-İř	Confederation of Turkish Trade Unions (T�rkiye İřçi Sendikaları Konfederasyonu)
T�SİAD	Turkish Industry and Business Association (T�rk Sanayicileri ve İř İnsanları Derneęi)
UDR	Ruralist Democratic Union (the Uni�o Democr�tica Ruralista)

USSR	Soviet Union
VAT	Value-Added Tax
WTO	World Trade Organization

Chapter 1

INTRODUCTION

This dissertation seeks to examine the implementation of the Washington Consensus and the Augmented Washington Consensus (AWC) principles. Following the economic crisis of the 1970s and problems in the international monetary system in the 1970s, many countries faced the problem of stagflation¹ and external debt. In order to solve these problems and achieve economic development, the World Bank, International Monetary Fund (IMF), and the US Treasury Department recommended developing countries to implement neoliberal economic policies which made an emphasis on free-market policies. Neoliberal policies were first implemented in Chile in 1973 following the coup that deposed the Popular Unity government of President Salvador Allende. The coup enabled Army General Augusto Pinochet to rule the country until 1990. Pinochet carried out neoliberal economic policies that were made possible by his regime's authoritarian rule and quelling popular unrest. Later on, these neoliberal policies were implemented widely in many developing countries especially after the 1980s. The Washington Consensus term, first used in 1989 by the English economist John Williamson (1990: 1) aimed to list ten economic policy prescriptions informed by neoliberalism that would be recommended to crisis-stricken developing countries.

¹ Stagflation is the combination of two words: stagnation and inflation. It is a situation that the inflation rate is high, the economic growth rate is slow, and unemployment rate remains consistently high.

Fiscal discipline, reorientation of public expenditures, tax reform, financial liberalization, unified and competitive exchange rates, trade liberalization, openness to DFI, privatization, deregulation, and secure property rights were ten policies of the Washington Consensus (Williamson, 1990: 7). These ten policies emphasized liberalization. The policies of fiscal discipline, reorientation of public expenditures, tax reform, privatization, and deregulation essentially aim to reduce the role of state intervention in the economy. The policies of financial liberalization, unified and competitive exchange rates, trade liberalization, and openness to FDI are related to the liberalization of capital flows and institutionalization of free-market understanding. The last policy is about secure property rights.

However, the expectations from the Consensus failed at the beginning of the 1990s, and developing countries that were implementing Washington Consensus, faced economic and social problems by the 1990s, so the Consensus has been augmented with extended reform policies. The new consensus, called the Augmented Washington Consensus emerged by the mid-1990s. In addition to those ten policies, ten more policies were added to the agenda: corporate governance, anti-corruption, flexible labor markets, WTO agreements, financial codes and standards, prudent capital account opening, non-intermediate exchange rate regimes, independent central banks/inflation targeting, social safety nets and targeted poverty reduction (Rodrik, 2002a: 9). The policies of corporate governance and anti-corruption are related to the reorganization of fiscal discipline and public spending. The policies of flexible labor markets and WTO agreements have supported the liberalization of the labor markets and trade liberalization. The policies of financial codes and standards, prudent capital-account opening, and non-intermediate exchange rate regimes are measures to prevent the problems of sudden international financial movements. The policy of independent

central banks aims to control inflation by the independent central bank from political authorities. The last two policies are related to poverty and income distribution.

Stiglitz (1998a: 33) rejected the AWC and instead accepted the Post Washington Consensus (PWC) by the end of the 1990s. Even in the literature, there is an ambiguity, because the market-based development models that the developing countries have been implementing since the late 1990s are generally categorized under “Post Washington Consensus”, but there are some important differences between AWC and PWC policies which are overlooked. Although there is a distinction between the AWC and the PWC, many scholars have used these two terms interchangeably. Similar to the AWC, this consensus also refers to good governance and strong institutions (Öniş and Şenses, 2005: 277). However, compared to the Washington Consensus and AWC, PWC has more emphasis on the role of the state in the development process.

The Washington Consensus, the AWC, and the PWC can be distinguished from each other in specific areas. Policies of the Washington Consensus mainly focused on macroeconomic stability. In this approach, there was a strong distinction between macroeconomic and microeconomic policies. When this idea failed in the 1990s, it was understood that micro-based policies are also essential for growth. The AWC started to focus on micro-based policies and institutions. On the other hand, with the PWC, the strong distinction between macroeconomic and microeconomic policies breaks down. This approach concentrates both on macro and micro institutions, such as flexible labor markets and good governance (Fine, 2001: 12-13).

It is possible to argue that, despite differing in specific areas, Washington Consensus, AWC, and PWC have a common denominator. Even though new policies were added to the agenda of the AWC and the PWC to address critiques of

neoliberalism, these development strategies displayed a continuity rather than a rupture with neoliberalism. As it is underlined by Marangos (2012: 608), the creation of the AWC does not mean the dismissal of the Washington Consensus. The policies of the AWC complete the Washington Consensus by adding policies on institutions and social policy. Furthermore, Sumner (2006: 1403) claims that the PWC is just a critique of the Washington Consensus and it is not a new paradigm. According to Sheppard and Leitner (2010: 188), the idea of governmental intervention in the PWC does not mean the end of neoliberalism.

In this dissertation, I decided to conduct a comparative case study and I chose Brazil and Turkey as my comparative cases. Using multiple cases is more powerful than using a single case to analyze, explain and make analytical generalizations (Yin, 2009: 18). “Comparative case studies involve the analysis and synthesis of the similarities, differences, and patterns across two or more cases that share a common focus or goal” (Goodrick, 2014: 1). Thus, it produces information that is easier to generalize about causal questions such as how and why certain programs or policies work or not work.

Turkey and Brazil are two countries that implemented the WC and AWC principles. Brazil and Turkey have certainly different social and cultural characteristics; yet, both countries have had similar economic and political experiences. According to the World Bank Indicators, both Brazil and Turkey are upper-middle-income countries and both can be seen as emerging economies in the world (Fantom and Serajuddin, 2016: 41, 49). Furthermore, Brazil and Turkey experienced military coups several times. Before implementing neoliberal economic policies, both countries experienced import substitution industrialization (ISI) economic model in the period of 1950s-1970s. Since the 1980s, both countries have

implemented Washington Consensus principles (Rodrik, 2002a: 3). Brazil has been enforcing policies of the Augmented Washington Consensus by the mid-1990s (Rodrik, 2002a: 5) and Turkey began to use this consensus in the early-2000s (Özdemir, 2017: 185; Rodrik, 2006a: 983).

It is argued that Brazil and Turkey have followed different paths in the implementation of the Washington Consensus and the AWC principles. This is because Turkey followed a more orthodox path (at least until 2010) while Brazil followed a more heterodox implementation of the Washington Consensus and AWC principles. This difference I observed has become an important factor that led me to choose Brazil and Turkey as comparative cases. In this dissertation, I aim to analyze the policy differentiations in the implementation of the Washington Consensus and the AWC policies in Brazil and Turkey. Although Washington Consensus and AWC are composed of a set of policies, why were they applied differently in Brazil and Turkey? That is the puzzle I will investigate in this dissertation. In order to understand the main reason for this differentiation, I focus on the following research question: “Why did Brazil follow a heterodox model of neoliberal reforms whereas Turkey followed a more orthodox path?”

Although there are some other reasons, in the dissertation, the differentiation of the implementation of the Washington Consensus and AWC is going to be explained with the strength of labor organizations in Brazil. The hypothesis of the dissertation is that the Washington Consensus and the AWC principles were implemented differently in Brazil and Turkey due to the strength of labor organizations in Brazil and hence these principles were implemented in a more labor-friendly manner in this country. While these two countries aimed to follow neoliberal policies, the

internal dynamics within Turkey and Brazil introduced some changes in these economic policies.

This dissertation aims to explain the differentiation between Brazil and Turkey in their implementation of the Washington Consensus and the AWC by departing from an Open Marxist perspective that provides a class-based analysis of the state in capitalism. Open Marxists make an emphasis on the primacy and centrality of class struggle. The forms and functions of the state are determined as a result of class struggle. The state is responsible for maintaining capital accumulation; however, this does not mean that it represents the interests of particular capital groups (Clarke, 1991: 186). While the state secures social reproduction and surplus value production by assuring exploitation, it also shows itself as representing the general interests of the society as the neutral arbiter (Bonefeld et al., 1992: 25). In other words, Open Marxists stated that although the capitalist state tries to ensure accumulation, it does not always function in the best interests of capital and it will at times be compelled to respond to the demands of the working class. Thus, the state-capital relationship and the state-labor relationship are determinative in the implementation of the Washington Consensus and the AWC principles in Brazil and Turkey. In the following chapters, I will analyze the implementation of the Washington Consensus and AWC policies in Brazil and Turkey by considering the relationships between state-capital and state-labor.

Many scholars focused on the policies of the Washington Consensus and its results; in addition, a few studies are comparing Brazil and Turkey, yet, no study compared Brazil and Turkey in terms of their implementation of the Washington Consensus and the AWC. Ban and Blyth (2013: 250) analyzed how BRICs have adopted and adapted the principles of the Washington Consensus and they emphasized

that Washington Consensus has been implemented by BRICs differently. According to their analysis, domestic dynamics are effective in the implementation of the Washington Consensus principles. This dissertation goes further to contribute to the literature by analyzing the implementation of the Washington Consensus and the AWC principles in Brazil and Turkey by drawing on an Open Marxist perspective and show that the relationship between the state-capital and state-labor is one of the most important factors that explain the differences of the implementation of these principles in these two countries. This work will be the first analysis in this sense.

To understand why Brazil and Turkey implemented Washington Consensus and the AWC principles differently, the dissertation focuses on the last 30 years of the Brazilian and Turkish economies from 1980 to 2010 and analyzes the economic policies of both countries by considering the state-capital and state-labor relationships. This means that the dissertation will focus on the period until the year 2010, but it will briefly refer to relevant recent developments in the Brazilian and Turkish economy in the conclusion chapter.

Brazil started to implement neoliberal policies right after the end of the military regime in 1985. The Sarney administration used limited liberalization policies such as reforming the domestic financial system, liberalizing international capital flows, and introducing a flexible exchange rate regime. Neoliberal policies under the Washington Consensus were deepened by the Collor, Franco, and Cardoso administrations. Privatization, trade liberalization, deregulation, FDI, and reducing expenses began to be implemented during the Collor period. With Franco's administration, neoliberal policies extended in Brazil, especially with Cardoso's Real Plan. Thus, deeper privatization and liberalization program was used. In addition, high-interest rate,

liberalized capital account, expenditure cuts, and tax increases were implemented. These policies continued during Cardoso's presidency.

The bourgeoisie class benefited from Washington Consensus policies and gave support to extend neoliberal reforms; whereas, these policies created further problems for the labor class such as limitation to wage growth, unemployment, and informality. These problems were common in the 1990s in all developing countries which implemented Washington Consensus principles. In other words, this was a common result of the Washington Consensus during the 1990s. Hence, Washington Consensus was augmented, enlarged, and expanded with several reforms (Rodrik, 2002a: 1; Naim, 1994: 35-36). Then, developing countries began to implement this version of the Washington Consensus.

Brazil started to implement the augmented version of the Washington Consensus in Cardoso's second term, so policies on a free trade agreement, independence of the Central Bank, adherence to international financial codes and standards, anti-corruption measures, flexible labor market, social safety nets, and targeted poverty reduction were added into policy agenda. In 2002, the leftist leader Lula da Silva was elected as the president. Despite his leftist perspective, he continued to implement Cardoso's AWC principles but provided more extensive social assistance programs. On the other hand, in his second term, Lula concentrated more on infrastructure and industrial policies. Furthermore, he focused on welfare and income redistribution-oriented policies (Levitsky and Roberts, 2011: 22). In fact, good economic growth and global economic condition helped Lula in using pro-labor policies. That is why some scholars such as La Botz (2015: 4) identified his policies as the social liberal economic model.

Due to the economic crisis by the end of the 1970s, neoliberal policies were introduced in Turkey by 1980. However, in that period, a military coup occurred in the country and the neoliberal agenda began to be implemented by the military government. Yet, it can be said that the first segment of neoliberal policies under the Washington Consensus was introduced by the Özal government in Turkey after 1983. However, during the 1990s, those policies were only partially implemented by the coalition governments due to the rise of labor movements. Neoliberal policies regained importance with the Transition to Strong Economy Program (TSEP) with Kemal Derviş in 2001 (Yeldan, 2002). In fact, this was the beginning of the AWC policies in Turkey. “Derviş effected this launch, but definitely these policies were consolidated and deepened under AKP government” (Özdemir, 2017: 187). In this period, capital account liberalization, WTO agreements, financial codes and standards, free-floating exchange rate system, independent Central Bank², and inflation-targeting policies were implemented. The AKP government deepened these policies and committed previously partial reforms (Özdemir, 2017: 188). In addition, other remaining policies began to be implemented by the AKP rule.

It can be said that a large group of people benefited from the economic success of the AKP, including high growth and low inflation, thanks to the global economic consumption boom and global economic growth. There was a radical development in health, education, transport, and communications and the provision of public services as well. Although there was not an impressive growth in the later years of the AKP rule as in the early years, as long as the growth continued, people continued to benefit from the economic expansion. Thus, the popularity of the party did not reduce significantly. In addition to getting the support of the bourgeoisie, the AKP

² Central Bank in Turkey was independent until 2010 (Akça and Özden, 2015: 9).

government also became successful in getting the consent of the workers and the unemployed by using social assistance programs (Özdemir, 2017: 196; Buğra and Candaş, 2011: 521) and religion (Bozkurt, 2013: 382). Yet especially after 2010, policies of the AKP became more in line with pro-AKP capital such as MÜSİAD members, yet this does not mean that the big bourgeoisie represented by the TÜSİAD could not take advantage of AKP's policies (Karatepe, 2013: 59-60).

This dissertation analyzed the implementation of the Washington Consensus and the AWC principles in Brazil and Turkey by considering the relationships between the state-capital and the state-labor and tried to understand how these relationships influenced policy changes in both countries. Hence, in the dissertation, I decided to use interpretivist epistemology rather than positivist epistemology. Interpretive research is understanding and interpreting the meanings in human behavior, in contrast to positivist research, which generalizes and predicts causes and effects (Hudson and Ozanne, 1988: 511). In interpretive research, there is no single external reality. Meanings, motives, reasons, and time and context-dependent experiences are important. "Interpretivists take a more historical, particularistic approach to research; that is, they study a specific phenomenon in a particular place and time" (Hudson and Ozanne, 1988: 511).

This investigation is based on an examination of the historical, political, and economic data of Brazil and Turkey. The data was obtained through the analysis of written records both in general and case-based spheres. This means that I used qualitative data in my research. At the same time, I used some statistical data to show the economic and social development of Brazil and Turkey. During my research, I used different books and articles from different databases. I also used databases of organizations, such as World Development Indicators and UNU-Wider.

The dissertation is organized as follows. Chapter two begins with the Marxist state theory. In this chapter, I elaborate on Marxist theories of the state and distinguish them from Weberian and Liberal conceptions and explain why I chose Open Marxist state theory. In chapter three, I focus on Washington Consensus and the Augmented Washington Consensus and seek to identify their principles from a critical perspective. Chapter four gives information about the history of the Brazilian and Turkish economies. I concentrate on the period until 1980 and analyze the economic policies of both countries with a special focus on the relationships between the state-capital and state-labor. In chapter five, I analyze the neoliberal economic policies of Brazil under the Washington Consensus from an Open Marxist perspective. In the next chapter, I focus on Turkey and conduct a similar analysis. Chapter seven examines the implementation of AWC principles in Brazil by considering the relationships between the state-capital and state-labor and in chapter eight, I am doing the same analysis for Turkey. In the last chapter, I elaborate the findings and provide answers to my research question and I draw my conclusions.

Chapter 2

THEORETICAL FRAMEWORK: THEORIES OF STATE

This dissertation draws on a Marxist theory of the state to analyze the implementation of the WC and AWC principles in Brazil and Turkey. The relationship between the state and the economy is considered crucial to the overall pattern of relations. Therefore, understanding the state is crucial to grasping political thought and practice. In this chapter, while Marxist perspective of the state is analyzed, alternative perspectives such as liberal and institutionalist understanding of the state are also examined. This assessment enabled me to distinguish the Marxist theory of the state from liberal and institutionalist conception of the state.

According to the liberal approach, individuals pursue their interests with the idea of economic competition and free exchange and the state would have the role of an umpire. Moreover, explicit class relations are excluded from the public sphere due to all citizens are officially equated to political purposes. On the other hand, for institutionalists, the state as a system of institutions is an independent organization above all social groups. According to them, the state has the authority to both set social goals and set and implement the necessary rules for their realization. Marxist conceptualization differs from liberal and institutionalist conceptualizations of the state.

2.1 Liberal Approach

The liberal perspective of the state is based on liberalism which mainly emphasizes individualism and freedom (Chau, 2009: 2). According to liberals, the

fundamental rights of individuals are the right to life, liberty and property rights. The duty of political institutions and legal orders is to protect these rights of individuals. In other words, according to liberal philosophy, the reason for the existence of the state is to secure the natural rights and freedoms of individuals (Gray, 1995: 77). As mentioned, another important concept that liberal thought emphasizes is freedom. While the source of the interventions or coercions on the individual may be social groups or other individuals, the main interventions both in social life and in the market come from the state. Therefore, liberalism foresees that the state should be limited by law for the freedom of the individual (Hayek, 1997: 180).

According to von Mises (1998: 87), there is a very close relationship between economic freedom and freedom in general. The absence of a market economy means the disappearance of all political and social freedoms. The freedom provided by the market economy to individuals is provided through competition (von Mises, 1998: 88). The market economy frees individuals by offering an infinite number of choices. In other words, liberal thought advocates that no state intervention should be made in commodity production and exchange process because such interventions will lead to the restriction of the individual's freedoms and the pressure of some individuals on others, thus disrupting the natural harmony (Gray, 1995: 72).

In the liberal understanding of the state, the individual and his behavior are the main arguments of economic theory. Policies are not mechanisms that ensure efficiency in resource allocation and bring the economy to equilibrium. The market, on the other hand, is perceived as a spontaneous order that ensures the coordination of the behaviors of individuals while pursuing their own goals with the behaviors of individuals with the behavior of other individuals while pursuing their own goals. The equilibrium in the market arises as a result of the actions of entrepreneurial individuals

and their coordination with each other. The market is a system that emerges spontaneously and is revealed by human behavior and values. Limiting the activities of the state in relation to the market and freeing the individuals to realize their goals with the knowledge they have learned through experience is the most important condition for a competitive market to exist and to operate in the most effective way.

According to the Liberal approach, individuals pursue their interests and with the idea of economic competition and free exchange, the state would have the role of an umpire. The ideology of liberalism encouraged the reestablishment of the state as a separate public sphere from the private sphere of civil society; the state has been justified in this social realm by its internal relationship with individualized citizenship. Explicit class relations are excluded from the public sphere, as all citizens are officially equated to political purposes (Radice, 2008: 1157).

According to Hayek and the liberals who followed him, the understanding of the state in accordance with a liberal order should be a state that does not set lofty goals for individuals, but also maintains its impartiality in the face of different goals that individuals and/or communities formed by individuals will adopt (Hayek, 1967: 162). According to Barry, (1988: 38), even Hayek, who was against the intervention of the state in the market in principle, admitted that certain institutional arrangements were needed to ensure a competitive environment.

Yalman (2002: 70-71) argued that the main feature of the liberal approach is its inability to recognize any social reality other than the individual. From this point of view, the state is a phenomena that arises as a result of the behaviors and/or actions of the individual and society, but it cannot be accepted as a reality independent of the individual. According to Gray (1994: 731) and Yalman (2020: 71), in the liberal approach, the state is described as an "artificial" entity, which is created as a result of

the independent will of individuals and its main function (abstract) is defined as maintaining an environment that will enable individuals to act "freely". On a liberal basis, "contract", the basic concept developed for a theory of the state, was used to explain this artificiality (Yalman, 2020: 71).

2.2 Institutional Approach

According to institutionalist approach, the common weakness of Marxist and liberal approaches is that they consider state-society relations from a society-centered perspective (Yalman, 2020: 76). They emerged with the claim of bringing an alternative to the society-centered approaches, which they claim to make the state a dependent variable from a methodological point of view. Accordingly, a state-centered approach is an attitude that must be adopted in order to analyze the reasons and formation processes of the policies followed by the states (Yalman, 2020: 76). Institutionalists, who are trying to develop a theory of the state by adopting a state-centered approach, tend to define the state as a system of institutions (Skocpol, 1985: 6). So they turned it into an observable object. Skocpol (1985: 5-6) emphasizes that previous state theories only focused on the question of how the state was shaped by society, and neglected the question of how the state transforms society with its organizational power.

The method that has developed since the end of the 19th century and that defines the functioning mechanisms of the state, its institutions and the international order (political, administrative and legal) in an atheoretical manner in general terms is called old institutionalism in the literature. In the meantime, in the 1970s, institutionalism was revived with an important shift in the institutional analysis and this new method was called new institutionalism or neo-institutionalism in the literature.

The old institutionalism conceptualizes some of the key dynamics that lead to divergence in organizational forms, whereas the new institutionalism emphasizes convergence in organizational forms... Furthermore, the new institutionalism focuses primarily on economic organizations influenced by the polity and legal sphere, and vice versa. That is, for new institutionalists, the cultural environment of any corporate unit is heavily slanted toward the meta-ideology combining the ideologies of capitalism, political democracy, positivistic law, science, and education, whereas the structural formations and ideologies operating in other institutional domains are ignored. (Abrutyn and Turner, 2011: 299-300).

In general, institutionalist took Weber's definition of the state as a base and placed their theory of the state on it. According to Weber,

The state possesses an administrative and legal order subject to change by legislation, to which the organized corporate activity of the administrative staff, which is also regulated by legislation, is oriented. This system of order claims binding authority, not only over the members of the state ... but also to a very large extent, over-all action taking place in the area of its jurisdiction. It is thus a compulsory association with a territorial basis ... The claim of the modern state to monopolize the use of force is as essential to it as its character of compulsory jurisdiction and of continuous organization (cited in Waterbury, 1989: 2).

In the institutionalist approach, it has been argued that the state has a power of its own. To the extent that the state has this power, it is determined as an institution that has the capacity to manage the peoples living in the lands under its sovereignty, in other words, it has the authority to both set social goals and set and implement the necessary rules for their realization. In order to emphasize that it may not always be valid to think that the policies followed by the state are formed in line with the wishes and demands of various segments of the social structure, the concept of "state autonomy" is highlighted (Block, 1980: 228). The state power is in the position of a self-appointed subject that can set goals 'autonomously' from social relations and take decisions in line with its own interests.

Since autonomy is also used synonymously with the decision-making power or capacity of the state, changes in the relations of decision makers with social segments

are conceptualized as different uses of power by the state (Hall, 1986: 87). In other words, the state and society are defined as entities that are completely independent of each other and interact with each other. However, as those who adopted the state-centered institutionalist approach had to admit, the state, which was considered as an independent variable, continued to be a “black box” in need of explanation, as a result of the failure to develop concepts and theoretical propositions that would enable to examine the internal dynamics of the state (Migdal, 2001: 142).

This situation has brought new searches to the agenda within the scope of the state-centered institutionalist approach. On the one hand, the concept of “state within the society” was introduced with the implicit acceptance that it is not very realistic to distinguish between state-centered and society-centered approaches (Migdal, 2001: 164). On the other hand, it has been argued that the state and society or the economy are not areas that can be separated from each other analytically and have their own unique ways of functioning (Block and Evans, 2005: 515).

“The success of the economic reform was determined by a host of other political, historical, institutional and international factors that were largely unrelated to the crude distinction between democratic and authoritarian regimes” (Haggard and Webb, 1994: 68). It can be said that during the twentieth century, leadership strategies of many organizations and governments have changed. Many of these changes are far from authoritarian leadership strategies for democratic leadership (Haggard and Kaufman, 1995: 83; Dankwart, 1990: 79). For stable political activities, democratic political activities became the most desirable activities (Haggard and Webb, 1994: 105; Haggard and Kaufman, 1995: 83-84). According to Haggard and Kaufman (1992: 73), democratic regimes that carry out economic liberalizations successfully.

2.3 Marxist Approach

The Marxist literature is rich in conceptualizations of the state. In this chapter, I will examine six conceptualizations of the state in classical Marxist texts and then focus on the conceptualizations put forward by Miliband-Poulantzas, State Derivation Debate, and Open Marxism. This dissertation aims to explain the differences between Brazil and Turkey in terms of their implementation of the Washington Consensus and the AWC principles by departing from an Open Marxist perspective. According to Open Marxists, the state is conceptualized as a historical form of social organization which includes both political and economic processes of capitalist production (Bonefeld et al., 1992: 94; Kettell, 2004: 21). The forms and functions of the state are determined throughout class struggle (Clarke, 1991: 190). Although each class and actor does not have equal capacity to influence the state, the state is not an instrument of one class. While the state is responsible to maintain capital accumulation, it may sometimes have to respond to the demands of the working class. This means that in order to examine state policies, it is necessary to analyze class struggles.

2.3.1 Classic Marxist Theory

In 1977, Bob Jessop wrote the first systematic and comprehensive review of Marxist state theories and indicated that there is no consistent, single, and unified state theory in the studies of Marx and Engels (Jessop, 1977: 353; 1990: 9). It is expressed in many sources that Marx did not offer a theoretical analysis of the capitalist state. His work on the state consists of non-systematic, fragmented philosophical reflections, a series of contemporary histories, journalism, and accidental explanations (Jessop, 1977: 354; 1990: 25). This is likely the same in the works of Engels, Lenin, Trotsky, and Gramsci (Jessop, 1990: 25).

The reflections of Marx on the state firstly appeared in the *Critique of Hegel's Doctrine of the State* in 1843 (Hay, 1999: 159). Although Marx shared the notion of Hegel's distinction between the state and civil society and shared the view that civil society defines the relations of individuals with another as the area of economic life determined by individual interests and individual needs; he disagreed with the idea that the state can act in the axis of universal interests (Marx, 1975: 118). Furthermore, in the *Communist Manifesto*, Marx and Engels (1848: 82) asserted that:

The state is nothing more than the form of organization which the bourgeoisie necessarily adopt both for internal and external purposes, for the mutual guarantee of their property and interest.

This instrumentalist framework, which frames the state as a tool in the hands of the ruling class, is seen by Miliband as the major view of Marx and Engels for the state (Jessop, 1990: 33; Hay, 1999: 160). However, this framework is not their only formulation on the state. According to Jessop, in their more historical writings, the instrumentalist perspective of Marx and Engels took a more structuralist position (Hay, 1999: 161). For instance, in *The Eighteenth Brumaire* and in *The Civil War in France*, Marx gave the state a more independent role than his previous writings (Hay, 1999: 161). Miliband (1977: 284-285) described this as a “secondary” view of the state. This view was also restated by Engels in *The Origin of the Family, Private Property and the State* (Hay, 1999: 161).

Marx and Engels came closest to formulate a systematic state theory as a class state with the *German Ideology* (Hay, 1999: 160). In this work, they defined the state as an organization that emerges as a result of a sufficient degree of division of labor that is bound to a certain degree of development of the productive forces. In addition, the state maintains the conditions of the dominant class at all times: the dominant class has the social power of what it possesses regularly in the idealistic form of every

peculiar state (Marx and Engels, 1999: 65-66). According to Marx and Engels (1999: 65), a state is a form in which the individuals of a dominant class exalt their common interests through it. Similarly, the bourgeois state is nothing more than the organization of the bourgeoisie that they have chosen for themselves to secure their property and their interests (Marx and Engels, 1999: 65).

This assessment shows us that “there is no (single) Marxian, far less Marxist, theory of the state” (Hay, 1999: 159). There are six different approaches to state analysis within the classical Marxist texts. The state is considered as (1) a parasitic institution, (2) an epiphenomenon of the system of private property relations and the resulting economic class struggle, (3) the factor of cohesion, (4) an instrument of class rule, (5) a set of institutions and (6) a system of political domination with specific effects on the class struggle (Jessop, 1990: 26-28). Although they merge in terms of consistency and common features at different levels, they have different theoretical assumptions, explanations, and political extensions. The first approach emphasizes that the modern state is a *parasitic institution* which means that it does not play any essential role in economic production and reproduction. Marx initially argued that the state does not represent common interest; instead, acts to maximize the interests of particular groups (Jessop, 1990: 185). In other words, it tends to exploit and suppress in favor of certain groups. According to Marx, the state becomes the property of civil servants for their self-advancement which allows the bourgeoisie to protect their material interests. Although Marx continued to share the same ideas on the form of the modern state and its separation from civil society, in later years, instead of using the term of parasitic, he explained this with the necessary part of the system of class domination. However, anarchists continued to explain the state as parasitic (Jessop, 1990: 26).

The second approach discusses the state and state power as *epiphenomena* of the system of private property relations and the resulting economic class struggle. This approach “considers the structure of the state as a surface reflection of a self-sufficient and self-developing economic base” (Jessop, 1990: 26). This approach is largely limited to early studies, but it is sometimes seen in late-term studies and it is often encountered in more recent Marxist analyses. This approach is particularly evident in Marx's early interpretations of the law. Marx used this approach in his work of *Contribution to the Critique of Political Economy* in the part of Preface, firstly published in 1859. In his work, law and politics seem to be considered as a superstructure based on economic infrastructure to see private property relations as a legal expression of relations of production and to place the basis of the revolution in the growing contradiction between productive forces and production relations. In general, this approach sees the state structure as a reflection of the self-developed and self-developing economic base. Since classes are defined only in economic terms, the application of state power is seen as a surface reflection of the economic struggle (Marx, 1975: 311).

The third approach discusses the state as *the factor of cohesion* in a given society. This perspective is usually identified with Poulantzas but is also evident in classical texts (Jessop, 1990: 27). In this sense, Engels saw the state as an institution, established in the same period (*pari passu*) with the emergence of economic exploitation. For him, the function of the state is to regulate the struggle between classes with repression and concession. While doing this, it is continued to consider the domination of the ruling class and the dominant mode of production (Engels, 1884: 93). Bukharin (1926: 150) explained this role of the state as a regulator. In addition to Bukharin, Lenin (1917: 55) and Gramsci (1971: 206, 371) shared more or less similar

views. According to Jessop (1990: 27), this approach is insufficient which must be supplemented and supported with other perspectives because of the inability to define the nature and functions of the state; and the inability to explain the emergence of revolutionary crises and transition from one historical period to another.

In the fourth approach, the state is considered *an instrument of class rule*. This is the most widely adopted approach and is seen in the interpretations of Marxism-Leninism. According to this approach, any class, which controls the state, makes the state provide policies according to its interests and benefits. Nowadays, the capitalist class dominates the state, and policies are provided following their benefits. Yet, a fundamental problem in this approach is the tendency to assume that the state as a device is neutral and that it can be used by any class or social force with equal ease and equal effectiveness (Jessop, 1990: 27).

In the classic Marxist texts, the fifth approach identifies the state *as a set of institutions*. No general assumption is made about the class character. According to this approach, the state is considered as a public power, which involves the emergence of a separate system of government and brings on a certain stage in the division of labor (involving the exploitation of one class by another). It is believed that the “functions, effects and class nature of the state cannot be determined a priori, but depend on the relations between its institutional structure and the class struggle in various circumstances” (Jessop, 1990: 28). This approach is seen in Engels and Lenin.

Lastly, the sixth approach identifies the state *as a system of political domination with specific effects on the class struggle*. It mainly focuses on the forms of political representation and state intervention. It is considered that these are sufficient to guarantee a balance between class forces in favor of a given class or class segment. In Lenin's statements (1917: 10), it is shown that the democratic republic is

the best political cover for capitalism, and not any person, institution, or party change can shake the rule of capital, once this state form has been established. According to Jessop (1990: 28), this approach is most efficient when it is used in conjunction with the institutional definition of the state.

2.3.2 Recent Marxist Theories

There was no well-formulated and consistent theoretical state analysis in classical Marxist texts. However, they offer several significant historical generalizations and political insights and they are the basis for more rigorous analysis. Since the 1970s, there has been a significant increase in contributions to the Marxist theory of the state. The state debate in this period was shaped as a critical reaction to the common view that the state was a simple institutional apparatus of the ruling class. “Marxist theories are heterogeneous in approach but are unified through a common concern with specific modes of production, their conditions of existence and their effects on social formations” (Jessop, 1977: 369).

Frankfurt School, which “combined Marxism with a sociological tradition descending from Weber”, emphasized that the state is autonomous, but of course not neutral (Clarke, 1991: 6). For them, the representation of certain interests is of secondary importance compared to the stabilizing role played by the state as a political institution. The state determines whose interests it will represent. “The state served the interests of capital in stabilizing a capitalist society, but there was nothing specifically capitalist about the form of the state, which was defined in Weberian terms, as a rational form of domination/administration” (Clarke, 1991: 7). This theory says that there is no guarantee that the capitalist state will be able to meet all the needs of capital at once, and it is impossible to do so. According to this school, “the capitalist state can be understood only in terms of its changing functions in the class struggle over the

organization of the labor process and the appropriation of surplus-value” (Jessop, 1977: 364).

On the other hand, the neo-Gramscian school “identifies state formation and interstate politics as moments of the transnational dynamics of capital accumulation and class formation” (Overbeek, 2000: 168-169). This school insisted that

the state plays a vital role in unifying the bourgeoisie and organizing its political and ideological domination. For, in opposition to the widespread Marxist view that each class has an essential unity of purpose based on its members’ shared position in the economic system, the neo-Gramscian school insists that its unity depends on the existence of particular forms of organization and representation (Jessop, 1977: 368).

Neo-Ricardian theorists concentrated on the economic dimension of the state (Jessop, 1977: 358). According to them, the state takes a direct or indirect role in determining the distribution relationship between capital and labor (Clarke, 1991: 23). They are rejecting the argument of “the capitalist state as a passive instrument in the hands of the bourgeoisie... in favor of a more active and autonomous role of the state” (Purdy, 1973: 31). It is believed that the labor class, in exploiting the divisions within the capitalist state, achieves a series of economic and social reforms without challenging the political power of capital (Clarke, 1991: 27).

The Regulation School's analysis of the state developed in the 1970s as a challenge to both orthodox Marxism and the structuralists' analysis of the state (Nadel, 2002: 34). The main task given to the state in the theory of state-monopoly capitalism is to provide the necessary conditions to keep or increase the profit rates of the monopolies (Aglietta, 1979: 28). The theory of state-monopoly capitalism equates the state with the interest of capital. However, contrary to the theory of state-monopoly capitalism, according to the Regulation School, the state is not a superstructure institution as interfering with the infrastructure independently from the outside

(Aglietta, 1979: 29). “In the Regulation Theory, the state is considered as (only) one among the institutions which are involved in regulation” (Hein et al., 2014: 2). Instead of the state, the institutionalization of social relations affected by class struggles is at the center of reproduction. The determinant of this social institutionalization is class hegemony (Aglietta, 1979: 29). The contribution of Regulation Theory is that “the basic social relations of capitalism are embedded into institutional forms which are the outcome of social and political compromises. These institutional forms define accumulation regimes.” (Boyer, 2007: 21).

On the other hand, Ralph Miliband and Nicos Poulantzas brought up a 'relatively autonomous' state understanding from the direct control of the ruling class (Türk and Karahanoğulları, 2019: 200). While Miliband argued that the ruling class was using the state as a tool to allocate its hegemony, Poulantzas believed that the state is a factor of cohesion within the social formation and it is standing above society to moderate the conflict between classes with conflicting economic interests. Yet, in his later works, Poulantzas defined the state as relational (Bozkurt, 2021: 8). The dependent relation of the ruling class to the state is not direct enough to control it like a tool. The inability of the state to be controlled by the class enables it to produce its existence as a domain-independent of classes.

The state derivation debate mainly concentrates on fundamental social relations to be able to identify the capitalist state (Clarke, 1991: 8). This theory emphasized the derivation of the form of the state from capitalist social relations. It is argued that the state provides the common needs of capital in the process of capital accumulation and reorganizing production. For the state derivation debate, the capitalist state has an important part in the social reproduction of capital (Jessop, 1990: 37). It is also a

political force that coordinates individual capitals in terms of economic competition and provides the necessities.

Open Marxism emphasizes that defining the state, as a form of capitalist social relations, does not mean that the state is an agent of capital (Bonefeld et al., 1992: 161). The state is not an instrument of capital or function in the best interests of capital. Although each class does not have equal capacity to influence the state, the capitalist state needs to respond to the interests of the working class to maintain its apparent neutral image (Holloway and Picciotto, 1978: 29-30). Yet there is a limit to the state's autonomy from the dominant interests because it has to guarantee capital accumulation. This means that the class struggle between capital and labor determines the policies of the state.

Although many Marxist state theories emerged by the 1970s, in this chapter I will be dealing with the Miliband-Poulantzas debate, state derivation debate and Open Marxism and finally I will conclude this chapter by stating why I chose Open Marxist theory to study on the implementation of Washington Consensus and Augmented Washington Consensus principles in Brazil and Turkey.

2.3.2.1 Miliband and Poulantzas Debate

Miliband and Poulantzas were the major Marxist theorists who contributed to the Marxist conceptualization of the state. Both of them focus on political and ideological struggles, without analyzing the economic imperatives and necessities of capital accumulation. For Miliband, the capitalist state is an instrument of the ruling class; while Poulantzas argued that the state is a factor of cohesion within the social formation where the state is above the society to moderate the conflict between classes with conflicting economic interests. The Miliband-Poulantzas debate seems to have two different foundations. According to Miliband, the power of the state is more

directly related to the class, but for Poulantzas, this occurs more indirectly. The debate did not take Marxist theory very far. Yet it opens a new window for many recent developments in state theory by showing the limits of structure-centered and agency-centered perspectives (Hay, 1999: 167).

One of the most prominent features of Althusser's structuralist approach is the ideological function of the state. From a structuralist perspective, Poulantzas alleged the causal priority of structures rather than the priority of agents and their intentions in his early works. In this structuralist perspective, the capitalist state is generally seen as the structural system “with form and function determined largely independently of the aspirations, motivations and intentions of political actors or members of the dominant class” (Hay, 1999: 166). According to structuralism, state apparatuses operate in the long-term collective interests of the ruling class. Although Poulantzas was a structuralist in his early works, his later works represent an epistemological break from the structuralism of his earlier works. His later works defined the state as relational (Bozkurt, 2021: 8). “Poulantzas emphasises that contradictions and struggles traverse the state, and therefore it cannot be seen as a monolithic entity without cracks” (Bozkurt, 2021: 8).

The second point in Poulantzas's design of the state is on the relation of classes to the state. For Poulantzas, the dependent relation of the ruling class to the state is not direct enough to control it like a tool. The inability of the state to be controlled by the class enables it to produce its existence as a domain-independent of classes. For Poulantzas, the reason for the transformation of the state into the sphere of action of a class is that it has no other order than the political order of the relations of production, rather than being controlled by the class. Therefore, the inability of the state to be free from the political order of the relations of production makes it necessary to act

according to the interests of the hegemonic class in these production relations. Poulantzas called this nature of the state in capitalism "the relative autonomous position of the state" (Bridges, 1974: 166).

Compared to Poulantzas, for Miliband, the state is more dependent on the ruling class. Hence, Miliband's theory asserted the idea that the ruling class was using the state as a tool to allocate its hegemony (Barrow, 2008: 87). For him, political power and social order are identified with the socialization of the ruling class' ideology. Miliband (1969: 182) argued that the political dominance of capital is the result of its monopolization of political and economic power. In the capitalist society, the state is dominated by the bourgeoisie class, so it serves the interests of this class (Miliband, 1969: 44).

The main reason for Miliband attributing an instrumentalist function to the state is that the established economic elites were able to access the position of a ruling class through close relations with state elites (Hay, 1999: 165-166). According to Miliband, there is a strong economic elite group and a group of state elites in advanced capitalist societies, and the ruling class was formed by these two elite groups which agree on capitalist interests. However, the question of how these two groups have an overlap of interest remains unanswered here.

The debate began with Poulantzas's critique of Miliband's book *The State in Capitalist Society* in *New Left Magazine* (Clarke, 1991: 16). According to him, Miliband made the state theory open to the influence of other schools by not problematizing the state sufficiently (Poulantzas, 1969: 69-70). Since he treated social classes as simple interpersonal relations, he added the state in this perspective and saw the state as a simple tool of one of the two social groups. According to Poulantzas,

Miliband could not problematize the state as a separate sphere, as he saw it as a kind of relationship between subjects (Poulantzas, 1969: 70).

Against Miliband's theory, Poulantzas argued that due to the functions of the state and the interests of the ruling classes intersect, the state has to rely on a class because of the structure of the system rather than the relationship of individuals. Poulantzas named it "Bonapartism", a concept that he quoted from Marx (Poulantzas, 1969: 73). For Poulantzas, Miliband's view of the state as the main actor in the relation of society and the reproduction of the system does not change the position of the state. The function of the state in this context never explains its dependence on class (Poulantzas, 1969: 73-74). According to Poulantzas, "Miliband's reflections thus remains tarnished by the residue of bourgeois assumptions about the state - principally that power resides not in the state apparatus itself but the personnel of the state" (Hay, 1999: 165). Thus, Miliband failed to understand Poulantzas' perspective on "the objective structural reality of social classes and the state" (Hay, 1999: 165).

Miliband rejected Poulantzas' theory of the state as independent of class bases and emphasized the systemic relations of government and bureaucracy. According to him, government and bureaucracy are subject to the constraints of production relations. Failure to see this leads to a failure to understand the nature of the state elite (Miliband, 1970: 50). Since the state elite must live under the domination of the hegemonic class under capitalism, it serves as the guardian of the economic interests of this class (Miliband, 1970: 57-58). According to Miliband (1969: 161-162), in advanced capitalist societies, it is necessary to treat the state elite, which possesses and exercises state power, as a separate and special entity. He underlined that business people, even if they have serious involvement in state affairs, still constitute "a relatively small minority within the entire state elite" (Miliband, 1969: 162). In this framework, the

economic elites of advanced capitalist countries do not constitute a 'governmental' class compared to pre-industrial, aristocratic, and land-possessing classes.

In 1973, Miliband continued his criticism against Poulantzas in *New Left Magazine*. He criticized Poulantzas's epistemological distance from economism, historicism, and humanism and the replacement of these with “levels” and “structures of levels”. The second criticism of Miliband was that Poulantzas did not make a proper distinction between class power and state power. Miliband (1973: 87) simply explained state power as a means by which class power is secured and maintained. This analysis showed that the state is instrumentalized by class rather than a political relationship where state and class interest coincide as Poulantzas stated.

Miliband's other criticism was about the importance of political parties at the state level. For Poulantzas, who acted on the idea that the state should be an organ on its own, party organization could not play an autonomous role. Criticizing this attitude, Miliband gave the example of the Christian Democrats in Germany and the Conservatives in the United Kingdom, revealing that they have a decisive role in the implementation of state power (Miliband, 1973: 88-89).

After three years of these criticisms, Poulantzas rejected criticism that he provided an unsuccessful analysis of state power and he stated that he analyzed state power only as of the agent of a class corresponding to the state. In other words, he stated that the power of the state cannot be reduced to the direct expression of the interests of any class or faction, and the state represents an ideological unity with all of these factions (Poulantzas, 1976: 76).

As mentioned, Poulantzas in his later works used relational state conceptualization instead of Althusserian conceptualization of the state. In his book, *State, Power, Socialism*, in 1978, Poulantzas analyzed the state as a social relation

(Rooksby, 2018: 38; Jessop, 1990: 30). In other words, for him, the state should be understood as “the specific material condensation of a relationship of forces among classes and class fractions” (Rooksby, 2018: 38).

The struggles of the working class traverse the institutional materiality of the state, shaping and reconfiguring its structures and therefore working-class power is always to some extent manifested and embedded within the state and their interests reflected in aspects of state policy (Rooksby, 2018: 38).

This means that the state’s structure and organization are modified and reshaped with the struggles between classes and class fractions. For Poulantzas, the state both reflects class relations and structures these relations.

As Poulantzas argues, it is far better to think of the state as a contested site of power rather than as some bourgeois ‘fortress’ - ‘an ivory tower isolated from the popular masses’. That is to say that working class power is, to some extent, manifested and embedded within the state. It follows from this, as Poulantzas argues, that certain parts of the state apparatus may be utilized, to some extent, and under certain circumstances, by socialist forces (Rooksby, 2011: 39).

2.3.2.2 State Derivation Debate

The state debate of the 1970s developed against two-state theories, which had been influential on the left in the 1960s - the orthodox Marxist theory of State Monopoly Capitalism and the social democratic theory of the state. The orthodox Marxist theory of monopoly state capitalism was based on the fact that the state is identified with the interests of capital; in fact, the monopolistic power and the state are intertwined (Afanasyev, 1974: 197); on the other hand, the social democratic theory of the state focused on the institutional separation of the state from the economy; thus, emphasizing the autonomy of the state as a political institution (Clarke, 1991: 3). The inadequacy of these state theories became increasingly apparent in the 1960s. The development of the welfare state and the coming of social-democratic governments, especially in Britain and Germany, dissolved the approach that identifies the state with the interests of monopoly capital (Clarke, 1991: 4). In addition, the welfare state did

not become effective in the face of problems such as poverty, bad housing, and poor health conditions; economic problems, results of monetary and financial instability, consequently increased unemployment and social unrest; and social democratic governments could not effectively face the power and interests of capital groups; so towards the end of the 1960s, the optimistic outlook of the social democratic view lost its credibility (Clarke, 1991: 4). The theory of monopoly state capitalism underestimated the autonomy of the state, whereas the social democratic theory ignored the limits of this autonomy.

The state derivation debate, which is also known as “capital logic theory” (Mieville, 2004: 122), was developed in West Germany throughout the early 1970s (Clarke, 1991: 204; Jessop, 1990: 49) to analyze the relationship between state and society and the source of the relation; instead of focusing on the critique of bourgeois democracy which dominated the literature in the 1960s (Holloway and Picciotto, 1978: 16). The starting point of the ‘state derivation’ approach was the argument that ‘functionalist’ theories of the state, whether that of Offe and Habermas or that of State Monopoly Capitalism, presuppose the existence of a state which can perform the functions attributed to it, ignoring the prior task of explaining how such a body comes into being in the first place (Clarke, 1991: 8). The state derivation debate mainly concentrates on fundamental social relations to be able to identify the capitalist state (Clarke, 1991: 8). The approach, that characterizes this debate, has been influenced by the state theory of the Soviet law theorist Evgeny Pashukanis (Holloway and Picciotto, 1978: 18; Mieville, 2004: 122). As early as 1923, Pashukanis criticized Marxist theories, which focused solely on the content of the state. His theory focused on why the dominance of the capitalist class takes the form of official state sovereignty by acquiring capitalist law and the capitalist state from the metaphor (Beirne and Sharlet,

1980: 5). Based on a form-analytical interpretation of Marx's theory of value, Pashukanis argued that social relations in capitalist society constitute capitalist laws and the capitalist state and that this state encodes and applies the social form of capitalist social relations as relations between things (Beirne and Sharlet, 1980: 5).

Pashukanis tried to derive the form of the bourgeois state as an impersonal apparatus of public power distinct from the private sphere of civil society. He argued that the legal form of the *Rechtstaat* (or constitutional state based on the rule of law) characteristic of bourgeois societies is required by the nature of market relations among free, equal individuals. These must be mediated, supervised and guaranteed by an abstract collective subject endowed with the authority to enforce rights in the interests of all parties to legal transactions (Jessop, 1990: 53).

“The state derivation approach sought to derive the state, logically and historically, from the categories developed by Marx in *Capital*” (Clarke, 1991: 9). This debate is based on the interpretation of *Capital* as the theory of social relations of capitalist society as a whole, not as a theory of the “economic” (Clarke, 1991: 8). It derives the general form of the capitalist state as well as its basic functions from the purely capitalist mode of production and its conditions of existence (Jessop, 1990: 35). It is believed that the separation of the characteristics of the bourgeois social formations from the state and of the civilized society stems from the nature of generalized commodity production. According to state derivation theory, under capitalist production, such separation is possible, but considering the state as an institution, it is also necessary to organize preconditions of capital accumulation to secure capital accumulation (Jessop, 1990: 35). 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).

The state derivation debate moreover emphasizes that explaining the state as an instrument of capital is problematic (Jessop, 1990: 37). It is accepted that the capitalist state has an important part in the social reproduction of capital. It is also a political force that coordinates individual capitals in terms of economic competition and provides the necessities. So this means that the state can intervene to both individual capitals and the working class if there is a threat against the interests of capital. Furthermore, it is argued that the Marxist state theory should present a critique of the development of the various functions of the modern state — “of its instruments for regulating the economy and ensuring social consensus” (Müller and Neusüss, 1978, 33). Consequently, by reflecting on Pashukanis, Müller and Neusüss (1978: 33) argued that these functions can be revealed only through an analysis of the need for state intervention arising from the contradictions of the capitalist production process in the process of labor-process and valuation.

Under the state derivation theory, there are three different state readings (Holloway and Picciotto, 1978: 19). The first approach, which is also identified as the most dominant approach by Holloway and Picciotto (1978: 19-20), was developed by Müller and Neusüss (1978), Elmar Altvater (1978), and Blanke et al. (1978). They identified the state as the ‘ideal collective capitalist’. The state is not an actual capitalist, but it is an ideal collective capitalist because it considers the common needs of capital (Altvater, 1978: 42). In other words, according to Altvater (1978: 41), the state is essential to capitalism because state intervention is necessary for the process of capital accumulation. State derivation theory emphasizes that the state intervenes to reorganize production. The capitalist state has limited power and it could not directly affect the decisions of private capital. State intervention is only accepted for monetary and legal conditions. The private sector designates and regulates its economic

operations (Blanke et al., 1976: 88). In short, the state represents the general interests of the capital rather than specific interests of specific fractions of capital, so that is why it is considered as an ideal collective capitalist.

According to this approach, the separation of state from civil society is the result of generalized commodity production. This distinction is possible and necessary to secure the conditions of capital accumulation (Jessop, 1977: 362). For Altvater (1978: 42), legal and monetary systems are necessary conditions of capitalism that organize the production and exchange of commodities and the accumulation of capital. Blanke et al. (1978: 112) also expressed the regulatory character of the state through legal and money in social relations of production. In this sense, the state must create these systems. In addition to these, the state must ensure the reproduction of wage labor. Altvater (1978: 42) argued that the market could not secure this, so by this way, the state can also secure its subordination to capital. These conditions provide a base for the state to interfere in some areas such as factory legislation, social welfare, and so on (Müller and Neusüss, 1975: 34).

The second approach is represented by Flatow and Huisken (Holloway and Picciotto, 1978: 23). They concentrate on the relationship between the state and the capitalist class. Flatow and Huisken (1973; cited in Holloway and Picciotti, 1978: 23) emphasized that it is necessary to analyze how the state, which is a form of class rule, emerges as an institution that stands beside and outside the bourgeois society. So they tried to understand how the state as a neutral institution is realized and perceived by the working class. For this reason, they used Marx's "trinity formula" (capital: profit, land: ground-rent, labor: wages) and emphasized that "all members of society have a (superficially) common interest because of their common status as owners of a source

of revenue” (Holloway and Picciotto, 1978: 23). This common interest makes the state autonomous and neutral. Flatow and Huisken argued:

An autonomous state is necessary because the relations of competition existing between the different classes of ‘property owners’ (i.e. owners of the different sources of revenue) makes it impossible for them to realize their common interest other than through the state (Holloway and Picciotto, 1978: 23).

These two approaches in the state derivation debate represented more theoretical progress than the previous approaches to the state (Holloway and Picciotto, 1978: 25). However, many scholars criticize the functionalist position of the first approach. For instance, Clarke (1991: 11) stated that this approach “endows the state with independence, omniscience and an omnipotence, based on which it can formulate and implement the ‘general interest’ of capital, which it manifestly does not have”. In addition, Holloway and Picciotto (1978: 21-22) criticized this approach for its missing parts such as lack of analysis on the development of the state as a form of class domination, and its relation to the working class. So they identified this approach as ahistorical because theorists in this approach do not focus on class struggle. Moreover, there are also many criticisms raised to the second approach of the state derivation debate for failing to develop a historical materialist theory of the state (Holloway and Picciotto, 1978: 23). Their weakness is based on the “fetishized appearance presented by the surface of bourgeois society” which led them to “cut themselves off from a historical understanding of the state” (Holloway and Picciotto, 1978: 23).

Joachim Hirsch represented the third approach in the state derivation debate. “This approach again starts from the analysis of the basic structure of capitalist society — but focusing now not on the relations between commodity producers but on the nature of the capital relation, the relation of exploitation of labor by capital” (Holloway and Picciotto, 1978: 24). According to Hirsch (1978: 58), “there is a lack of clarity about the character and the conditions for the constitution of the specifically bourgeois

form of political domination”. The capitalist state is derived from the nature of the social relations of domination in capitalist society (Holloway and Picciotto, 1978: 24). According to this approach, the general interests of capital do not define the state, because the state cannot know what the general benefit of capital is (Holloway and Picciotto, 1978: 25). In other words, “the function of the bourgeois state can never be more than the creation of the ‘external’ conditions for the social reproduction process which regulates itself based on the law of value” (Hirsch, 1978: 64). Although there is not a direct correlation between the state and the general interest of capital, the state conducts general and external conditions of reproduction function, because only in this way it can secure and sustain the capital reproduction process and its material basis.

Hirsch (1978: 66) argued that the state has to work as a class state because its existence is based on the reproduction of accumulation. He explained the limits to the autonomy of the capitalist state with the need to secure capital production. This means that the state is identified with the development of the capitalist mode of production and class relations. This is actually related to the mechanism of the state which includes interest conflicts and social conflicts. The state does not only have to deal with conflicts of interest between the bourgeoisie and the working class. It also has to deal with the conflicts of interest between individual capitalists and groups of capitalists. The working class needs and wants to increase their political and economic power. This can take place with the widening of the welfare state intervention (Hirsch, 1978: 84). The welfare state’s concession to the working class means the maintaining of the capital and the political domination of the bourgeoisie. This concession depends on “the undisturbed progress of capital accumulation” (Hirsch, 1978: 84). That is why there is pressure on the state to intervene. As long as the undisturbed progress of capital accumulation continues, the state can respond to the demands of the working class. If

not though, the state can use violence any time to contain the resistance coming from the working class. Under these circumstances, it is not possible to maintain a peaceful, formally legal, and democratic form of bourgeoisie rule (Hirsch, 1978: 84-85).

To maintain capital accumulation and secure the state's material and political reproduction, the development of state intervention is a political need. However, it is not a straightforward process.

It [the state apparatus] must be open to the divergent interests and influences of individual capitals and groups of capitals, which always encounter one another in competition as 'hostile brothers', and in order to secure the political domination of the bourgeoisie and keep class conflict latent, it must maintain links both with the proletariat and with other classes and strata not to be counted as part of the bourgeoisie (Hirsch, 1978:100).

According to Holloway (2002: 154), the state derivation debate provides a substantial theoretical analysis to discuss the state as the totality of social relations of the capitalist society. For instance, Clarke (1991: 214) argued that state derivationists and especially Hirsch contributed to the analysis of the state as a process which includes the reality of class antagonism and the autonomy of the state from dominant interests as well as limits to that autonomy. It is right to state that Hirsch's theory on the state contributed significantly to the formulation of the arguments of the Open Marxists.

2.3.2.3 Open Marxism

New Marxist conceptualization of the state developed within the working groups of the Conference of the Socialist Economists (CSE)³ in the 1970s (Clarke, 1991: 1). The CSE approach (known as Open Marxism) became influential in Britain as a response to the State Derivation Debate which was effective in Germany in those

³ The CSE was established in 1969 as a forum for economists, yet the discussions moved beyond the economic sphere and economic developments were seen as a face of the development of the capitalist system as a whole (Clarke, 1991: 1).

years (Holloway and Picciotto, 1978: 14). It is essential to state that the state derivation debate, especially Joachim Hirsch, has a significant contribution to the CSE (Clarke, 1991: 11). The CSE contributors, such as John Holloway and Simon Clarke, took ideas of Hirsch as a base and contributed to his ideas by criticizing him.

The starting point of the CSE approach is the class antagonism between capital and labor (Bonefeld et al., 1992: xi). The form of the capitalist state is that apparently, it is autonomous from the capital, but State Derivation School and Open Marxism show that there are limits to that autonomy because every capitalist state has to ensure capital accumulation. What distinguishes the CSE account from the German State Derivation debate is its emphasis on the form of the capitalist state being a constant object and result of class struggle. Thus, the class struggle does not simply take place within these forms. The forms of capitalist domination are themselves the object of class struggle (Clarke, 1988: 15-16; Clarke 1991: 10-11; Holloway and Picciotto, 1978: 29-30).

Open Marxism means “an openness of the categories of Marxism” (Roberts, 2002: 89). Three aspects made Marxism open. The first one is that “its rejection of all forms of determinism is based on reasserting the centrality of class struggle... In essence, this version of Marxism puts a premium on the power of labor, thereby, unlike objectivist theories, pointing to the fragility of capitalism as a system of class domination” (Burnham, 1994: 224-225). Second, instead of analyzing form-analysis with species, Open Marxism understood it as a mode of existence (Bonefeld et al., 1992: xv). Thirdly, Open Marxists refute all forms of fetishism (Burnham, 1994: 226). Capitalist development is not a result of successive stages or historical necessity (Burnham, 1994: 226). Holloway (1994: 26) explained defetishism of the notion of the

state by “dissolving the state as a category means to understand the state not as a thing in itself, but as a social form, a form of social relations”.

Open Marxism identifies the state with the nature of the social relationships which are capitalist social relations (Rogers, 2014: 119; Holloway, 1995: 139). According to Holloway and Picciotto (1991: 112),

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.

Open Marxists conceptualized the state as a historical form of social organization which includes both political and economic processes of capitalist production (Kettell, 2004: 21; Bonefeld et al., 1992: 94). Thus, the state is based on the reproduction of these political and economic relations. According to Holloway and Picciotto (1978: 14):

The economic should not be seen as the base which determines the political superstructure, but rather the economic and the political are both forms of social relations, forms assumed by the basic relations of class conflict in capitalist society, the capital relation; forms whose separate existence springs, both logically and historically, from the nature of that relation. The development of the political sphere is not to be seen as a reflection of the economic, but it is to be understood in terms of the development of the capital relation, i.e. of class exploitation in capitalist production.

In fact, the capitalist state must be understood as a form of the capital relation. What is important here is the reason why capitalist social relations appear as separate economic and political forms (Holloway and Picciotto, 1978: 18). While this separation reduces labor to only one factor of production, it is the founder of the relative autonomy of economics and politics from each other. In capitalism, surplus value is seized with the free will of labor and capital within the market conditions in which they are included, while the legal ground in which the market operates is

guaranteed within the state and other political and cultural relations (Bedirhanoğlu, 2019: 378).

The failing of the so-called “capital-logic” approaches to the state is that, while they emphasize the importance of seeing capital as a social relation, they do not stress sufficiently that this is a relation of class struggle; or, in those cases where capital is presented as a relation of class struggle, class struggle tends to be subsumed totally into its form (Clarke, 1991: 109).

The Open Marxists whereas go further and focus on the primacy and centrality of class struggle. For them:

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 (Clarke, 1991: 41).

Clarke (1991: 12) criticizes Hirsch because of the way he explains the separation of politics from economics (the form of capitalist state) as a static process. According to Open Marxists, the separation of politics from economics is not something that happened only once, it needs to be reproduced again and again. According to Clarke (1988: 15), it is not possible to theorize the capitalist domination with the structural-functionalist terms. In his view, the forms of class struggle create the structures. Open Marxism emphasizes that the main characteristic of the state is its class character. The dominance of capitalists and the primacy of the economy do not determine this class character of the state. According to Bonefeld et. al. (1995: 25), the separation of the state from civil society and the political regulation of class antagonism has an important role in the determination of this character.

The class character of the state is evident in its role, even though it is obfuscated by its fetishized appearance as an independent political form that guarantees public interest, formally separated from the process of surplus-value production and from civil society: it strives to regulate capitalist social relations and secure the conditions for capitalist accumulation within its territory, by politically mediating the contradictions in global accumulation.

This is restricted by, and subordinated to, the conditions imposed by uneven capitalist reproduction and class struggle on a global scale (Alami, 2019: 634).

The form of the state finds its counterpart in the guarantee of freedom of contract and equal opportunity for property rights and the social reality of exploitation through these (Bonefeld, 2007: 271). The political assurance of the property right determines the form of the "strong state", which is the production of the legal ground on which the market is constructed as an area of freedoms, opportunities, and equality. By monopolizing the political, the state de-politicizes social relations in the process of commodification of labor power, and in this way, relations of production continue to expand in the supposedly free and equal market. In this way, the strong state uses its form-specific capacities instrumentally for accumulation.

While the state secures social reproduction and surplus value production by assuring exploitation, it also shows itself as representing the general interests of the society as the neutral arbiter (Clarke, 1988: 128). However, as Clarke (1991: 186) underlines;

The 'general interest' of capital is a pure abstraction. All that exists is a particular resolution of conflicting interests. The 'general interest' of capital as something standing outside the particular interests of particular capitals does not exist as a condition of the state. It is rather the result of a particular resolution of the conflicts between particular capitals and of the contradiction between capital and the working class.

There are two different sets of property owners; owners of the means of production and owners of labor power. The capitalist society is defined by a class struggle between these groups, so the state has an important role to maintain and sustain this system. According to Clarke (1991: 190), "if there were no class struggle, if the working class were willing to submit passively to their subordination to capitalist social relations, there would be no state". Defining the state as a form of social relations does not mean that the state is an agent of capital (Bonefeld et al., 1992: 161). In other

words, the state cannot maintain suitable conditions for all particular capital to sustain social reproduction.

Open Marxist perspective is not functionalist, it does not define the state as coterminous with capital interests (Burnham, 2006: 80). Open Marxists reject the argument that a state is a tool of bourgeoisie class domination and a class neutral. According to Clarke (1988: 15-16), the capitalist state is the result of class struggle which presented itself as a neutral arbiter. Hence, it was needed to understand the state in the manner of the development of the capital relation that is the class exploitation in capitalist production (Bonefeld et al., 1992: 100).

As mentioned, it is believed that the form of the state is necessary for sustaining the existence of the capitalist society. The necessity of the form of the state and its possibility are systematically the common interests of all members of the society (Clarke, 1991: 174). The state is not an instrument of one class. The struggle between different classes and actors determines the policies of the state (Dinler, 2003: 44). “The state apparatus has no overall rationality but reproduces in a political form the conflicts of interest which mark civil society” (Bozkurt, 2021: 7). However, each class and actor does not have equal capacity to influence the state. So the state is an arena where the unequal power relations between these actors are reproduced. In fact, “the form and functions of the state are not a structural constraint but are only determined through class struggle” (Clarke, 1991: 45). The state ensures the sustained accumulation of capital. Therefore, the state has to “regulate class struggle” and “address the various crises that emerge as a result of the instability of the capitalist social form” (Kettell, 2004: 22).

Even if the state may favor or be under the influence of a particular interest group, it cannot afford to implement a one-sided interventionist strategy in the long run because the state must be open to the divergent interests and

influences of different fractions of capital, as well as maintaining links with the proletariat (Bozkurt, 2021: 31).

2.4 Conclusion

This dissertation draws on the Marxist state approach to analyze the implementation of Washington Consensus and Augmented Washington Consensus principles in Brazil and Turkey. So in this chapter, firstly I examined alternative perspectives, liberal and institutionalist understanding of the state and then concentrated on Marxist approach of the state. In this point, I analyzed six conceptualizations of state in classical Marxist texts and then I examined some recent theories such as the Miliband-Poulantzas debate, State Derivation Debate, and Open Marxism.

According to the liberal perspective, state should not have a limited role in the economy and should not intervene in the market. On the other hand, institutionalists argue that state is important even if neoliberal policies are implemented. However, they consider state as an autonomous actor. In other words, institutionalists imply the insulation of economic policymaking from popular pressures. Conversely, according to the Marxist perspective, state is not autonomous from the classes which mainly represents the interests of the capitalist classes. Instrumentalist perspective has already lost its popularity within Marxism, so there is a broad consensus about this. It can be said that liberal and Marxist thought are similar in terms of accepting society over an economic value and explaining society with economic laws. Liberals reduce politics to a technical field of activity by making politics dependent on the economy. Marxism, on the other hand, explains all issues with relations of production and concentrates on the class struggle. Instead of perceiving society as the sum of individuals, Marxism considers it in its historical and structural conditions, in the context of relations of production and thus class and class struggle. Any approach that does not take this into

account will explain with a simple way how the state takes economic and political decisions. For example, these approaches would be eager to link war decisions with the arbitrary American president or government actions in Turkey with Erdogan's personal enthusiasm. It will always be overlooked that the state can make decisions as a result of class struggles.

Marxist conceptualization enables me to reach a class-based understanding of the state which will guide my analysis on the implementation of Washington Consensus and Augmented Washington Consensus principles in Brazil and Turkey. My main argument is that the state cannot be identified as a unitary actor which acts as a neutral arbiter and it should be analyzed in terms of its structural relationship to capitalism as a system of class relations. It is not only Open Marxism but some other versions of Marxist state theory such as relational approach of late Poulantzas and Bob Jessop which emphasize the role of class struggle in shaping state policies. The Miliband–Poulantzas debate was a debate concerning the nature of the capitalist state. The debate can be characterized as an exchange between Miliband's instrumentalist conceptualization and Poulantzas' structural position, yet Poulantzas' works represent a break with structuralism and as he defined the state as relational. According to Miliband, the state is an instrument of the ruling class and the ruling class was using the state as a tool to allocate its hegemony. The established economic elites were able to access the position of a ruling class through close relations with state elites. Miliband argued that there is a strong economic elite group and a group of state elites in advanced capitalist societies, and the ruling class was formed by these two elite groups which agree on capitalist interests. On the contrary, Poulantzas claimed that the state is a factor of cohesion within the social formation and it is standing above society to moderate the conflict between classes with conflicting economic interests. Yet, in

his later works, Poulantzas defined the state as relational (Bozkurt, 2021: 8). The dependent relation of the ruling class to the state is not direct enough to control it like a tool. The inability of the state to be controlled by the class enables it to produce its existence as a domain-independent of classes. The State Derivation Theory seeks to deduce the state logically and historically from the categories which were developed by Marx in *Capital*. This framework emphasized the derivation of the form of the state from capitalist social relations. According to the State Derivation Theory, the state is essential to capitalism because the state is needed for the process of capital accumulation. The state is important in reorganizing production. This means that the state provides the common needs of capital.

The starting point of Open Marxists is the class antagonism between capital and labor. They argue that a state is a form of social relations which is autonomous from capital. Open Marxists make an emphasis on the primacy and centrality of class struggle. The forms and functions of the state are determined as a result of class struggle. According to Open Marxism, defining the state, as a form of capitalist social relations, does not mean that the state is an agent of capital. The state is not an instrument of capital or function in the best interests of capital. Although each class does not have equal capacity to influence the state, the capitalist state needs to respond to the interests of the working class in order to maintain its apparent neutral image. Yet there is a limit to the state's autonomy from the dominant interests because it has to guarantee capital accumulation. For the spinning of economic wheels, the state caves into the interests of capital but this does not mean it is the instrument of a single fraction of capital. Thus, state decisions reflect a particular solution to conflicting class interests, rather than representing putative national interests. This means that the class struggle between capital and labor determines the policies of the state.

Hence, I chose Open Marxist theory to analyze the implementation of the Washington Consensus and AWC principles in Brazil and Turkey. Why did I opt to use Open Marxism? I believe that Open Marxism represents an alternative to structural Marxism. One of the key arguments of Open Marxism is that the structure can be changed as a result of the collective actions of the subjects. In general, in the discussion of globalization, there is a narrative that seems like the process works spontaneously, as if globalization has no subject and inevitably the same thing happens in every country that entails privatization, deregulation, fiscal discipline and etc. However, drawing on Open Marxism enables me to go beyond seeing globalization as a process that unfolds spontaneously without a subject. The most important lesson is that neoliberal globalization and the implementation of the Washington Consensus and the AWC principles materialize in an environment marked by the demands of classes and other groups in each society as well as the external conditions such as global capital, IMF, and World Bank.

According to Özden (2015: 144-145), in order to comprehend the hierarchies and contradictions at the international level more fully, it is necessary to pay attention to the role of the state apparatus and the relative autonomy of the political instance as well as the inter-class and intra-class relations within each social formation. In this sense, he remarked the Marina's sub-imperialism approach which created the links between social relations of production and geopolitics as "internal relations". Marini (1978: 33) did not see the phenomenon of imperialism simply as a direct result of capitalist development.

I argue that the Washington Consensus and the AWC policies were implemented differently in Brazil and Turkey. Although there are some other reasons, in the dissertation, the differentiation of the implementation of the Washington

Consensus and AWC is explained with the strength of labor organizations in Brazil. In other words, the different relationship between state-capital and state-labor in these two countries influenced the policy implementation. As Open Marxists insisted, the state is responsible for maintaining capital accumulation. Yet, it is not the instrument of individual capital groups and therefore it may sometimes have to respond to the demands of the working class. Governments in both Brazil and Turkey implemented their policies under these circumstances. So in the following chapters, the implementation of policies in both Brazil and Turkey were analyzed by considering the relationship between state-capital and state-labor.

Chapter 3

WASHINGTON CONSENSUS AND AUGMENTED

WASHINGTON CONSENSUS

This chapter aims to examine Washington Consensus and AWC principles to make sense of the economic policies implemented in Turkey and Brazil after 1980. The comparative cases Brazil and Turkey have implemented “a market based” or “capitalist” development model since the beginning of the 1980s, as recommended by the international financial institutions, under the Washington Consensus (Ban and Blyth, 2013: 241; Rodrik, 2006a: 974). This chapter will provide an Open Marxist interpretation of the Washington Consensus and the AWC principles. In this sense, the roles given to the state within neoliberalism and variations in the Washington Consensus and the AWC will be analyzed.

As a result of the economic recessions in the late 1970s, it was thought that developing countries could stabilize and maintain their growth by implementing certain neoliberal policies. John Williamson (1990: 1) listed those policies and named them as Washington Consensus. By the mid-1990s, the Washington Consensus was slightly modified and some scholars call such development model “Augmented Washington Consensus” (Rodrik, 2002a: 978); some call it “Post-Washington Consensus” (Stiglitz, 1998a: 52; Öniş and Şenses, 2005: 265). In fact, even in the literature, there is an ambiguity, because the market-based development models that the developing countries have been implementing since the late 1990s are generally categorized under “Post-Washington Consensus”, but there are some important

differences among the policies of these countries which are overlooked. Although there is a distinction between the AWC and the PWC, many scholars have used these two terms interchangeably. Similar to AWC, this consensus also refers to good governance and strong institutions (Öniş and Şenses, 2005: 274). However, compared to the Washington Consensus and AWC, PWC has more emphasis on the role of the state in the development process. In this sense, the Washington Consensus, the AWC, and the Post-Washington Consensus were analyzed to understand whether there is continuity or a rupture between these economic models of the 1980s and 1990s.

Both Washington Consensus and the AWC provide a certain policy program for all developing countries. However, states could not implement the listed policies in the same way because of their internal dynamics which affect the implementation of state policies. According to Open Marxists, even though the state has to ensure the general interests of capital that are capital accumulation, it can not be seen as an instrument of a specific fraction of capital and it needs to respond to the interests of the working class as well. So how can we assess the differences in implementation of the WC and AWC policies if we depart from this class-based analysis? How do the state-capital and state-labor relations affect the enforcement of these policies in Brazil and Turkey? These questions will be analyzed in the coming chapters yet first, we need to delve deeper into the concepts of the WC and the AWC.

3.1 Classical Liberalism

To understand the development of neoliberalism and the role of the state in the economy, it is important to start with an assessment of classical liberalism. Although liberalism⁴ was originally born as a political doctrine in the 17th century with John

⁴ Liberalism is a doctrine based on individualism, which guarantees the rights and freedoms of rational individuals in the political and economic realm and advocates reducing economic interventions of the state to the minimum by leaving it to the natural functioning of the market economy (Thorsen, 2010: 4-8).

Locke, it became an economic doctrine with Adam Smith - the founder of the Classical School of Economics - and David Ricardo (Steger and Roy, 2010: 2). Adam Smith became the first thinker to analyze economic liberalism systematically and referred to economic rights and freedoms, rather than political rights and freedoms.

Collectively, classical liberals focused on the idea of individual liberties, individual interests, limited state, and free economic order (Gray, 1995: 45-77). Civil liberty and prosperity were the main issues in classical liberalism. Classical liberals defended freedom from state intervention and opposed tariffs, subsidies, and regulation. They were opposed to expanding the role of the state in the economy. In classical liberalism, this was called *laissez-faire*. They claimed that governmental intervention in the economy can reduce economic efficiency and this was the main reason for bad economic conditions (Steger and Roy, 2010: 3). Furthermore, classical liberals supported the freedom of individuals to organize their organizations and groups to follow their own goals. In addition, they tried to encourage entrepreneurship and increase production efficiency. Classical liberals also believed that *laissez-faire* was important both for the economy and civil society (Kendall, 2003: 4).

According to classical liberals, everything should be managed by individuals, organizations, and corporations except armed forces and law enforcement which means a minimal state. This was explained as a “night watchman state” (Thorsen, 2010: 5; Dean, 2014: 158; Steger and Roy, 2010: 5). However, Adam Smith argued that everything cannot be left to private actors. In his famous work "The Wealth of Nations", he explained the necessary functions of the state for the natural order (Smith, 1976: 687-688). According to him, there are three functions of the state. The first function of the state is to protect the society from violence and invasion of other states, and this can only be achieved by a military force. The second function of the state is

to protect every member of society from the pressure of other citizens. This can be only achieved with a judicial system to ensure justice. The third and final task of the state is providing some public services that would highly benefit society. Eventually, the first two functions of the state, which Adam Smith addressed, are related to external security and internal security, and justice services. The final function is mainly related to providing infrastructure and education services (Smith, 1976: 687-688).

According to Adam Smith (1976: 519), the state would worsen the natural evolution of the economy. He believed that there was a natural order in the economy. However, the natural order is not based on moral power. It is based on individuals' will. In other words, individual interests shape the natural order and there should not be governmental intervention (Smith, 1976: 505-506). Adam Smith (1976: 593) called this the "invisible hand".

David Ricardo like Adam Smith was against protectionism and he supported the free market idea. Both thinkers believed that competition in free markets benefits society as a whole. Ricardo extended the liberal perspective to include international trade (Steger and Roy, 2010: 3). He claimed that free international trade would bring advantages if it is combined with specialization. This idea was theorized as the "comparative advantage" by Ricardo⁵ (2001: 261). He argued that all trade partners can gain from trade by specializing in the production of which product has a comparative advantage.

⁵ Comparative advantage is important for understanding modern international trade theory. This theory tells how trade can be useful for both countries for trade in a situation where one country produces a good at a relatively low cost. Absolute cost is not a matter in this point. Opportunity cost is the main idea in this theory (Ricardo, 2001: 261-263). For instance, if Germany could produce apple more cheaply than France and France could produce textile more cheaply than Germany, then both countries would gain from this trade.

3.2 Keynesianism

After the Great Depression of 1929 and World War II, the Keynesian School of Economics began to gain importance because the Great Depression led to liberalism losing its popularity (Dean, 2014: 153; Thorsen, 2010: 9). Two important economic thinkers, John Maynard Keynes, and Karl Polanyi stated that government was much more important than what classical liberals thought (Steger and Roy, 2010: 5). Keynes (1972: 17) believed that the state is essential especially in the time of economic crisis. With governmental intervention, it is possible to create new jobs and ensure consumer spending. He was certainly against the idea of classical liberals that the market could correct itself (Steger and Roy, 2010: 6). As a consequence, the role and functions of the state in the economy expanded in many countries. Keynesianism mainly supported economic protection, state economic planning, state intervention, state regulation, and mass social programs (Kendall, 2003: 6). Some economists explained Keynesianism as “the golden age of controlled capitalism” (Steger and Roy, 2010: 7).

The Bretton Woods Agreement of 1944 and the Bretton Woods system, which had emerged with this agreement, aimed to restore international trade and reconstruct the international monetary system, which was shattered by World War II (Babb and Kentikelenis, 2017: 16-17). As a result of this agreement, organizations such as the IMF and the World Bank, which are the functional instruments of neoliberalism in the political-economic spheres, were established (Babb and Kentikelenis, 2017: 17). Furthermore, in 1947, the General Agreement on Tariffs and Trade (GATT)⁶ was created which was a global trade organization to enforce multilateral trade agreements (Steger and Roy, 2010: 6). These international institutions aimed to organize the

⁶ The World Trade Organization (WTO) was established in 1995 by replacing the GATT (Steger and Roy, 2010: 6).

international monetary system, reconstruct the European economy, and structure multilateral trade agreements.

The American political scientist, John Ruggie, used the term *embedded liberalism* to explain the economic system in the years between the 1940s and 1970s (Ruggie, 1982: 392). As it was mentioned, during this period, the free-market system was supported, while allowing the government to prepare welfare programs and intervene in economies in order to sustain full employment. In other words, there were interventionist and welfare-based policies. Embedded liberalism and Keynesianism were dominant especially during the 1950s and 1960s in the US and Britain with the conservative politicians. It can be said that the reflection of Keynesianism in the Third World countries was the import substitution industrialization strategy⁷ (Molyneux, 2008: 777). Prebisch – known as Latin America’s Keynes – helped to introduce ISI in Latin America after the Great Depression (Westphalen, 1982: 189). He was against protectionism. He supported industrialization and economic cooperation by increasing trade between developing countries.

3.3 Neoliberalism

The golden age of controlled capitalism faced an economic crisis by the 1970s that manifested itself in budget deficits, high public debt, high tax burden, inflation, etc. (Dean, 2014: 157). The sudden rise of oil prices after the OPEC oil crisis (1973-1974) aggravated the crisis further and posed a significant challenge to the Keynesian economic model. In fact, as a result of the crisis, some new liberals tried to create ideological and political principles by reviving the old doctrine of classical liberalism (Thorsen, 2010: 3). Three major liberal schools of thought, which advocated the basic

⁷ It refers to import substitution industrialization economic model which was used by Latin American countries and Turkey as well in the 1960s and 1970s. In this approach, instead of importing the goods needed for domestic consumption, it is ensured that they are produced domestically through protection and incentives (Cardoso, 2009: 5).

principles of classical liberalism, began to express their reactions. Friedrich August von Hayek⁸ and Milton Friedman - the Chicago School of Economics (Chicago Boys) and James M. Buchanan - the Virginia School of Political Economy played an important role in the re-emergence of liberalism (Kendall, 2003: 3; Dean, 2014: 155). Apart from these liberal schools of thought, Ordoliberalen from the Freiburg School in Germany also played an important role in the creation of neoliberalism (Dean, 2014: 159; Kendall, 2003: 7). In addition to the basic principles of classical liberalism, these liberal schools also synthesized their liberal understandings and created a new trend of liberal thought.

Hayek and Friedman brought the "free market" back to the agenda as a solution to the 1970s crisis (Dean, 2014: 155). Hayek (1973: 107) believed that political liberty could never subordinate economic freedom; in addition, material production could never narrow down economic freedom. For him, a political attempt to control the economy and market is unnatural and it creates greater despotism (Hayek, 1944: 133). Friedman shared similar views with Hayek, but he added more ideas and guided neoliberalism. In his work "Capitalism and Freedom", Friedman (1962: 8) focused on the dangers of a concentration of power in the state and the importance of freedom. He argued that state intervention on price controls which was imposed by Keynesians was the most dangerous economic activity (Friedman, 1962: 135). Friedman created the theory of "monetarism" which underpins the basis of neoliberalism (Steger and Roy, 2010: 17). According to him, a self-regulating free market can only organize the right number of goods and implicitly the right prices. Monetarism is an aversion to inflation,

⁸ Hayek formed the Mont Pelerin Society in 1947 with his colleagues in order to challenge the Keynesianism by reviving classical liberalism (Steger and Roy, 2010: 15), but he and his colleagues could not be successful on this until the end of the 1970s. Because of the destructive effects of the Great Depression and the Second World War, capital accumulation was largely damaged in the European countries despite of the US Marshall Assistance, so the state had to take active responsibility in economy. The 1970s global crisis created a sphere for Hayek and his colleagues to expand their ideas.

so it includes anti-inflationary policies. Keynesian model created a demand-driven model for money and the value stability of currency was the main focal point. On the other hand, Friedman and Friedman (1980: 298) concentrated on price stability. This is basically a balance between demand and supply for money. According to Friedman and Friedman (1980: 74), the money supply should remain steady and each year, the government should expand it slightly to sustain natural growth. He stated that monetary policies are more important than fiscal policies.

According to neoliberals, the state should only make urgent interventions in the economy only in crisis times and should withdraw completely from the economy because “powerful interest groups will inevitably distort and bias state interventions (particularly in democracies) for their own benefit” (Harvey, 2005: 2). Neoliberals also understand that the state is necessary for some conditions. For instance, the state must be effective in the military, defense, police, and legal structures to protect private property rights and the proper market functions (Nozick, 1974: 260-261). Moreover, according to neoliberals, the state has to create and protect the institutional framework. In addition, it has to “guarantee the quality and integrity of money” (Harvey, 2005: 2).

As it was mentioned, neoliberalism was shaped with the core ideas of classical liberalism. It is not a new philosophy. Classical liberalism can be categorized as the individualistic ways of economic liberalism; by contrast, neoliberalism is about the consequential ways of it. Neoliberalism focuses on the laissez-faire approach and supports limited government and ending protectionism, just like classical liberalism. However, neoliberals focus on the market more than classical liberals (Steger and Roy, 2010: 15).

Neoliberalism was born in Chile in 1973 with the Pinochet military coup⁹ (Munck, 2005: 62). In the 1980s, liberal right-wing parties were taking office instead of the left governments around the world. Conservative liberal leader Margaret Thatcher (1979-1990) in the UK and nationalist liberal leader Ronald Reagan (1981-1988) in the US came to power (Keohane and Nye, 1977: 283). Thatcher and Reagan played an important role in widespread neoliberalism. In the 1980s, Thatcher referred to neoliberal policies by using the slogan “TINA” (there is no alternative) which means there is no alternative policy for economic growth, and she directly pushed countries to use neoliberal economic policies: free trade and free-market (Keohane and Nye, 1977: 66).

Then, the IMF and World Bank began to impose neoliberal policies on developing countries. Developing countries faced serious structural problems in the late 1970s and the early 1980s. So, to borrow money from the IMF and World Bank, these countries needed to implement policies called “structural adjustment programs” which aimed to open the economy outward and financial liberalization (Steger and Roy, 2010: 98). Latin American countries began to implement neoliberal economic policies, especially after the Latin American debt crisis of 1982 (Dean, 2014: 157). Meanwhile, Turkey also began to implement neoliberal economic policies with the 24th January 1980 decisions (Özdemir, 2017: 181). Thus, there was a radical shift in the development understanding with the early 1980s. Neoliberalism became the mainstream development model, instead of ISI (Babb and Kentikelenis, 2017: 22).

3.3.1 The Washington Consensus

It can be true to state that the influence of neoliberalism increased significantly at the end of the 1980s and neoliberal economic policies have been increasingly

⁹ Chile was the first developing country to implement neoliberal economic policies (Munck, 2005: 62).

adopted all over the world (Babb and Kentikelenis, 2017: 16). The IMF, the World Bank, and US Treasury Department proposed a new development strategy, called Washington Consensus, based on neoliberal policies for developing countries, especially for Latin American countries. The Washington Consensus was accepted by the US and the other G-8 countries. Thus, it became a standard development package for developing countries (Hayami, 2003: 56; Navia and Velasco, 2003: 269).

According to the Washington Consensus, there were two main reasons for the economic crisis in developing countries. The first one is state intervention that included protectionism, excessive regulations, and a big public sector. The second is unwillingness to abolish the budget deficit, which is identified as economic populism or financial imprudence (Williamson, 2005: 196). In this regard, it was stated that it might be possible for the Latin American countries and other developing countries to overcome the crisis and develop steadily with the neoliberal policy reforms, as listed by John Williamson (Williamson, 1990: 1).

Table 1: Policies of the Washington Consensus

1	Fiscal discipline
2	Reorientation of public expenditures
3	Tax reform
4	Financial liberalization
5	Unified and competitive exchange rates
6	Trade liberalization
7	Openness to DFI
8	Privatization
9	Deregulation
10	Secure property rights

Source: Williamson, J. (1990: 2-9). What Washington Means by Policy Reform. In J. Williamson, *Latin American Adjustment: How much has Happened*. Washington: Institute of International Economics.

The Washington Consensus consisted of ten core policies (Table 1). With these listed ten policies, liberalization was mainly emphasized. In general, the policies of the Washington Consensus can be classified under three headings. Policy numbers 1, 2, 3, 8, and 9 are related to the reduction of the public sector and, decreasing the role of the state in determining the economy and budget balance. Policy numbers 4, 5, 6, and 7 are mainly related to the liberalization of capital flows and institutionalization of free-market understanding. The last policy is related the secure property rights, which aims to attract foreign capital investments to the country. In short, a summary of those ten policies is to “stabilize, deregulate, open up and privatize” (Rodrik, 2004a: 1).

Fiscal discipline has a priority in the policy proposal of the Washington Consensus. It is essential to ensure economic stability and financial balance by controlling fiscal deficit (Williamson, 1990: 3). Furthermore, it is believed that fiscal discipline is a way to make economies stronger. The Washington Consensus suggests that countries that open their countries to foreign investment and implement strict monetary policy can get rid of balance of payments deficits, budget deficits, and high inflation problems. Fiscal discipline means that budget deficit, which is calculated including central government, local governments, public enterprises, and central bank, needs to be small enough to be financed without resorting to inflation tax (Williamson, 2002: 1). In this framework, it has been stated that the fiscal policy should concentrate on stabilization through inflation management and revival in private investments.

Moreover, there is an agreement in the Washington Consensus that “large and sustained fiscal deficits are a primary source of macroeconomic dislocation in the forms of inflation, payments deficits and capital flight” (Williamson, 1990: 3). In this conception, a smaller deficit or a surplus is not evidence of fiscal discipline. In other words, the strength of fiscal discipline is not based on either of these. It can be only

examined with the strong demand and the availability of private savings. According to the proponents of the Washington Consensus, a balanced budget “should be a minimal medium-run norm” (Williamson, 1990: 3).

The main way to cut the fiscal deficit is either increasing public revenues or reducing public expenditures. In the Washington Consensus, the preference is to reduce expenditures. There are three main expenditure categories which are subsidies, education and health, and public investment. In the new policy reform, it is expected that countries focus on education and health, and infrastructure rather than subsidies (Williamson, 1990: 5). By reordering public expenditure priorities, Williamson (2002: 1) argued that public expenditure would be switched to a more pro-poor mode. However, cutting public spending means interruption of welfare support programs, which could result in higher poverty. Although the Washington Consensus proposed public spending cuts, for example, it did not provide any formula on how to deal with health and education.

To decrease the fiscal deficit and public expenditure, countries can increase tax revenues. The consensus suggests that “the tax base should be broad and marginal tax rates should be moderate” (Williamson, 1990: 5). According to Williamson (2002: 1), Latin American countries need a new tax system, which “would combine a broad tax base with moderate marginal tax rates.” That is why he concentrated on the tax reform in Washington Consensus. In the capitalist state, taxes are seen as a form of class struggle. According to Engels (1884: 13), taxes are tools that enable the bourgeoisie to hold themselves as the ruling class.

There are two accepted principles about the level of interest rates in the Washington Consensus. The first one is that market should determine the interest rate. This would make it possible to keep away from resource misallocation. The second

principle is that there should be a positive real interest rate. This discourages capital flight and increases savings (Rodrik, 2004b: 20). According to Williamson (2004: 6), during the non-crisis times, it is not expected to see contradictions. The market can determine interest rates to be positive. However, the market often could not be successful in this sense. For instance, Latin American countries experienced this in the 1980s with the debt crisis (Cardoso, 2009: 2).

Moreover, trade liberalization is the other important policy in neoliberal understanding. According to Washington Consensus, it is important to eliminate all trade barriers. International competition in trade increases efficiency and productivity and decreases prices, and this enables the increase of social wealth. The idea is that with trade, countries can maximize their benefits and promote their growth rate. The most important situation is to equalize export and import-competing industries (Williamson, 2004: 13). Yet, as Rodrik (2001: 28) stated, liberalization did not bring higher growth rates, and using policies of free trade and comparative advantage by developing countries can cause to produce volatile priced primary products and have low-income growth.

There was not a consensus on the liberalization of Foreign Direct Investment (FDI), so that is why Williamson did not add comprehensive capital account liberalization to his list. Although FDI was not a priority, it is good to bring needed capital, skills, and new exports (Rodrik, 2004a: 3). Generally, the Washington Consensus suggests debtor countries in accepting FDI in order to reduce debt. On the other hand, the IMF was critical about the FDI. They are skeptical regarding:

Whether FDI should be subsidized; they ask whether the subsidized investment will be additional; they argue that if it is not, the debtor loses by having its foreign debt reduced rather than gaining free foreign exchange; and above all they worry about the inflationary implications of adding to domestic monetary expansion (Williamson, 1990: 7-8).

The role of the government under the Washington Consensus is to provide macroeconomic stability (Williamson, 2002: 2). Privatization is one of the most important economic policies in the Washington Consensus. The general argument is that private enterprises are working more efficiently than state enterprises. At the same time, privatization is preferred because it takes the pressure off the government budget. For example, using the public sector for creating employment can cause a balance of payment crisis (Ouanes and Thakur, 1997: 71). Since the 1980s, under the influence of neoliberal policies, some developing countries have achieved economic success with the support of the private sector (Williamson, 2004: 4). This has led to the acceptance of the Washington Consensus policy proposals, which provide an extended role of the private sector in the economy, with the view that it will lead to sustainable growth in the developing countries and prevent the developing countries from becoming economically unstable. Both the IMF and the World Bank promote privatization in developing countries, specifically in Latin America. On the other hand, there are many countries which continue to support state enterprises because of the lack of a strong local private sector (Williamson, 2004: 10). We can say that the quality and efficiency of the product and service can improve with privatization, but privatization in the key public sector industries might mean ignoring wider social objectives. Therefore, it is necessary to be very careful when privatizing such areas. There are also scholars such as Kennedy (2010: 465) who argued that privatization is not initially needed for development.

Another important policy of the Washington Consensus is deregulation. Williamson (2004: 10) argues that deregulation increases competition, which is good for economic growth. The US became successful with deregulation; that is why it is believed that it could work well in other countries as well (Williamson, 1990: 8).

Deregulation is related to easing barriers for both exports and imports but continuously having regulations for safety and environmental reasons (Williamson, 2002: 1). The important point is that deregulation might create instability. For example, the credit crisis of 2007 showed the possible instability of financial deregulation.

Secure property rights are the last reform policy of the Washington Consensus. It is related to “providing the informal sector with the ability to gain property rights at acceptable cost” (Williamson, 2002: 2). According to the supporters of the Washington Consensus, the capitalist system works well in the US because the US has organized property rights well. By contrast, Latin American countries have insecure property rights. By organizing property rights with policy reform, the neoliberal system could bring benefit to the region as well (Williamson, 1990: 9).

According to Williamson (1990: 1), developing countries, or lagging countries as he called, can catch up with the developed countries with policy reforms on his list. By the beginning of the 1990s, countries that were open to international trade increased their growth rate steadily. According to research conducted by Sachs and Warner (1995: 47), countries open to international trade were growing 2.45 times faster than those who were not open to international trade. In addition, many countries became successful in reducing inflation and fiscal imbalances at the beginning of the 1990s (Moreno-Brid et al., 2005: 347). The World Bank and the IMF used such statistical analyses to put pressure on the developing countries to accept the economic policies of the Washington Consensus (Rodrik, 2011: 4). However, there were several studies that showed that countries that applied Washington Consensus principles did not achieve a higher growth rate. For instance, Rodriguez and Rodrik (2000: 317-318, 325) found out that open trade does not create growth.

According to Stiglitz (2002: 36; 2008: 46), Washington Consensus created a kind of “market fundamentalism” which includes dogmatic principles of classical and neoclassical economics. Furthermore, Hall (1993: 284) defined Washington Consensus as a “policy paradigm”. He believed that “a policy paradigm is a powerful and enduring framework of related ideas and standards about policy – a model that specifies both the instruments that should be used in a policy area and the goals that the policy should be addressing” (Hall, 1993: 279). Babb (2013: 289) also shared similar views. She argued that Washington Consensus is not an economic theory. It is not a list of reforms as well. It is a transnational policy paradigm that is institutionalized within the governments and international financial institutions (Babb, 2013: 272).

The Washington Consensus is a body of economic policies in line with neoliberal understanding. That is why some scholars identified this consensus as a “neoliberal manifesto” (Naim, 2000: 102; Marangos, 2009b: 200). However, according to Williamson (2004: 13), Washington Consensus is not a neoliberal manifesto; it is the lowest common denominator. He stated that consensus certainly means consensus in this frame, so Washington Consensus refers to a consensus between the IMF, World Bank, and the US Treasury (Williamson, 2002: 1).

Furthermore, Feinberg claimed that there was convergence on key concepts. So he suggested labeling the list as “Universal Convergence” rather than the “Washington Consensus” (Williamson, 1993: 1329). This was also a comment by Patricio Meller of CIEPLAN in Santiago de Chile. Williamson (2007: 4) accepted this, but he believed that it was too late to change the terminology. He thought that the main aim is to show the rules and transparent agreed principles to put limits on the activities

of political mafias, in other words, to restrain those politicians who tried to promote their supporters (Williamson, 1993: 1330).

Williamson (2007: 5) gave the example of Hong Kong in which the state had a smaller role while growing rapidly. He interpreted this country as “the closest to a model of laissez-faire” (Williamson, 1990: 19). Furthermore, he showed Australia, Portugal, and Colombia as a few examples where reforms have achieved success without crises (Williamson, 1994: 564). Moreover, Williamson (2007: 5) explained the success of Asian economic growth with less statism and a more open economy. Asian countries had more stable macroeconomics and trade opening as the Consensus proposed (Fernandez, 2017: 30). For Williamson (2007: 5), if it was wrong to give the East Asian NIEs as an example to other countries, which are using policies of the Washington Consensus, it is even more fallacious to give them as evidence to reject microeconomic liberalization.

Many scholars criticized this argument because they believed that the microeconomic policies of the East Asian NIEs had given an active role for the state, which is contrary to many policies in Williamson’s list (Rodrik, 1996: 13; Sheppard and Leitner, 2010: 186). Marangos (2009a: 371) also claimed that the success of the East Asian countries was not only related to their policy on macroeconomic stability and privatization. It was directly related to their financial system, where the government had an important role to create and promote a competitive economy and invest in human capital and technology transfer.

In other words, East Asian countries such as South Korea and Taiwan grew successfully, without implementing Washington Consensus principles. They gave a larger role to the state in terms of providing industrial policies and increasing savings. According to the study by Dani Rodrik (1996: 19), both Taiwan (since 1961) and South

Korea (since 1964) have continued to apply single currency exchange rates. South Korea has kept interest rates under pressure and has intensively made credit arrangements. Taiwan has given priority to public initiatives on credit allocation, although not as much as South Korea. Furthermore, both countries have intensively intervened in the investment decisions of the private enterprises (Rodrik, 1996: 18). These successful cases show that governmental intervention is needed at the early stage of the development process until at least the markets can become efficient.

Rodrik (2006a: 980) gave the example of India which has applied extraordinary policies such as a high level of protectionism, lack of privatization, and comprehensive industry policies. In fact, during the 1990s, India achieved rapid economic growth with loose fiscal and financial policies. On the other hand, China was given as evidence by different scholars (Rodrik, 2006b: 5; Marangos, 2008: 238) to show that countries can develop without using neoliberal principles of economics or without using the policies of the Washington Consensus. China had made progress in economic growth and development with its unique combination of policies. China's economic success has been largely attributed to stable governance, high savings and investment rates, dynamic trade, investment and industrial policies, strategic planning, disciplined business ethics, and macroeconomic policy which focuses on controlling public deficits (Marangos, 2009b: 202).

Although some countries experienced steady economic growth at the beginning of the 1990s since then economic problems have occurred. Rodriguez and Rodrik (2000: 325) found out that countries which applied Washington Consensus do not always have a higher growth rate. Although proposed policies were created for minimizing economic problems and overcoming the crisis, many developing countries such as Argentina, Mexico, and Turkey faced an economic crisis during the mid-

1990s. In general, the economic policies of the Washington Consensus were criticized for the increase of poverty, deformation of the income range, economic crises, proposing the same policies to all countries, and negligence of institutions (Rodrik, 2002b: 1). It can be true to say that the Washington Consensus began to be criticized firstly in the Latin American countries because Latin America was the first region where the Consensus policies were implemented. Thus, the region became the main center for criticizing the economic policies of the Washington Consensus. With the crisis in Mexico (Tequila crisis of 1994-95), the positive developments got reversed and this crisis expanded to other regions as well, such as the Asian crisis in 1997, Russian Vodka crisis in 1998, Brazilian crisis in 1999, Argentina crisis in 2000-2001 and lastly crisis in Turkey in 2001 (Williamson, 2003: 1477; Hayami, 2003: 44-51). The common problem in these cases was that the crisis began as an exchange rate crisis. According to Stiglitz (2002: 231), policies of the Washington Consensus were designed incorrectly; that is why they failed. He believed that the Washington Consensus was unable to achieve price stability, economic growth, and development. Moreover, Bugarcic and Peerenboom (2015: 93) shared similar views with Stiglitz and emphasized the fallaciousness of the Washington Consensus by saying that rich countries did not get rich by using market-based policies.

On the other hand, Williamson (2002: 2) emphasized that Washington Consensus did not assure crisis avoidance and the Consensus did not obligate countries to use policies which led them into crisis. For him, the failure of the Washington Consensus is related to the implementing countries. The important point is that no country which implemented the policies of the Consensus was the same. Each state has its dynamics in itself. According to Stiglitz (2008: 42), Washington Consensus ignored national features to add to a universalistic method. Ban and Blyth (2013: 248)

also emphasized similar points. They believed that with the implementation of neoliberal economic ideas of the Washington Consensus, the domestic ideational and institutional landscape of each developing country was changed. Each country has a different kind of economic problems such as the absence of an entrepreneur class, inflation, low savings rates, uneducated and untrained labor, property problems, capital inadequacy, and lack of foresight of politicians (Rodrik, 2011: 33; Stiglitz, 2008: 42). From the Open Marxist perspective, the capital-state and the labor-state relationships are playing important role in the implementation of state policies. So with considering those relations, it is understandable that Washington Consensus principles could not be implemented in the same way. That is why it is necessary to advise specific policies to each state for development.

Even if we assume that all economic policies of the Washington Consensus are right, they should be in a different order for each state. In other words, each state should take initiative and choose policies according to its particular case. For instance, financial liberalization would not give positive effects on investments if the state is unstable. Moreover, the Washington Consensus suggests that macroeconomic stability can be created with fiscal discipline and a balanced budget. However, a balanced budget cannot provide macroeconomic stability all the time, and sometimes it can lead to further deterioration (Yıldırım, 2011: 5). At this point, Stiglitz (2008: 49) argued that Washington Consensus was unable to understand economic structure; in addition, it had narrow objectives only focusing on the economy and had limited policy instruments.

The policy of financial liberalization and trade liberalization of the Washington Consensus was criticized by many scholars by referring to different regions. Hot money movements due to financial liberalization caused crises in many countries. For

example, financial liberalization caused banking crises in Turkey and Indonesia. Moreover, with the increase of real interest rates, internal debt increased in Brazil and Turkey in the 1990s. This is also one of the results of financial liberalization. According to statistical analyses, countries such as China and Malaysia, which put restrictions on capital flows, became more successful in the development process than countries that do not restrict capital movements (World Bank, 2005: 14). These kinds of examples increased criticisms of financial liberalization and the Washington Consensus.

According to the WTO, expanded trade and higher economic growth are the two ways to reduce poverty in the world (Rodrik, 2001: 6). Washington Consensus also states similar views and supports that economic growth is an essential way to reduce poverty and provide fairer income distribution (Williamson, 1990: 2). However, income inequalities also worsened in many developing countries such as Mexico, East Asia, Brazil, Russia, Argentina, and Turkey with the Washington Consensus policies (Rodrik, 2002a: 1). One of the reasons was that in unequal societies, everyone could not benefit from growth; as a result, inequality got worsened in countries that followed the Consensus policies (Rodrik, 2002a: 1). At the same time, Marangos (2009b: 203) found out that foreign investment could not create the needed jobs in each country. Furthermore, the social spending budget of each country has had difficulty in doing investment in social areas because of tax forgiveness and incentives to transnational corporations (Tabb, 2003: 3). With neoliberal policies, the scope of social policies is also reduced. This created higher unemployment and job insecurity in many countries as well. The Washington Consensus neglected important aspects of the development process to be able to promote interests of capital (Fine, 2001: 9). In

the end, it seems that the Washington Consensus became unsuccessful in enabling economic and social development.

Although the Washington Consensus was criticized in many ways, Rodrik (2006a: 977-978) and Stiglitz (1998a: 1) claimed that the negligence of institutions is one the most important critique of the Consensus. Washington Consensus presented only a development formula; by contrast, some scholars such as Rodrik (2002a: 8; 2002b: 22) argued that countries need institutions to implement radical reforms. Well-developed institutions are essential for a market system to function properly. That is why policy reforms of the Washington Consensus did not work in many countries. Those reform policies need solid institutions (Rodrik, 2002b: 3).

In short, Rodrik (2006a: 975) summarized the results of the Washington Consensus as follows. Firstly, in transition economies, there is an unanticipated and constant collapse. Many countries that have shifted to the market economy for more than ten years still have not been able to capture their level of production in the 1990s. Secondly, despite major reforms, the Sub-Saharan African countries have failed in the development of political and external environment and the flow of foreign aid. Third, financial crises have been common in Latin America, East Asia, Russia, and Turkey which experienced destructive consequences. Fourth, the development process of Latin America was short. Finally, Argentina, which was expressed as the poster boy of the Latin American economic revolution, suffered a severe crisis in 2001 and this crisis has shown that the IMF's rescue operation once again failed and the shrinking fiscal policies dragged the economy into a deep recession (Rodrik, 2006a: 975).

James Gordon Brown¹⁰ has officially declared that the "Washington Consensus" era that marked the agenda of the global economy in the last 20 years, has

¹⁰ James Gordon Brown was Prime Minister of the United Kingdom and Leader of the Labour Party between 2007 and 2010.

been sanctified and has ended (The Guardian, 2009). The IMF continued to support neoliberal reforms and tried to blame the developing and the poor countries for this failure; whereas, the World Bank started to examine policies of the Washington Consensus more carefully and tried to understand the success of East Asia better. The new president of the World Bank James D. Wolfensohn¹¹ asserted that the East Asian countries had strong institutions and social cohesion, and chose macroeconomic policies to promote rural development, and made large investments in basic education and health (Cammack, 2004: 7). He stated that it is not possible to implement a macroeconomic and financial system without focusing on the structural, social, and human aspects (Naim, 2000: 96). In the end, the Bank recognized that the distribution of income and assets, mass education, and state guidance of investment are important elements in the development (Saad-Filho, 2010: 6).

3.3.2 The Augmented Washington Consensus

The unsuccessful result of the Washington Consensus showed that development is not only related to the growth rate. It is understood that economic policies should not be formulated to increase only the economic growth rate. Washington Consensus only concentrated on GDP growth and ignored the social indicators such as health, education, nutrition, and housing. There was not “a democratic – equitable – sustainable development” idea in the Washington Consensus (Marangos, 2009b: 200). The failure of the Washington Consensus to maintain growth, decrease poverty and promote economic stability has led to revising the consensus. Those who criticized the Washington Consensus provided alternative policies including social equity, safety nets, and institutions (Rodrik, 2002a: 7; Naim, 1994: 35; Stiglitz, 1998a: 30).

¹¹ James David Wolfensohn was the president of the World Bank from 1995 to 2005.

The Washington Consensus was augmented, enlarged, and expanded with several reforms. Rodrik (2002a: 1) called “the Augmented Washington Consensus” to this new neoliberal agenda; whereas, Naim (1994: 35-36) called “the Second Generation Washington Consensus”. This new consensus is not a shift from the Washington Consensus. It is only an extended neoliberal reform agenda for developing countries (Navia and Velasco, 2003: 266; Marangos, 2012: 592). The AWC was created to overcome the shortcomings of the Washington Consensus (Rodrik, 2006b: 4; Marangos, 2009b: 197). In other words, it is created “to complete, correct and complement the reforms” (Chang and Grabel, 2005: 275). That is why it is nothing more than an expanded version of the old consensus. This new version provides only additional policies to sustain neoliberal policies.

It can be said that there is no difference between the Washington Consensus and the AWC in terms of the emphasis on the free market and free trade, but reforms in the AWC are more institutional (Rodrik, 2006a: 978; Naim, 1994: 35). The main differences are related to the criticisms of the Washington Consensus on financial liberalization, a balanced budget, state intervention in the economy, institutions, distribution of income, and poverty reduction. Like the Washington Consensus, the AWC aims economic growth, but this time, as a response to the critiques, the distribution of property rights, work patterns, institutions, social policies, and poverty reduction is added to the agenda of the AWC (Margheritis and Pereira, 2007: 38). As will be discussed in detail below, even though social policies were added to the agenda of the AWC, these policies did not aim to improve the living conditions of the poor. Instead, it can be claimed that this is related to the interests of capital. The discussion on this would take place on the following pages.

Rodrik (2002a: 9) argued that 10 more policies were added to the Washington Consensus and the AWC was created. He does not support the AWC. He only tried to show where Washington's development strategy belongs (Marangos, 2009b: 205). Latin American countries began to implement the new stage of reforms in the mid-1990s (Naim, 1994: 37).

Table 2: Policies of the Washington Consensus and the AWC

Washington Consensus		Augmented Washington Consensus	
1	Fiscal discipline	11	Corporate governance
2	Reorientation of public expenditures	12	Anti-corruption
3	Tax reform	13	Flexible labor markets
4	Financial liberalization	14	WTO agreements
5	Unified and competitive exchange rates	15	Financial codes and standards
6	Trade liberalization	16	Prudent capital-account opening
7	Openness to DFI	17	Non-intermediate exchange rate regimes
8	Privatization	18	Independent central banks/inflation targeting
9	Deregulation	19	Social safety nets
10	Secure property rights	20	Targeted poverty reduction

Source: Rodrik, D. (2002a: 9). After Neoliberalism, What? Paper presented at the “Alternatives to Neoliberalism Conference” sponsored by the New Rules for Global Finance Coalition in May 23-24 and at the BNDES Seminar on “New Paths to Development”, in September 12-13.

Table 2 shows the policies of the AWC. Policies 11 and 12 are related to the reorganization of fiscal discipline and public spending. It is understood that instead of the idea of a balanced budget, it is important to create transparency in the public sector and this can be done by preparing policies against corruption (World Bank, 2005: 16). This basically means good governance. The policies of “corporate governance” and “anti-corruption” were prepared for the institutional building (Marangos, 2009b: 206).

The policies in numbers 13 and 14 have supported the liberalization of the labor markets and trade liberalization. The argument is that with trade liberalization, productivity can increase and a flexible labor market can cause a decrease in unemployment. According to Rodrik (2004a: 12), the most binding constraint in developing countries is a lack of funding. The policies in numbers 15, 16, and 17 are measures to prevent the problems of sudden international financial movements. Other reasons that increase the risk in these countries are inflation and government debt. Inflation could not be controlled in many countries that adopted the Washington Consensus and this can be seen as one of the reasons for the lack of success. According to policy 18, there is a need for the independent central bank from political authorities to control the inflation rate of a country.

The last two policies in the AWC are basically related to poverty and income distribution. Especially after the Asian economic crisis, poverty became a more fluid phenomenon. Although it was argued that poverty could be reduced with economic growth by considering policies of Washington Consensus, it continued and even grew (Best, 2013: 110), so neoliberal policies began to be questioned (Best, 2013: 110; Saad-Filho, 2010: 5). As a result, new definitions of poverty emerged and poverty began to be seen in the context of social risk and vulnerability (Best, 2013: 116). The World Bank's perspective on poverty has changed over the years, historically based on “three different strategies: treating poverty as derivative, marginal or integral to achieving growth and develop” (Best, 2013: 111).

During the structural adjustment era poverty was treated as derivative of the real business of development - a problem that would be automatically resolved with economic growth. By the late 1980s there was some recognition of the need for limited safety nets for the marginal unfortunates who were hardest hit by the effects of adjustment. The more recent social risk framework, in contrast, treats poverty as integral to development (Best, 2013: 111).

New institutionalist economics stated that poor people's vulnerability is the result of market failure. In other words, it was understood that poverty is not a peripheral issue. It is "a signal that markets are not working as they should" (Best, 2013: 111), so that is why it was stated by the new institutionalist economists that poverty could be solved even if the poverty problem integrates with economic strategy. While it was thought that there was no need to do anything for poverty, it could be solved with economic development, it has started to be seen from the social risk framework in recent years (Best, 2013: 111).

The World Bank renewed its concern on poverty as well and explained its views in the Report (Cammack, 2004: 192).

The evidence in this Report suggests that rapid and politically sustainable progress on poverty has been achieved by pursuing a strategy that has two equally important elements. The first element is to promote the productive use of the poor's most abundant asset – labor. It calls for policies that harness market incentives, social and political institutions, infrastructure and technology to that end. The second is to provide basic social services to the poor. Primary health care, family planning, nutrition and primary education are especially important' (World Bank, 1990: 3).

Wolfensohn, the president of the World Bank (1995-2005) accepted that "without social development, economic development cannot take root" (Cammack, 2004, 195). Under this circumstance, a pro-poor growth strategy was taken into account and social protection policies began to be recommended (Best, 2013: 124).

"The solution provided by the social risk framework is to rely on a network of public and private actors and formal and informal institutions rather than simply bringing the state back in" (Best, 2013: 122). However, these objectives were added to the agenda to be able to legitimize using of neoliberal policies. "Viewing poverty in terms of market failure legitimizes poverty-reduction efforts as central to broader economic development: making markets work better for poor people also ensures that markets work" (Best, 2013: 116). According to Fischer (2000: 374), social policies

have been used as a political tool spearheading or challenging reactions against neoliberalism. In fact, with these policies, social protection turns to charity or unilateral redistributive transfers (Fischer, 2000: 391).

AWC includes goals that were not included in the Washington Consensus such as overcoming inequality and poverty. Nevertheless, principles of the Washington Consensus and the AWC systematically eroded workers' bargaining power with flexible labor markets. Although the state is not an instrument of one class, it ensures the sustained accumulation of capital, so the state has to regulate class struggle through these mechanisms. In this case, the state provided social programs to accommodate workers, repress reactions to and legitimize neoliberal policies.

In Washington Consensus, there was a strong distinction between macroeconomic and microeconomic policies; whereas, "there is recognition of the importance of micro-based policies for competitiveness in the AWC which addresses the issues of the institutional foundations and micro environments of enterprises" (Radosevic, 2009: 31). The Washington Consensus suggested open trade, privatization, deregulation, and liberalization in achieving stable macroeconomics. The idea was that growth should be achieved with the macroeconomic framework. However, this idea failed in the 1990s (Radosevic, 2009: 27). It was understood that micro-based policies are also essential for growth, so the AWC added micro-level policies. Furthermore, Tabb (2003: 3) believes that the AWC would bring more influential enforcement of the original aims and strategies. With this new consensus, now policymakers support prudent capital account opening. Central banks have to begin to implement a proper regulatory framework, financial standards, and enforcement capabilities, on the other hand, banks will regulate crony loans, currency

speculation, and capital flight (Tabb, 2003: 3). Moreover, to solve market failures, the AWC supports entrepreneurship (Radosevic, 2009: 28).

The distinction between the original Washington Consensus and the augmented version of the Washington Consensus was done by Naim (2000: 516) that provides one of the best analyses to understand these two generation reforms. According to Naim (2000: 516), the main aim of the Washington Consensus was to reduce inflation and restore growth; whereas, in the AWC, the main purpose is to maintain macroeconomic stability. To do this, it is understood that competitiveness is essential in the international era. Moreover, improvement in social conditions is the other important aim of this reform package. Secondly, the Washington Consensus tried to change macroeconomic rules and reduce the size and scope of the state. The aim was to prevent protectionist and statist policies. On the other hand, the importance of institutions is emphasized in the AWC (Naim, 2000, 515). Thirdly, in the original Washington Consensus, liberalization of price, liberalization of trade and foreign investment, deregulation, and tax reform were supported and while supporting these, “social emergency funds” were creating neutralizing social ministries (Naim, 2000, 516). However, in the AWC, social ministries have been restructured to organize social issues. In addition, reform of labor legislation and practices, civil service reform, sectoral conversion, and restricting and such issues have begun to be examined in this new generation reform. However, as it was mentioned, they did not fundamentally improve the distribution of income but they helped to eliminate opposite reactions and continue to promote interests of capital (Fischer, 2000: 374). In other words, those policies made markets working better for lower-income groups to ensure markets work (Best, 2013: 115).

Furthermore, it can be seen that in Washington Consensus, World Bank, IMF, and private financial groups continued to be the principal actors, in addition to the presidency and central banks. Contrary to Washington Consensus, local actors such as political parties, judiciary, and public bureaucracy are playing an important role in the AWC (Naim, 1994: 47). Yet, although local actors became important in the AWC, state-capital relations and state-labor relations continued to be ignored. However, both the bourgeoisie and labor class have an important role in the implementation of policies. Moreover, Washington Consensus focuses on the immediate period; whereas, the AWC concentrates on the medium and long period (Naim, 1994: 36).

The effectiveness of the AWC can be measured by analyzing countries' economic growth rates, public debt, and social indicators. According to the study conducted by Berr and Combarrous (2007: 536-537), the implementation of the AWC did not create a strong growth or a substantial decrease in poverty and inequality in Latin America and the Caribbean region, during the years between 1990 and 2003. They only found that there "is a certain statistical independence between the degree of advancement in the reforms and the avowed objectives of the consensus" (Berr and Combarrous, 2007: 537).

Despite the expectations from this new consensus to correct the original Consensus's failings, it creates new problems (Cedrini, 2008: 508). According to Marangos (2009a: 205), the AWC fails to sustain growth and it deepens economic insecurity which turns into financial crises in many countries. At the same time, the consensus causes an increase in poverty and inequality because as mentioned, social policies were used to silence workers and legitimize the neoliberal reforms. On the other hand, Rodrik (2004a: 7) described the AWC as "a nonstarter, likely to make things worse as to make them better". He emphasized that the result of the AWC would

be the same as the Washington Consensus. The AWC is criticized by several scholars (Rodrik, 2006b: 12; Radosevic, 2009: 44; Stiglitz, 2008: 51) in different ways. The general idea is that this consensus only serves the interests of institutionalized capitalism. Although many new policies are provided for poverty reduction and income distribution, the main aim is to find a way for the continuation of neoliberal economic policies. According to Rodrik (2002a: 1), the AWC is not a successful economic and social development model. It is only good at the sustainability of neoliberal economic policies. The AWC is a disappointment because it does not look at reality and understand how development can be achieved. Rodrik (2002a: 1) argues that the AWC only describes what developed countries and economies look like, so that is why he interprets this consensus as “infeasible, inappropriate and irrelevant”.

Tabb (2003: 4) criticized the AWC for pushing all developing countries to implement the same policies as the Washington Consensus. In addition, Rodrik (2002a: 8) claimed that technology and good institutions are not enough for economic development. Domestic adaptations are also necessary for development.

Those adaptations require a pro-active role for the state and civil society and collaborative strategies that foster entrepreneurship and institution building. The role of external agencies should be to enhance the capacity of national democracies to undertake such innovations, not to constrain them (Rodrik, 2002a: 8).

Each state has its dynamics. In the capitalist state, there is always a struggle between capital and labor. The struggle between these two classes determines the policies of the state. So the labor-state and the capital-state relations are important in the implementation of policies.

According to Rodrik (2002a: 4), there are two important elements in the growth program. These are “an investment strategy in the short-run to kick start growth” and “an institution-building strategy in the medium and long run to give the economic

resilience in the face of volatility and adverse shocks” (Rodrik, 2002a: 4). Moreover, it was agreed in the AWC that education is one of the important areas in the growth program (Lee and Mathews, 2009: 90). In order to achieve sustainable development, it is necessary to focus on education. According to research conducted by Lee and Mathews (2009: 90), all the northeast Asian countries have focused on education properly. Although the AWC puts importance on education, only the early stages are mentioned and tertiary education is ignored (Lee and Mathews, 2009: 95).

Furthermore, Hausmann and Rodrik (2002: 5) are opposed to AWC because they argued that the state should support domestic entrepreneurs to invest in their home economy. In other words, instead of encouraging foreign investment or liberalizing everything and waiting for things to take place, it is more beneficial to encourage domestic entrepreneurs to invest in the economy. In this point, Hausmann and Rodrik (2002: 21) stated two policies for an effective investment strategy: “promotion (the carrot) and discipline (the stick)”.

3.3.3 Post-Washington Consensus

Stiglitz (1998a: 11) was one of the main critical scholars of the Washington Consensus. He criticized the Consensus on its simplicity. According to Stiglitz (1998a: 14, 21), it is not easy to analyze macroeconomy and give advice by looking at few economic indicators such as inflation, interest rates, and trade deficits. By the end of the 1990s, he rejected the AWC and instead accepted the Post Washington Consensus.

The success of the East Asian developmentalism strategy pushed the World Bank to accept the importance of state and strong institutions, effective regulation, and industrial policy (Krogstad, 2007: 77). Stiglitz (2004: 10) evaluated the attention to institutions as “the incentives confronting the institutions and those within the institutions, and the relationship between governance, organization design, and

organization behavior” and defined this new model as the PWC. In fact, in 1998, he came up with the new term Post-Washington Consensus with his article “More Instruments and Broader Goals: Moving toward the Post-Washington Consensus”. The consensus emerged in two areas as Stiglitz mentioned in his article (Schweickert and Thiele, 2004: 15).

First, it is increasingly acknowledged that, in addition to economic growth, poverty and the distribution of income and wealth have to be considered explicitly, with a strong emphasis put on human capital formation through mobilizing the potential of the poor. Second, there is mounting evidence that sustained growth is only possible if a reliable institutional framework is in place.

PWC is not based on the ideas of Washington institutions. There was no agreement or consensus in the PWC (Marangos, 2008: 229). Stiglitz (1998a: 33) identified this development strategy as “an emerging consensus”. Although Rodrik focused on the “AWC” derogatorily, Stiglitz concentrated on the “PWC” positively and he tried to prepare an efficient strategy for development (Marangos, 2009b: 206).

Unlike Washington Consensus and the AWC, PWC used East Asia as a context rather than Latin America (Stiglitz, 1998b: 4). East Asian countries did not use policies of the Washington Consensus completely; yet, they had the most successful development process in history. Policies on low inflation and fiscal prudence of East Asian countries were parallel to the policies of the Washington Consensus. However, industrial policy and the role of the state in the East Asian countries were different than the proposed Washington Consensus and the AWC policies (Marangos, 2008: 229). Governments continued to have a strong role in those countries such as promoting certain sectors instead of privatizing, promoting exports and inhibiting certain import products, regulating financial markets, and reducing interest rates (Stiglitz, 1998b: 25). Furthermore, in East Asian countries, there was an important emphasis on egalitarian policies which contradicts with Washington Consensus.

Moreover, East Asian countries focused extremely on education and technology. From this viewpoint, Stiglitz (1998b: 34) concentrated on East Asian countries and prepared the PWC. Contrary to the Washington Consensus, the PWC emphasized the significance of market and institutional imperfections and states the importance of state intervention while criticizing the Washington Consensus for its antipathy to state intervention.

The important contribution is that “states are important for the effective functioning of markets but also that markets or market-like mechanisms are important for the effective functioning of states” (Öniş and Şenses, 2005: 275). Stiglitz (2002: 74) also argued that the best way to pursue sustainable growth and long-term productivity is to ensure the right balance between the state and the market, as well as the confidence of both companies and economies, and the rights of others which all must be controlled in a certain way.

According to Hayami (2003: 61), the PWC emerged as an antithesis to the Washington Consensus to correct failures of the market economy by increasing the role of government in resource allocation. Actually, this new consensus expanded the area to contain nonmarket factors such as social norms and power balances (Hayami, 2003: 57). According to Stiglitz (1998a: 31), the main objective of this approach is the living standards of people to promote equitable, sustainable, and democratic development. Stiglitz (1998b: 42) claimed that “successful development must focus on the whole – the transformation of society”. In other words, good policies are not enough to sustain development. Fairness is also important, so that is why Stiglitz (1998b: 14; 22) emphasized the importance of transparency. Moreover, he believed that the international institutions represent only the interests of developed countries. For instance, the IMF is not transparent as it should be (Stiglitz, 2006: 18-19).

For the protection of the poor, the PWC is emphasized “strengthening the voice and power of poor people (empowerment) and maximizing the initiative of aid-recipient communities (ownership) in the design of development assistance” (Hayami, 2003: 57). According to Stiglitz (1998b: 6), recent decades show that GDP growth is not enough for development. It is essential to concentrate on both health and education. In this sense, AWC and PWC shared similar perspectives. In other words, just like the AWC, PWC considered the social risk framework and viewed the poverty issue in this light. Furthermore, “the PWC advocates that a greater share of public resources be allocated for the delivery of social services to the poor rather than for strengthening the productive capacity of the economy” (Hayami, 2003: 61).

However, according to Fine and Saad-Filho (2014: 7), although the PWC criticized Washington Consensus to be unsuccessful to create development, it also has no notion of development, just emphasizing growth and efficiency. “The PWC focuses on the correction of the market and institutional imperfections on a piecemeal basis, rather than simply relying upon the market as for the WC, but also presuming that the “correct” institutional and policy framework is sufficient to secure long-term economic success, understood as a higher growth rate” (Fine and Saad-Filho, 2014: 6). In fact, despite critiques of developmentalist state theory on the Washington Consensus since the 1980s, the PWC did not consider those critiques. This shows a peculiar relationship between the Washington Consensus and the PWC.

Although it is seen that there are important differences between the Washington Consensus and the PWC, the PWC only generalized the Washington Consensus. It continued to adhere to mainstream economics. Fine (2001: 12-13) stated the difference between Washington Consensus and the PWC clearly:

Apart from the narrow analytical basis of the new consensus and its neglect of, and lack of engagement, with alternatives, it shares and builds upon a further

feature of the old consensus. As indicated previously, paradoxically, the old consensus was consolidated by an increasingly interventionist stance, as micro and macro were integrated both analytically and through conditionality. Lending by the Washington institutions has been marked by a creeping, even a galloping, extent of intervention within the economic arena to impose laissez-faire policies. In a sense, the old consensus was caught in the trap of arguing for minimal state intervention and, hence, precluding itself from addressing what the state should do. In contrast, the new consensus can be understood as strengthening and extending the scope of permissible intervention in recipient countries. For not only is economic intervention justified on the basis of market imperfections but also the success of such interventions is attached to non-economic factors. In other words, the new consensus rationalizes intervention by the donor agencies across as wide a remit as possible. Whilst the old consensus claimed that there was nothing wrong with their policies other than that they were not implemented, the new consensus is able to push for command over what the state does and how it should do it.

It can be said that the PWC is the continuation of neoliberalism in terms of free trade, privatization, capital flows, restrictive fiscal and monetary policy, etc. (Fine and Saad-Filho, 2014: 2; Marangos, 2008: 232). Yet, in general, there are minor differences between the Washington Consensus and the PWC. For instance, the PWC emphasizes social and income distributional consequences, as Washington Consensus and AWC. Fiscal discipline could be achieved by controlling government spending, but this consensus highlights that “if deficit reduction is achieved through cuts in government expenditures in education and health, then growth will be jeopardized” (Öniş and Şenses, 2005: 276). Although Washington Consensus emphasized the importance to reduce inflation and sustain macroeconomic stability, Stiglitz (1998a: 15) stated that only high percent inflation such as 40 percent inflation is harmful and should be reduced. Reducing low levels of inflation would not contribute to macroeconomic stability (Marangos, 2008: 232), so PWC put importance on financial reform (Stiglitz, 1998a: 18-19). It is believed that macroeconomic stability could be sustained by building a robust financial system.

As mentioned in the previous pages, the Washington Consensus and the AWC were criticized for proposing the same policies to all developing countries. Opposed

to this, in the PWC, there is an argument that developing countries must own their policies if their policies are sustainable. “Countries should be given scope to experiment, to use their judgment, to explore what might work best for them” (Stiglitz, 2004: 11). According to Gore (2000: 795), many developing countries such as East Asian countries have their understanding of how to create a good development policy. “Catching up is not best achieved by unconditionally opening markets, but by actively building up national enterprises and productive capacities in a range of activities already in place in developed countries” (Krogstad, 2007: 80).

In addition to domestic sphere, the PWC also formalizes an international dimension. Advanced countries can contribute to developing countries or the least developed countries by increasing aid and market access to their products (Öniş and Şenses, 2005: 276). For instance, by referring to the case of Ethiopia, Stiglitz (1998a: 16) tried to show the importance of foreign aid and foreign assistance. The idea is that if foreign aid is used for the high returns to government investment such as in education or physical infrastructure, it may make sense for the government to use it as a legitimate source of revenue like taxes (Stiglitz, 1998a: 16). Furthermore, Stiglitz and Charlton (2005: 230) stated that trade can create development, but contrary to the WTO, they emphasized the importance of restrictions on imports from richer countries by poorer countries. On the other hand, there should not be any restrictions on imports from poorer countries.

“Although the PWC can more readily accommodate different institutional arrangements, state intervention and pro-poor policies, which is commendable from the point of view of the critics of the WC, the greater plasticity of the PWC could make it extremely difficult to dislodge, although this is not impossible” (Fine and Saad-Filho, 2014: 10). For Fine (2001: 9), it is also a mistake to state that the emergence of

the PWC is related to the analytical superiority over the Washington Consensus. According to Fine and Saad-Filho (2014: 13), the need for alternative development strategies and heterodox understandings of the development process continues.

3.4 Conclusion

This chapter aimed to analyze the development of neoliberalism throughout the years, so it covered classical liberalism, Keynesianism, and neoliberalism. Classical liberalism began to dominate the economic sphere in the 18th century. It changed its doctrines by international order. However, after the Great Depression of 1929 and WWII, classical liberalism lost its popularity. Thus, Keynesianism, which supported economic protection, state economic planning, state intervention, state regulation, and mass social programs, became popular. It can be right to state that the reflection of Keynesianism in Third World countries was ISI. On the other hand, by the 1970s due to the 1970s systematic crisis of the world economy, controlled capitalism in developed countries and ISI in developing countries faced economic crises such as budget deficits, high tax burden, inflation, etc. As a result, some new liberals, e.g. Hayek and Friedman, revived the old doctrine of classical liberalism by adding new ideological and political principles and formalized neoliberalism.

Neoliberalism was implemented in the Third World countries through Washington Consensus. However, Washington Consensus failed to sustain growth, decrease poverty and promote economic stability, so this has led to revising the consensus. The original Washington Consensus was augmented, enlarged, and expanded with several reforms and called the AWC. Yet, by the end of the 1990s, the AWC also began to be criticized. Consequently, PWC was accepted, instead of AWC, as the efficient strategy for development.

This chapter found out that all these development approaches despite the differentiation in specific areas continue to defend a similar policy project. It can be seen that each development strategy extended its reform policies, but their basis is still neoliberalism. In other words, to eliminate critiques to each approach, new policies were added to the agenda, but in reality, the same project has continued to be supported. Many scholars such as Marangos (2012: 592), Sheppard and Leitner (2010: 193), Beeson and Islam (2005: 2), and Fine (2001: 3) shared similar views. The creation of the AWC does not mean the dismissal of the Washington Consensus. Furthermore, although the PWC is a critique of the Washington Consensus and AWC, it continued to adhere to mainstream economics. Despite some alternative principles, it is the continuation of the neoliberal consensus. Washington Consensus and its critical approaches “are not black versus white, but rather different shades of grey” (Marangos, 2008: 243).

The comparative cases of this study Brazil and Turkey introduced neoliberal policies by the beginning of the 1980s, first under Washington Consensus and then under the AWC due to changes in world capitalism. Yet, it is clear to state that although both countries follow neoliberal trends in the world, those policies were implemented differently in Brazil and Turkey. While Brazil followed a heterodox example of the implementation of Washington Consensus and AWC, Turkey followed a more orthodox path. In the discussion of the Washington Consensus and AWC, it is understood that each state has a different kind of economic problem because each state has its internal dynamics, as Ban and Blyth (2013: 250) and Stiglitz (2008: 42) stated. Furthermore, it is not possible to implement those policies in the same way in different states. In addition, both Washington Consensus and AWC refer to state and its roles,

but there is no state analysis in their discussions. It is not possible to analyze the state as neutral and independent of the interests in society.

As Open Marxists emphasized, the state has its dynamics. In the capitalist state, there is a struggle between the bourgeoisie and the labor class, and this struggle determines the policies of the state. Although each class and actor does not have equal capacity to influence the state, the state does not act as an instrument of one class, yet it aims to ensure the sustained accumulation of capital. The state may sometimes provide policies by the demands of the labor class to accommodate them in the system. This dissertation aims to explain that the differences between Brazil and Turkey in their implementation of the Washington Consensus and the AWC by departing from an Open Marxist perspective that provides a class-based analysis of the state in capitalism.

Chapter 4

BRAZILIAN AND TURKISH ECONOMY: A HISTORICAL BACKGROUND

The Washington Consensus and its extended version of the AWC proposed the same reform agenda to all developing countries. The comparative cases of this dissertation Brazil and Turkey introduced neoliberal policies in the 1980s. However, those policies were implemented differently in Brazil and Turkey due to their dynamics. As Open Marxists stated policies implemented by the state take place, not in a void but a context defined by class struggle. To analyze the implementation of the Washington Consensus and AWC policies in Brazil and Turkey, this chapter examines the history of the Brazilian and Turkish economies. The main focus will be the state-capital and state-labor relationships in Brazil and Turkey.

4.1 History of Brazilian Economy

During the years of the monarchy (1822-1889), coffee production was the main economic sector in Brazil. With the Great Depression of 1929, demand for coffee reduced and income for the coffee exports decreased importantly. So, it was understood that the state needed diversification in the economy. Until the 1950s, there was a sweeping economy in Brazil which refers to interrelated political and economic changes. Then, import substitution industrialization policies began to be implemented, until the mid-1980s.

In the all mentioned turning points, in addition to external factors, internal factors played an important role. While the economic developments in the world

affected Brazil's policies, its internal dynamics gave the final shape to its economic policies. As Open Marxists stated, the struggle between the bourgeoisie and labor tried to influence the state's decisions. This part of the chapter will analyze the economic policies of Brazil until the mid-1980s, by considering the influence of the bourgeoisie and labor class.

4.1.1 Coffee Economy

After the independence of Brazil in 1822, agricultural elites continued to dominate the economy and politics (Vanden and Prevost, 2009: 484). At the beginning of the independence years, the economic system of Brazil was export-based. In those years, Brazil produced mainly coffee and exported it abroad. This was a typical dependent peripheral economy. Especially by the end of the nineteenth century, Brazil benefited from the agricultural export boom (Cardoso and Faletto, 1979: 90). However, Brazilians could not get this advantage equally. The agricultural elites got all income of exports. On the other hand, exploited slaves who formed the main source of the production did not get benefits (Cardoso and Faletto, 1979: 90-91). This separated the population more.

The Brazilian Monarchy, which was the longest monarch in the Latin American region since 1822, collapsed in 1889 with the military coup. Instead, the first republic was established by the military (Vanden and Prevost, 2009: 509). Additionally, expanding coffee production, Brazil also concentrated on industrialization in this new period. In order to gain economic independence, the military government aimed to develop an industrial base in Brazil, so they focused on the manufacturing sector. For this reason, federal funds began to be used for infrastructure. On the other hand, the center and the northwest of the state started to be used for coffee production as well. The only problem was the shortage of labor. The

military government did not want to improve the local human capital of the peasants. Conditions were also very bad (Franko, 1999: 85). Consequently, labor started to be organized in Brazil. Poor working conditions and low wages in coffee farming pushed workers to organize (Saad-Filho, 2007a: 524). Brazil experienced the first labor movement by the beginning of the 20th century¹².

Although the Brazilian economy grew rapidly at the beginning of the new century, this growth was not long-lived. The 1929 Great Depression affected Brazil's economy negatively. The demand for coffee declined in the 1930s, so its price also decreased. Income from coffee exports decreased dramatically and a large foreign debt occurred. Furthermore, the public also lost its confidence in the republic (Grunwald, 1970: 831). As a result, the first republic was overthrown by the defeated presidential candidate Getulio Vargas. And the second republic was declared in 1930 (Vanden and Prevost, 2009: 486). Vargas dominated Brazilian politics between 1930 and 1954.

4.1.2 Sweeping Economy

The Vargas government came to power under a huge economic crisis. In order to stabilize the economy, firstly, the government bought a huge amount of coffee to be able to prevent further price decreases. In addition, it was understood that the state needed diversification and industrialization for growth and development. After 1930, the decisive role of the conservative elite in Brazilian politics disappeared. Then, the centralization of power transformed the relations between those who want to seize power¹³. The economic problems experienced with the Great Depression weakened

¹² The first leftist movement in Brazil began with the early years of the twentieth century and ended in 1935. The movement began with the anarchist workers in Rio de Janeiro and Sao Paulo and extended with the Communist Party of Brazil (Partido Comunista do Brasil, PCB) in 1922 (Saad-Filho, 2007b: 2).

¹³ The emergence of concepts such as the industrial sector, the bourgeoisie, the urban labor class and the civil servant class took place in the 20th century (Tekin, 2017: 91).

the power of the agricultural elite, reducing the gains of export. This was an external effect which caused an internal change.

As a result of this, coffee production quickly lost its importance and industry took its place (Mulder and Oliveria-Martins, 2004: 180). The Vargas government focused on industrialization policies and the creation of a national bourgeoisie (Bresser-Pereira, 2007: 6). Vargas pursued a nationalist policy and tried to be away from foreign dependency. For instance, a huge steel complex at Volta Redonda was built with international financing in the period of WWII (Baer and Kerstenetzky, 1964: 414). Moreover, multinational petroleum, Petrobras, largely owned by the Brazilian state was established. Yet, there was not a systematic industrialization policy program in those years (Baer and Kerstenetzky, 1964: 413).

Vargas initiated many educational and social reforms, but he did not provide any policy for poor Brazilians in the rural places. His main focus was the urban industrial sectors. Vargas made some arrangements to prevent possible labor actions. It was argued that by this way, development and improvement of the country could be achieved. In addition to the improvements in working life, he followed the path of introducing some restrictions and prohibitions. First of all, by establishing the Ministry of Labor; regulations were made regarding laborers' problems and trade unions were legally recognized. However, in order not to allow class conflict, the "Trade Unions Act" dated 1931, which stated that the union organizations would be organizations under the control of the State, was enacted (Mahiroğulları, 2016: 84). This might be called state unionism. Vargas also recognized the right to strike. It was emphasized that "class reconciliation" was aimed without experiencing "class conflict". The Vargas regime, after taking the unions under control, in favor of the laborers, provided the right to the determination of minimum wage, paid weekend, 48-hour work week,

accident insurance, pension payment, and strike in case of a dispute during collective bargaining (Welch, 2016: 17).

Vargas belonged to a conservative family who owned vast lands, so he gained the support of the conservative elite by using these ties. On the other hand, he initiated development-oriented practices that responded to the demands of the cities and showed himself as the "father of the people" or "father of the poor" (Williams and Weinstein, 2004: 4-5). Vargas tried to rule the country by following a pragmatic rather than ideological tendency (Levine, 1998: 112). He adopted an authoritarian management approach with a corporatist economic model (Williams, 1976: 461).

Vargas, again with the support of the military, annulled the Constitution and declared a "New State" (*Estado Nova*) in a corporate character (resembling the regime of Salazar in Portugal and Mussolini in Italy) in 1937 (Vanden and Prevost, 2009: 486). In the new state order, he created a new constitution to increase his authority and centralize fiscal policy. It was foreseen that union activities would be determined by the state and be based on a hierarchical structure. Within the framework of the new state order, new decisions were taken to prevent any collective struggle between laborers and the bourgeoisie. In fact, the Brazilian labor relations system was created with the Compendium of Labor Laws (*Consolidação das Leis do Trabalho*, CLT). The CLT established a corporatist structure for the state to sustain control over the labor movement and resolve the problems between the bourgeoisie and the labor class (Sandoval, 2007: 66; Anner, 2007: 31). According to this system, the state played an important role to maintain social harmony by equally regarding the interests of the bourgeoisie and labor. Vargas believed that Brazil's development would be achieved by acting with the reconciliation of all social classes to reduce class contradictions and prevent class conflict (Welch, 2016: 4).

As it was mentioned, the main economic policy of the Vargas administration was industrial expansion. In this process, the government tried to protect industrialists by maintaining low wages. In contrast, industrial laborers had difficulty because of the low wages. From 1940 to 1945, there was a decline in the real income of all factory workers by 33 percent (Gomez-Leon, 2015: 28). So during this period, to prevent any possible movement, the regime's pressure on trade unionism was steadily increasing. The Communist Party of Brazil (*Partido Comunista do Brasil*, PCB) in particular led to establishing new trade union organizations and struggles to seek rights. On the other hand, to control the labor movements, the Vargas government prohibited the right to strike in 1943 (Mahiroğulları, 2016: 85). Yet this increased tension in the country and leftist groups continued to organize under the new organizations due to the banning of the current ones¹⁴.

After World War II, by realizing that Brazil had to be democratic like the great states, Vargas acted pragmatically and he allowed democratic elections to be held in Brazil in 1945, taking into account the demands of the military and the opposition (Welch, 2016: 8-9). Vargas believed that he could protect Brazilians from the failures of both liberalism and totalitarianism by the phenomenon of the "strong state" (Williams, 1976: 459). Therefore, the national development project initiated in this period, which aim to strengthen national independence, also received the support of both the right and left¹⁵. The conservative elite wanted Vargas to leave the administration, but at the same time, there was no willingness to transition from the new state regime to an open system with a sudden change. With the 1946 elections,

¹⁴ For instance, the Brazilian National Workers Movement Union (*Manivento Unifacator das Trabahaldores*, MUT) was established on April 30, 1945 under the leadership of PCB (Mahiroğulları, 2016: 85).

¹⁵ However, Vargas's strong perception of the state and his authoritarian model prepared the ground for the authoritarian military regime to be established with a coup in 1964, and hindered the development of civil society in Brazil (Boas, 2017: 18).

Eurico Gaspar Dutra came to power. The conservative elite in Brazil regained power and had the opportunity to influence state policies again (Levine, 1998: 135). While supporting the free market economy with the demands of the conservative group, the Dutra administration avoided reforms that would regulate economic and social life. The first economic plan, *Plano Salte*, was prepared in this period to stimulate the health, transport, and energy sectors, yet it was not effectively implemented (Czarnecka-Gallas, 2013: 16). Therefore, the Dutra government banned the MUT in 1947, which was under the influence of the supporters of Vargas and the Communist Party (Demircioğlu, 1987: 244).

Dutra could not stay in power for long and lost free elections in 1950. Vargas came to power again. This was the first time that Vargas came to power with the democratic elections (Bresser-Pereira, 2007: 6). In order to get support from the Brazilians and be elected again, Vargas became much more nationalist. He used a typical old type of populist character (Vanden and Prevost, 2009: 208). In this period, he reduced the pressure on trade unions. Indeed, in 1951 and 1953, strikes were held in Sao Paulo and some other states in which 300,000 textile, metal, carpenters, and construction laborers participated against hunger and cost of living (Dalio, 2016: 736).

It can be seen that the Brazilian currency became incrementally overvalued in the years between 1947 and 1953. In 1953, a new policy was prepared in order to be more flexible in the exchange rate system. “The Law 1807 created a limited free exchange market in which were allowed the inflow and outflow of capital and its earnings as well as buying and selling of foreign exchange for tourism” (Cardoso, 2009: 12). Throughout the years, the exchange control system continued to change.

Many scandals occurred within Vargas’ last administration (Vanden and Prevost, 2009: 208). He faced allegations that the Brazilian State Bank donated loans

to a pro-government journalist. Then, many generals requested his resignation. Both conservative politicians and the bourgeoisie supported a group of military officers who demanded Vargas's withdrawal in August 1954. After a cabinet meeting on 24 August 1954, he ultimately killed himself and the country was ruled by his deputy until 1956 (Williams and Weinstein, 2004: 8).

4.1.3 Import Substitution Industrialization

A social democrat Juscelino Kubitschek, who was regarded as the founder of modern Brazil, won the 1955 elections (Vanden and Prevost, 2009: 61). During the election campaign, he used a successful slogan to influence citizens “fifty years in five”, meaning fifty years of economic growth and development in the five years (Ioris and Ioris, 2013: 418). As Vargas, he knew the importance of industrialization for the Brazilian economy. For this reason, he worked with Celso Furtado, an economist working at the ECLA (the Economic Commission for Latin America) to prepare an effective economic program for Brazil. As a result, the Targets Plan (*Plano de Metas* in Portuguese) was prepared for listing thirty priority targets for the national economy (Ioris and Ioris, 2013: 418; Bresser-Pereira, 2007: 14).

As mentioned, industrialization policies began in Brazil with the Vargas administration, but the ISI strategy was mainly applied by the Kubitschek government (Schwartzman, 2000: 39). He gave a start to serious industrialization¹⁶. It can be said that import-substituting industries increased their importance in the country compared to traditional industries of textiles, food products, and clothing. Large landowners began to invest in the industry. Transport equipment, machinery, electric machinery and appliances, and chemicals were the main industries in the 1950s (Baer and Kerstenetzky, 1964: 414).

¹⁶ Today, Brazil has the largest industrial economy among Latin American countries.

Although the first automobile industry in Brazil was established in the 1920s, it gained national significance by the 1950s under Kubitschek's "national developmentalism" view (Anner, 2007: 30). Consequently, Brazil established successful automobile industry. In addition, a huge steel production capacity was created. The government tried to promote domestic manufacturing with high trade barriers, state-owned enterprises, and subsidies. "High trade barriers were erected for imports that competed with national production, while barriers were low for certain production inputs" (Cardoso, 2009: 6). The government moreover used different policy instruments to expand the industry. For instance, the Brazilian Development Bank (BNDES), *Banco Nacional de Desenvolvimento Econômico e Social*, provided projects to finance certain industrial plans such as steel, chemicals, transport equipment, and machinery. Furthermore, it became successful to bring several international companies to produce in Brazil by 1961. For example, Ford, General Motors, Volkswagen, and Mercedes Benz began to produce in Brazil (Anner, 2007: 30). It can be said that domestic production of machine tools increased and the share of imports of such goods decreased by the late 1960s. Manufacturing expanded 15,6 percent per year in Brazil between 1950 and 1980 (Cypher, 2013: 396).

It is right to emphasize that Brazil did not have enough skilled workers when industrialization began in the country (Teitel and Thoumi, 1986: 456). However, this did not affect the development of import-substituting metallurgical and metalworking industries. Brazil took nearly 2 million immigrants from 1924 to 1962 mainly from Europe, North Africa, and Japan as well (Teitel and Thoumi, 1986: 464). These immigrants were mainly skilled workers, foremen, and even engineers. These people also helped with opening new foundries and small machine shops. To satisfy the demand for engineers, engineering departments were established at many Brazilian

universities. At the same time, the Brazilian government provided a training system for its labor force. The domestic supply of engineers and skilled workers grew gradually in the period between 1938 and 1961 (Teitel and Thoumi, 1986: 464).

During the Kubitschek administration, it was seen the least interference of political power on labor movements and trade unions (Mahiroğulları, 2016: 86; Ioris, 2012: 281). For example, collective bargaining has been revived. In addition, the obligation to obtain a "certificate of good conduct" from the police, to become a member of trade unions, was abolished. Therefore, while industrialization policies were implemented in this period, the dimension and organization of trade unionism and the workers' movement made progress. The "Rio de Janeiro Metalworkers Union" created a good example of unionism hegemony throughout the 1950s. It was instrumental in training union leaders and giving direction. The organization led many major strikes, especially between 1955 and 1964. It provided an alliance of communist, socialist, independent unions, and Catholic laborers (Ioris, 2012: 268).

Brazil had a huge GDP growth rate during the Kubitschek administration; as can be seen from Table 3, the average growth rate was 8,1 percent between 1955 and 1960. However, in this period, inflation increased from 16,3 percent to 26,3 percent (Please see Table 3). Moreover, during the 1950s, a disequilibrium problem began in the balance of payments. On the other hand, the creation of an industrial economy did not bring wealth to all regions. The Northeastern region became more underdeveloped. At the same time, sectoral imbalance became much clearer (Schwartzman, 2000: 36). These were typical problems in developing countries implementing ISI policies.

Table 3: Brazilian Economic Indicators, 1950-1964

YEAR	GDP (%)	GDP per capita (%)	Inflation rate (%)
1950	6.5	4.0	11.2
1953	2.5	0.5	15.3
1955	6.9	3.7	16.3
1958	7.7	4.6	11.1
1960	9.7	6.6	26.3
1964	2.9	0.0	87.3

Source: Tyler, W. G. (1976). *Manufactured Export Expansion and Industrialization in Brazil*. Tubingen; J. C. B.

Janio da Silva Quadros won the 1960 elections and became the president in 1961. He was so strict about clearing the country from corruption, but after seven months in office, he resigned (Bresser-Pereira, 2007: 17-18). According to the Brazilian Constitution, the Vice President had to come to the power. So the Vice President and leader of the Brazilian Labor Party (*Partido Trabalhista Brasileiro*, PTB), Goulart, came to the power (Vanden and Prevost, 2009: 488). Workers had huge expectations from him because of his leftist perspective. In the last years of the Kubitschek period, the workers' actions, which developed through broad participation strikes, had shaken the whole country. As a response to these labor actions, Goulart gave all workers a one-month bonus payment per year, with a law issued on July 13, 1962 (Dulles, 1996: 80). Furthermore, in the second year of Goulart's government in 1963, the strike, in which 700.000 workers participated, perceived as the biggest strike manifesto in the history of the Brazilian labor movement, was ensured to combine chord wages with base wages (Mahiroğulları, 2016: 87). Again, in this period, a legal regulation was made to allow agricultural workers to unionize. In this context, the National Confederation of Agricultural Workers (*Confederação Nacional dos*

Trabalhadores na Agricultura, CONTAG)¹⁷ was established in 1963 under the leadership of the PCB (Welch, 2016: 7).

On the other hand, the bourgeoisie and various groups which represented conservative views openly opposed Goulart's presidency and his policies (Power, 2015: 94). In the 1950s and 1960s, the main political concern of both the conservative elite and the right-wing military and urban bourgeoisie was to perceive the strengthening of the left as a communist threat (Welch, 2006: 8). In his visit to China, Goulart stated that he was close to communism (Vanden and Prevost, 2009: 488). After this speech, mentioned groups began to organize against Goulart. The US also criticized him and they tried to provoke Brazilians to unify against him.

In addition, the rural elite also began to see Goulart as a threat to their interests. Since the colonial period, due to the *latifúndia* system (i.e. large estates), Brazil had land inequality. Although several political leaders from different political ideologies promised agrarian reform, they could not perform it because of the resistance of the powerful landholding elite (Robles, 2018: 2). There was huge pressure on the governments by the landholding elite. This pressure continued on Goulart as well. “The rural elite became alarmed about Goulart’s agrarian reform program and did not hesitate to conspire against him with the urban elite, who disliked Goulart’s “communist” tendencies” (Robles, 2018: 2). While the Brazilian urban elite with the ISI strategy concentrated on the industry, the rural elite was mainly based on agriculture, so any changes in the sector disquieted them.

Although the PCB and workers supported the reformist administration of Goulart, the domestic bourgeoisie and the majority of the middle class began to criticize his administration, due to his economic performance. Goulart could not

¹⁷ CONTAG can be considered as the largest federation of agricultural workers' labor unions in Brazil.

become successful in stabilizing the economy. Although there was no negative economic growth during his administration, the GDP growth rate reduced from 9,7 percent to 2,9 percent (Please see Table 3 on page 89). On the other hand, the inflation rate increased dramatically from 26,3 percent to 87,3 percent (Please see Table 3 on page 89).

During the period from World War II to 1964, the military, which had close ties with civilian groups, frequently did not hesitate to intervene in the political field. They were manipulating election results, as violating constitutional procedures (Kaynak, 2012: 149). As a result of the infelicity of certain groups from the Goulart government, a military coup, promoted by landed and financial interests, occurred against the Goulart government in 1964 (Saad-Filho, 2007b: 3; Linhares and Baron, 2017: 1). The labor class and the middle class were suppressed by the elite in the transition to military rule. In this period, not only opposition political and military groups, but also anti-government conservative civil society movements received support from the United States (Power, 2015: 95). There had been many coups throughout the history of the country, but the most effective one was the 1964 coup. Brazil remained under military rule until 1985, for twenty-one years.

During the 21 years, the military allowed limited political activity, as in various other Latin American countries. It allowed only the political activities of the conservative view. During the military administration period, the conservative view was influential in domestic and foreign policy, and the only political party allowed to operate was the right-wing ARENA (Coppedge, 1997: 9). Although the military coup did not abolish all forms of leftist activities, several leftist organizations, labor unions, and student associations were closed and radical leftist workers, peasants and students were isolated (Saad-Filho, 2007b: 3). In addition, the control of many unions was given

to the Ministry of Labor (Anner, 2007: 32). The military regime “marginalized the participation of union leaders in politics, reduced the opportunities of labor leader cooptation, and dealt with the labor movement through authoritarian methods” rather than using populist strategies like the previous civilian governments (Sandoval, 2007: 66). “Labor legislation ensures absolute control of the national state over the activities of rural and urban labor unions” (Alves, 1984: 84). In fact, this caused unions to act as a welfare organization instead of a class organization.

After 1964, the government prepared new policies to be able to increase the growth rate and diversify exports. It can be said that the ISI was supported and expanded by military rule as well. They removed state export taxes, made administrative procedures to make exports easier, and established a program for exporters for tax incentives and subsidized credits (Weisskoff, 1977: 6). Fiscal subsidies included (Cardoso, 2009: 13):

- 1) Exemption from tax on industrialized products (November 1964)
- 2) Exemption of income tax on profits from exports (June 1965)
- 3) Drawback of taxes on imported raw materials and components used in exported products (November 1966)
- 4) Exemption of value-added tax on export of manufactured exports (Constitution of 1967)

Furthermore, the military rule increased credit, especially to agriculture. Agribusinesses got negative interest loans for expansion and new products (Vanden and Prevost, 2009: 495). In this way, the government aimed to reduce production costs to increase Brazilian exports by producing competitive products. With the establishment of agroindustry, it was also expected to have more agricultural products to be used in the agroindustry (Santana and Nascimento, 2012: 13). On the other hand, in the late 1960s, the tariff level in Brazil started to be decreased. According to Baer (1972: 110), “this was not done to encourage more imports, but to decrease the level

of effective protection and monopoly profits and thus give an incentive to firms to rationalize their operations”.

From the mid-1960s to the late 1970s, import substitution was deepening in Brazil. The military government promoted the production of iron and steel, aluminum, and basic chemical and petrochemical industries and promoted manufactured exports (Teitel and Thoumi, 1986: 457). The military rule continued to encourage the expansion of the auto industry¹⁸. “During the 1970s, particularly, the industrial sector showed average yearly growth rates close to 7,4 percent” (Nassif et al., 2015: 1313). As a result of the support, all these sectors expanded in Brazil. Yet, Brazil continued to be dependent on the developed countries for importing capital goods.

During the beginning of the military rule, there was an effort to combat the high inflation rate on the one hand and achieve sustainable economic growth on the other hand. In those years, the main policy was about monetary arrangements which were prepared to control inflation (TMMOB, 2007: 2). The monetary arrangements can be summarized as a reevaluation of fixed assets such as real estate, overdue debts, and bills of debt depending on inflation. This technique, which requires intense government control over the economy, aimed to prevent the loss in the value of various holdings by the effect of inflation (TMMOB, 2007: 24). All these arrangements were made to increase economic growth in Brazil. Although Brazil had a low economic growth at the beginning of the military rule from 1964 to 1967, there was a sharp increase in growth from 1968 to the beginning of the 1970s (Please see Figure 1 in page 104).

¹⁸ Yet, with the oil crises of the 1970s and the debt crisis of the 1980s, the auto industry stagnated (Anner, 2007: 30).

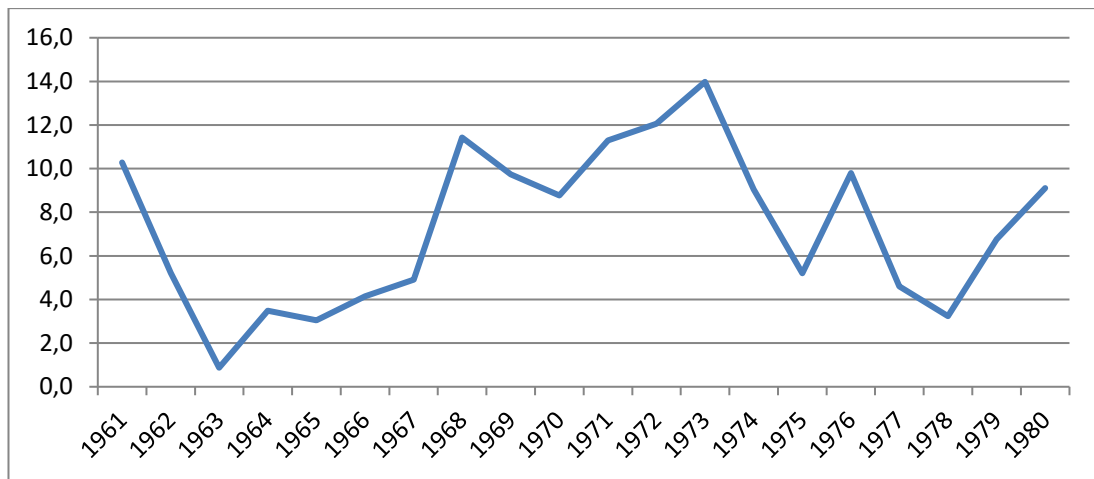


Figure 1: GDP growth of Brazil (annual %), 1961-1980
Source: World Development Indicators

The largest growth rates in the history of Latin American economies were recorded with the ISI development model as a result of restrictive trading regimes and large public sector practices, which continued until the beginning of the 1970s, despite severe macroeconomic imbalances (high inflation and a large current account deficit) and huge budget deficits (Corbo, 2008: 3). The availability of cheap credit from petrodollars pushed governments and private sectors to borrow from them during the 1960s and 1970s (Cardoso, 2009: 2). This created high but at the same time unsustainable economic growth. When oil prices increased first in 1973 and then in 1979, the interest rate increased as well and the economic activities decreased. Although there was not a negative economic growth rate in Brazil after 1973, the growth rate was seriously lower compared to the previous years and it became volatile (Please see Figure 1).

During the period of ISI strategy, the governments struggled against inflation, but they failed to reduce and stabilize it. The inflation rate increased sharply, since 1973. With the success of ISI policies, inflation decreased importantly from 93,8 percent to 19,1 percent between 1964 and 1972, but as a result of a series of economic crises, inflation again increased in Brazil (Please see Figure 2). As a result of bad

economic performance, there was a sharp decrease in GDP per capita growth after 1973 (Please see Figure 1 on page 104). Under these conditions, the military government tried to stabilize the economy by preparing a development plan. The second Development Plan prepared by the military government was put into practice between 1975 and 1979 (Czarnecka-Gallas, 2013:17). Its aim was economic growth. The government gave priority to economic infrastructure such as energy, transportation, and telecommunications, with a 25 percent share in total investments. The plan did not work well to achieve development.

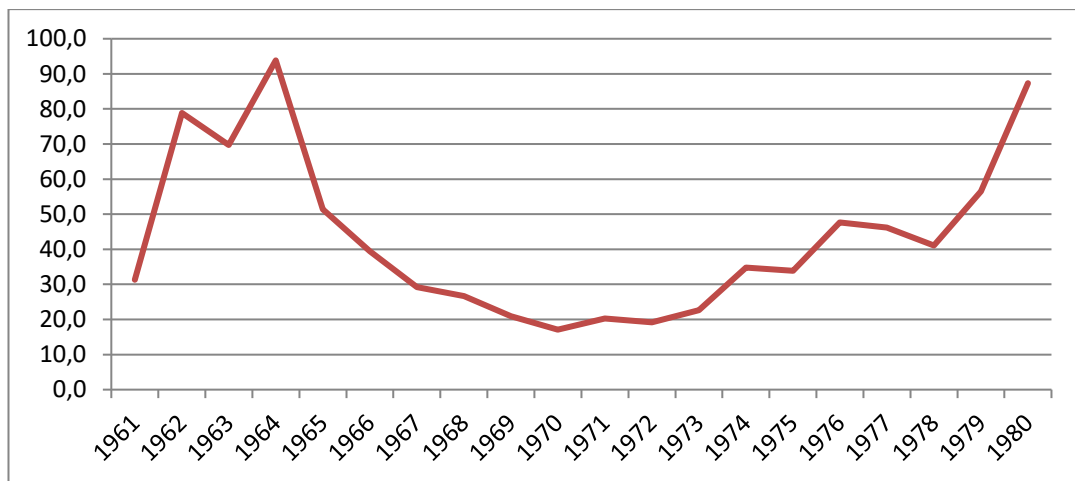


Figure 2: Inflation of Brazil, GDP deflator (annual %), 1961-1980
Source: World Development Indicators

Brazil faced a debt crisis in the late 1970s (Maia and Menezes, 2014: 214). With the increase in oil prices in the mid-1970s, the Brazilian government got a loan from the IMF and the World Bank in order to stabilize the economy. Yet, Brazil was unable to repay those loans with its low earnings (Topal, 2007: 34) and highly accumulated debts turned to a debt crisis which resulted in hyperinflation. This crisis was a financial crisis and it showed the failure of ISI. Certainly, a critical recession period began in Brazil. In fact, severe economic recession and consequently huge

foreign debt (Please see Figure 3 below) and high inflation (Please see Figure 2 on page 105) increased the pressure on the military government.

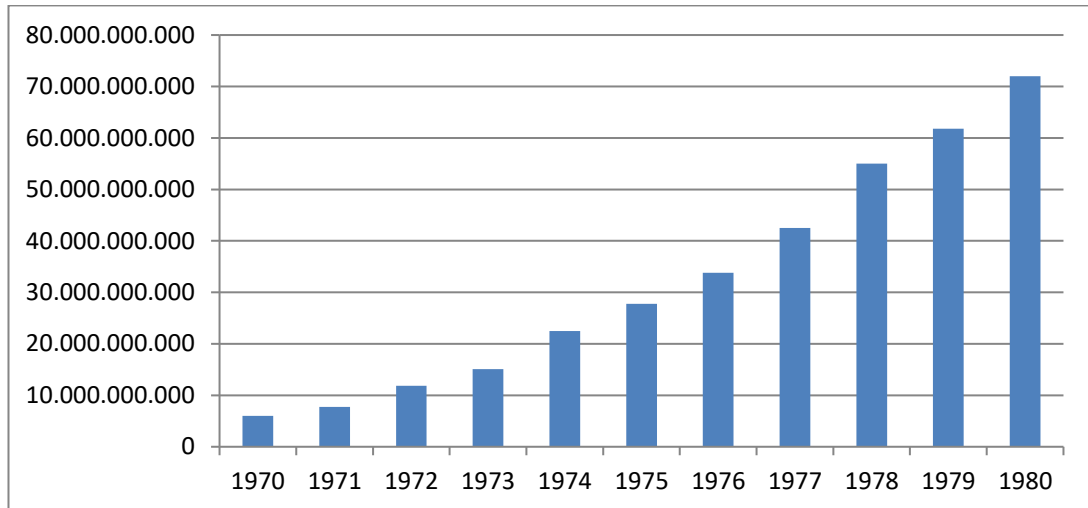


Figure 3: External debt stocks of Brazil (DOD, current US\$), 1970-1980
Source: World Development Indicators

It is true to state that Brazil had a poor social insurance system for redistribution (Özdemir, 2019: 22). During the developmentalist era between 1930 and 1964, several laws on labor, social security, and social welfare for formal sector workers were enacted, yet there were limited social benefits until 1988. With the military regime, the redistributive policies were changed; labor unions and civil associations were repressed and wages decreased significantly. Importantly, workers in the rural areas, in the domestic sector, and the informal sector were unable to pay contributory social insurance because of poverty, and for this reason, they were excluded from the welfare system (Fischer, 2009: 859). Of course, this increased discontent of these people against the military government.

By the mid-1970s, mass resistance began against the dictatorship. The legitimacy of the regime was shaken by the oil crisis. The regime failed to normalize and stabilize the economy. Throughout the two decades of military rule, a new

generation of labor leaders emerged, and during the 1970s, they fought against the military regime to take back unions from government control. By the mid-1970s, left-wing organizations began to organize protests and demand the restoration of democracy, human rights, and political amnesty (Saad-Filho, 2007b: 5). The protests grew slowly, yet consistently. 300.000 workers from 300 factories organized a strike unexpectedly in May 1978 to demand a substantial pay increase. Although the regime declared the strike illegal and used force to prevent protests, the workers could not be controlled. As a consequence, the regime organized negotiations between the workers and the employers (Saad-Filho, 2007b: 5). In addition to this strike, metal workers in the Sao Paulo region organized huge strikes in 1979 and 1980, launched by university students, and brought unionism controlled by the government to a breaking point. These major strikes brought a new model and process to the class struggle.

When the military rule loosened its control over the society in the late 1970s, the unions used this as an advantage to stimulate and demand full democratization (Anner, 2007: 33). The movement did not aim to transform the country through a socialist revolution. It mainly pursued the rejection of state corporatist controls. New social activism called Christian Base Communities influenced the activities of the movement. It can be said that workers from this movement created close relations with several civil organizations, including the progressive wing of the Catholic Church which was independent of the political parties and the state during the late 1970s and early 1980s (Anner, 2007: 33). Moreover, they established “new unionism” which was institutionalized under the Unified Workers Central (*Central Única dos Trabalhadores*, CUT), as the left-oriented labor group¹⁹. The unions began to associate in federations in cities such as the CUT (Antunes, 2012: 259).

¹⁹ By the time of progress, the movement created a class-based ideology. According to its 2002 regulations, the CUT was a classist, autonomous and democratic labor union organization (Anner, 2007:

The military government prepared a new Development Plan to achieve development and eliminate discontent of the people (TMMOB, 2007: 24). The plan was implemented between 1980 and 1985 which gave importance to agricultural development, energy, and social policies. They aimed to increase the welfare of the people through continuous economic growth and provide more equal income distribution. Brazil succeeded in establishing significant industries, but the society was still divided by huge inequalities. It was believed that strikes against military rule could be eliminated. However, the plan could not be implemented (TMMOB, 2007: 24).

During the military rule, the demands of landless rural workers for an agrarian reform were repressed. For this reason, a land reform institute (National Institute for Colonization and Agrarian Reform – *Instituto Nacional de Colonização e Reforma Agrária*, INCRA) was established in 1969. “Peasants displaced by the construction of the *gigantic Itaipú dam* project in southern Brazil started occupying idle farmland” (Robles, 2018: 3). The Catholic and Lutheran churches put intense pressure on the military rule to settle the displaced peasants into the occupied land (Robles, 2000: 677). As a result, these early land occupations showed the way to landless rural workers how to struggle for agrarian reform. Landless rural workers from different regions came together in Cascavel, Parana in 1984 to establish a national landless rural worker organization, called Landless Workers' Movement²⁰ (Movimento dos Trabalhadores Sem Terra, MST), to be able to pursue agrarian reform (Robles, 2018: 3). The newly established Workers' Party (*Partido dos Trabalhadores*, PT)²¹ began to

33). By the 1980s and 1990s, the CUT changed its vision from aggressive manner to conciliatory manner.

²⁰ The Landless Workers' Movement (MST) is Latin America's largest and most organized social movement.

²¹ The PT was founded in 1980 under the leadership of Lula da Silva, a former metalworker and trade unionist. The founding cadres of the party were also arrested, detained and tortured by the military dictatorship that ruled between 1964 and 1985 (Güler, 2018: 1).

support the agrarian reform demand of MST. So both PT and MST started to struggle against the military rule (Robles, 2018: 3).

Although bourgeoisie, many politicians and interest groups widely supported the military governments, this changed by the mid-1970s. For example, the industrial bourgeoisie started to criticize the military regime, due to excessive state intervention in the economy (Saad-Filho, 2007b: 4). Actually, due to panic with the fear that widespread hunger and poverty would be transformed into a political movement by radical left circles, the bourgeoisie needed the state. In addition, in those years, it needed the state and high customs to strengthen and compete with the global market. An authoritarian political structure that controlled the left and nurtured the private sector was the best solution. However, in the 1980s, as a result of the change in international conditions and the authoritarian regime's inability to meet the demands of capital, the support of the bourgeoisie world turned to a democratic regime.

In addition to the bourgeoisie, working class also found a way to organize and protest the military administration. The long-term economic problems prepared the ground for working class for protesting the government. Although only 200 strikes were organized in 1980, this number increased to 4.000 in 1989. It can be said that the political and economic scenarios of the 1980s militated in favor of labor class. During the 1980s, the main reason of workers' strikes was wage related issues (Ramalho, 2012: 94). The CUT played an important role on these strikes.

The rise of strikes created a new pressure on the government which was labeled as new unionism (Cardoso, 2002: 285). Furthermore, the other significant factor was legal;

... state-corporatist union structure inherited from the 1930s, a structure which was kept intact by the military. Corporatism proved to be quite flexible: it served both the authoritarian regime, as a repressive and controlling device against unions, and the emerging democracy, as the sustaining base for the

rapid collective organization of union leaders countrywide (Cardoso, 2002: 285).

Consequently, economic problems, including huge foreign debt and high inflation, and social movements prepared the end of the military rule in Brazil. The twenty-one years of military regime ended in 1985 with a huge disappointment. Brazil returned to civil rule with democracy. The end of the military regime also brought the end of the ISI strategy in Brazil. It was seen that this strategy did not work well. Both bourgeoisie and labor were not satisfied. The new economic adventure began in Brazil under a new political system.

To sum up, until the mid-1980s, Brazil experienced different economic models – coffee economy, sweeping economy, and lastly import substitution industrialization. Although the economic developments in the world affected Brazil's policies, its internal dynamics gave the final shape to its economic policies. In turning points, it can be said that the bourgeoisie class was effective. With the Great Depression of 1929, it was understood that the state needed diversification in the economy, instead of focusing on only coffee production industrialization activities began. This weakened the power of agricultural elites; while increasing the power of industrialists. ISI policies were accelerated by the 1950s and Brazil implemented this strategy until the mid-1980s. Brazil was under the control of the military during the twenty-one years from 1964 to 1985. Although the bourgeoisie supported the military administration throughout the years, with the economic problems in the late 1970s and the beginning of the 1980s, this class started to criticize the administration. On the other hand, despite being under control for a long time, by this process, the labor class also found a way to organize and protest the administration.

4.2 History of Turkish Economy

With the declaration of the Republic, Turkey also wanted to gain its economic independence, so economic strategies were designed with this purpose. It is right to state that the history of Turkish economic and political development was similar to many developing countries such as Latin American countries. Turkey tried to enter the world economic system by the state-led development model. By the 1930s, protectionist statist industrialization policies were used. After WWII, with the Truman Doctrine²² and the Marshall Plan²³, Turkey introduced liberal policies, but it was short-lived. By the 1960s, import substitution industrialization policies were implemented by the Turkish government.

Throughout the years, the Turkish economy had several turning points. In addition to external dynamics, internal factors were also effective in those turning points. In this section, the Turkish bourgeoisie and labor classes are analyzed to understand how the Turkish state formulated its economic policies. This section examines the economic policies of Turkey until the late 1970s and investigates state policy decisions by looking at state-capital and state-labor relations in Turkey in this period.

4.2.1 Protectionist Statist Industrialization

After World War I, the Ottoman Empire collapsed and the Republic of Turkey was established in 1923. This new period was the beginning of the development of capitalism in Turkey (Bayar, 1996: 773-774). In the first years of the Republic between 1923 and 1929, the free trade policy continued to be applied in the open economy

²² Truman Doctrine was a military and economic aid to Turkey and Greece by the US to be able to eliminate Communist influence on these countries and direct their economies (Özer, 2014: 427-428).

²³ Marshall Plan was an economic assistance to Western Europe in order to rebuild Western European economies after the end of the WWII (De Long and Eichengreen, 1991: 33).

conditions, as the Lausanne Treaty restricted trade policies of Turkey until 1929 (Bayar, 1996: 774). There was a weak industrial base and outdated techniques in the agricultural sector. Turkey also lost its main bourgeoisie class which consisted of non-Muslims. Muslim bourgeoisie, despite their secondary positions against non-Muslims, gained significant momentum, when the capitulations were abolished and non-Muslim bourgeoisie left the country. Muslim merchants and businessmen occupied places that were left by non-Muslims. However, they were weak, so for the next five years policies towards the enrichment of the domestic bourgeoisie were implemented (Keyder, 1989: 105).

With the influence of the Great Depression of the world, the free trade strategy was finally abolished. The Great Depression of the 1930s influenced Turkish foreign trade severely and the price of agricultural products, including tobacco, cotton, and cereals decreased sharply (Okyar, 1979: 327). In the 1930s, more than a thousand firms in İstanbul and İzmir declared bankruptcy. Many peasants sold whatever they had to pay for their debts and taxes (Keyder, 1989: 123). This shows the weaknesses of the bourgeoisie and dependency on foreign markets.

Between 1930 and 1939, a conservative and statist industrialization strategy was implemented (Boratav, 2018: 67). In those years, the government tried to nationalize foreign firms in order to minimize dependency on foreign markets. While doing this, at the same time, they tried to promote private enterprises (Eşürk, 2006: 24), but there was not enough native capital accumulation (Bayar, 1996: 775). So, incentives were used to encourage the use of domestic goods with the incentive law issued in 1925 and 1927 (Boratav, 2018: 47-48). According to the incentive law, industrialists with a minimum scale and technology could benefit from customs exemptions, land grants, and procurement guarantees against foreign competitors in

public procurement (Keyder, 1989: 132). In addition, new state banks such as Sümerbank and EtiBank²⁴ were established for financing development projects (Bayar, 1996: 775). Furthermore, during this process, the government tried to increase exports and decrease imports to be able to eliminate the annual trade deficits (Bayar, 1996: 775).

The first Five-Year Industrial Plan (1934-1938) was prepared under the influence of the Soviet Union (USSR) when the idea of statism came to the forefront to speed up the industrialization efforts of the country and increase the production of certain imported goods (Bayar, 1996: 775; Okyar, 1979: 329). In this process, Turkey began to produce flour, sugar, textile, coal, iron, and fuel oil (Boratav, 2018: 108) due to the economic criteria whether “the availability of ready markets, substitution for essential imports and the availability of internal raw materials” (Okyar, 1979: 329). Moreover, in this period, the largest investment was made in the textile industry because of the natural and historical-comparative advantage of Turkey. In this way, the level of capital goods increased and the level of imported consumable goods decreased, so the country reached a trade surplus until the mid-1940s (Kepenek and Yentürk, 1990: 41).

The success of the first plan led to prepare a more comprehensive plan in 1938 – called the second Five-Year Industrial Plan. However, the second plan, which promised huge industrialization, had not been able to achieve its objectives due to WWII (Bayar, 1996: 775). Although Turkey kept its neutrality during WWII, many men had to join the army for military mobilization. This caused a labor shortage in production. As a result, wheat production decreased by approximately fifty percent (Metintaş and Kayıran, 2016: 74). This was same in the industrial production as well.

²⁴ Both Sümerbank and Etibank “became holding companies with large responsibilities in the public enterprises” (Bayar, 1996: 775).

The industrialization attempts of the 1930s were never caught up again in perseverance and enthusiasm in those years (TMMOB, 2007: 104).

The National Protection Law of early 1940 was prepared to allow bureaucracy to manage an extraordinary war economy (Tezel, 2000: 165).

According to the law, the government could set production targets for private industry and had the right to deny approval to investment projects; it could confiscate factories and mines, control prices in all markets and nationalize trade in certain commodities (Keyder, 1989: 111).

In addition, the government had been given the authority to intervene in the prices of the market and determine which products should be produced in order to prevent inflation (Boratav, 2018: 83). External factors became influential in the change of governmental policies. Furthermore, the National Protection Law also stipulated that laborers could be forced to work and could not leave their jobs. All labor rights; such as holidays and fixed working hours, were repealed. Of course, the bourgeoisie was ready to accept all these items because they corresponded with its interests.

Capitalism in Turkey until the 1940s developed through state management. It was a kind of state capitalism. Big industrial institutions, banking, transportation, communication, energy, mining, textile, etc. were all controlled by the state, due to the weak bourgeoisie (Boratav, 2018: 70). The state took a role to create a ground for native capitalist industry and the national bourgeoisie class. Meanwhile, there was also a weak labor organization in those years. It can be said that during those years, there was an authoritarian and repressive political framework (Boratav, 2018: 208). The ruling party - Republican People's Party (*Cumhuriyetçi Halk Partisi*, CHP), which was the only political party in Turkey until 1945 due to the one-party system, was seen as the representative of bureaucracy-bourgeoisie-big landowners.

4.2.2 Introduction of Liberal Policies

The Turkish bureaucracy agreed that the one-party regime could not be continued under the new world conjuncture where fascism was defeated and democracy gained importance (Karpat, 2015: 137). As a result of these, after twenty-three years of a one-party regime, a multi-party system occurred in Turkey. Democratic Party (*Demokrat Parti*, DP) was established in 1945 by the big landowners and merchants who left the CHP (Karataşlı, 2015: 393). This broke up the monopoly of the CHP over Turkish politics (Okyar, 1979: 331). Moreover, in 1946, some leftist parties such as “Turkish Workers and Peasants Socialist Party” (*Türkiye Sosyalist Emekçi ve Köylü Partisi*) and “Turkish Socialist Party” (*Türkiye Sosyalist Partisi*) were also established, but the government closed these parties after six months of their launch (Karpat, 2015: 357).

After WWII, imports continued to increase and foreign deficits became chronic in the Turkish economy, so Turkey experienced its first devaluation in September 1946 (Boratav, 2018: 134). Under these conditions, Turkey needed economic aid. Then, she had to pursue a pro-Western approach to take those aids. Eventually, Turkey became a member of the IMF, the World Bank, and the Organization for European Economic Cooperation (OEEC) in 1947 (Karataşlı, 2015: 393). The US also put Turkey under the Truman Doctrine and then the Marshall Plan (Okyar, 1979: 337; Boratav, 2018: 99). So, Turkey became eligible for grants and aid in consideration of military dependence and economic liberalization. In this new period, there was a gradual change in the Turkish economy (Boratav, 2018: 99-100). Instead of a closed-protectionist economy, Turkey determined liberalization lists and limited the implementation of quantity controls in imports. Moreover, it agreed to use foreign credits as financial resources and state resources for infrastructure such as

transportation and communication (Gülalp, 1985: 3). In this way, it aimed to expand the market. External dynamics, the US, had an important influence on Turkey's transition to liberal policies.

In addition to external dynamics, internal dynamics also led to a change in the economic and political front. Until the 1950s, eighty percent of the population lived in the countryside and the great majority was small producers (Keyder, 1989: 148). The most common form of employment in retail trade and services in cities was self-employment. Even in the industrial sector, thirty-three percent of workers were either self-employed or family employed. Many of these small producers were ready to accept market freedom (Keyder, 1989: 149). Furthermore, big merchants and landlords could not benefit from foreign capital as long as state control continued on the economy (Aydın, 2005: 28).

Secularism, which means the separation of state and religious institutions, took the meaning of bureaucratic control on religious life in Turkey. As a result of this understanding, it was possible to discredit any opposition movement by claiming that it aimed to create a religious state. The Turkish bureaucracy tried to put the DP in the category of religious reaction during the period 1946-1950 (Karabulut, 2019: 227). However, this opposition group, also known as the 1950 movement, was formed by the bourgeoisie which was the former members of the ruling bloc and mobilized masses. In other words, the 1950 movement took a liberal form of resistance against the one-party rule in Turkey and a large segment of society acted as a common front with the bourgeoisie (Keyder, 1989: 154). It is for this reason that between 1946 and 1950 the populist movement gained momentum and was able to drive an increasing number of people from both the bourgeoisie and small producers (Aydın, 2005: 30).

President İsmet İnönü²⁵ provided a land reform project to the landless and poor villagers in 1945 and submitted it to the Turkish Assembly (Gürel, 2015: 85). While the villagers, who were likely to benefit from this law, did not make any requests, so why did the CHP need to prepare such a law on land reform? The answer is probably that the bureaucracy wanted to form a new alliance with the poor peasants against the increasingly powerful opposition of the bourgeoisie (Kaya, 2015: 88). The bureaucracy began to look for a voter base with the effect of a real election decision²⁶. It could be said that the poorest peasantry suffered the most from the statist policies and mobilization. It would be reasonable to choose the poor peasants to influence voting. On the other hand, the DP underlined the peasants' poverty and the pressure of the gendarmerie on them and tried to influence the peasants to vote for them (Gürel, 2015: 89).

In 1950, DP came to power in Turkey and Adnan Menderes became the Prime Minister (Bayar, 1996: 776). It can be seen that the state intervention on the economy continued to diminish with the DP (Bahar, 2005: 74). Although the CHP had begun to implement liberal policies by the late 1940s, the DP gave the main shape to these policies. The years between 1950 and 1955 were dominated by liberalism. This period was the first step of capitalist development in Turkey. The reductions of the state role in the economy and the support for the private entrepreneurs were brought to the agenda and the government adopted a decision to liberalize trade. On 1 August 1951, the Law on Encouragement of Foreign Capital was adopted to promote foreign capital (Boratav, 2018: 100).

²⁵ After the declaration of the republic, İsmet İnönü became Turkey's first prime minister and he served as the second President of Turkey between 1938 and 1950.

²⁶ The 1950 general elections was considered as the first democratic election in Turkish history.

Agriculture was in the first place of capitalist development (Bayar, 1996: 775-776), so new lands were opened to agriculture and advanced techniques began to be used in this area. DP governments transferred resources to agriculture more than industry between 1950 and 1960, so large landowners received more incentives and assistance than the industrial sector (Gürel, 2015: 91). In addition, the DP governments eliminated taxes on agriculture (Bayar, 1996: 776). The tenfold increase of the Ziraat Bank's low-interest rate loans between 1948 and 1958 and keeping the product base prices, not at a low level enabled not only large landowners but also middle and lower class peasantry to continue to support the DP (Gürel, 2015: 90). It is important to state that the DP became successful to create a close relationship with the peasants during its ruling period. So during this period, policies favored peasants and landowners rather than the industrialists.

In the second half of the 1950s, the industrial faction of the Istanbul bourgeoisie expressed distress and impatience for the growing populist trend of Menderes's economic policy (Keyder, 1989: 176). This played an important role in the establishment of a third party in Turkey; the Liberty Party²⁷ (*Hürriyet Partisi*, HP) which provided an alternative to the statism of the CHP and the petty-bourgeois ideology of the DP (Keyder, 1989: 176). It can be said that the grouping in the 1950s was between on the one hand the small bourgeoisie, small capital and trade bourgeoisie, and on the other hand industrial bourgeoisie (Aydın, 2005: 27). The new emerging social and economic policy orientation was the result of a bargaining process, especially a bargain with the dominant powers in the world economy. This

²⁷ The platform of the urban alliance represented by this new party, supported by liberal intellectuals and the progressive bourgeoisie, was incomparably influential due to its short life (Keyder, 1989: 176). The group, which formed the Hurriyet Party, soon joined the CHP. This participation gave fresh strength to the tired ranks of the CHP. The young, technocratic minded and well-educated group changed the nature of the opposition platform.

project of the industrial bourgeoisie was consistent with the short and medium-term interests of certain strata of the bureaucracy and the working class. So this intersection allowed the establishment of a stable state, the continuation of the parliamentary regime, and the organization of the economy.

In the early 1950s, the positive price conjuncture created by the Korean War was an important factor supporting the expansion of agriculture (Oktar and Varlı, 2010: 14). Yet things suddenly changed with the end of the Korean War. In 1954, agricultural production and exports decreased by 15 percent and per capita income declined by 11 percent (Keyder, 1989: 166). As a result, a trade deficit occurred in the country (Boratav, 2018: 102). In 1954, the previous liberal foreign trade regime was abandoned and some of the statist control measures were adopted (Keyder, 1989: 167). Inflation and protectionism created a policy to increase industrial profits in the short term. With the limitation of imports after 1955, the industrial sector in the cities began to take advantage of actual protection. Thus, all industrial goods produced domestically were sold with high profits. In addition, with the incentives, the industrial sector started to grow faster than agriculture, and as a result, the share of industry in national income increased from 10 percent to 14 percent, while the share of agriculture decreased from 49 percent to 43 percent (Keyder, 1989: 168).

However, by the end of the 1950s, the cost of inflationist policy was seen. Even the great industrial bourgeoisie, which was the most profitable sector in that period, was not satisfied with the indiscriminate patronage and credit policies. The bourgeoisie class could not repay their foreign debts (Boratav, 2018: 88). Investment and social expenditure decreased. Turkey could not be successful in eliminating the high inflation rate and this was combined with an over-valued exchange rate (Boratav, 2018: 110). The World Bank and OECD (Organization for Economic Cooperation and

Development) experts forced the Menderes government to form a planning commission. Since Menderes was always opposed to statist planning, in 1959, a planning commission²⁸ was formed in a veiled manner (Gülalp, 1985: 8). All parts of the society were affected by the economic crisis negatively, so there was pressure on the Menderes government to shape their policies in this direction. Yet, economic instability and crisis continued until the beginning of the 1960s.

The new economic arrangement did not work for the small capital and petty bourgeoisie. While state control reduced the role of the market by introducing non-economic factors into the profit-seeking game, the institutionalization of distribution undermined the reputation of seeking maximum earnings and accumulation (Keyder, 1989: 181-182). So the petty bourgeoisie chose the political platform to show their dissatisfaction. As a result, in this new period, there was a constant tension between the administrative and political areas and this brought about the tension between the executive and legislative bodies of the state as well. This tension stemming from the dominance of the industrial bourgeoisie on the state was at the base of all the ideological and political struggles of the 1960-1980 period.

4.2.3 Import Substitution Industrialization

A large number of students organized several demonstrations against the government due to the economic crisis in the late 1950s. Those demonstrations were followed by a coup. On 27th May 1960, the Menderes government was overthrown by the military due to economic failures and its authoritarian activities²⁹ (Bayar, 1996, 777). General elections were held on 15 October 1961. A coalition government was

²⁸ According to Gülalp (1985: 8), this program included the standard measures of devaluation and stabilization; in addition, it prepared a basis for ISI policies for the following years.

²⁹ Adnan Menderes, the Prime Minister, Hasan Polatkan, the Finance Minister, and Fatin Rüştü Zorlu, the Foreign Secretary were executed on 16th and 17th September 1961 (Kıyanç, 2020: 142).

formed between the CHP and the AP³⁰, as no party could win an absolute majority. This was the first coalition government formed in Turkey.

The year 1960 was an important turning point in Turkish politics and economics. The coup prepared a transition period from the agrarian development model to industrial development. After the 1960 coup, the big landowners were removed from the power bloc (Gürel, 2015: 91). So this provided a base for industrialists to dominate the political power and shape policies by their interests. For instance, after the coup, the government's credit and incentives were mostly allocated to the industrial bourgeoisie instead of agriculture. The Turkish economy, which started its first industrialization initiatives in the 1930s and provided an important industrial accumulation through public economic enterprises, realized the second important industrialization movement in the 1960s with the ISI strategy (Pamuk, 1981: 27-28; Eşiyok, 2004: 4). According to Baer (1972: 95), the crisis of the domestic economy and the balance of payments crisis in the mid-1950s became a pioneer in the import substitution industrialization model.

The military and civilian bureaucrats were the main supporters of the ISI (Bayar, 1996: 777). They believed that this strategy strengthened their role and place in society. Moreover, there were two groups, industrialists and organized workers, who would directly benefit from this policy (Keyder, 1989: 177). Importantly, the class struggle specific to the capitalist mode of production had not yet become the engine of social transformation. The right to unionization, the right to collective bargaining and the right to strike, and the expansion of the social security area were given to the workers by the needs of the new accumulation model. The 1961 Constitution introduced a system of controls and balances that allowed even the social groups at the

³⁰ The Justice Party (*Adalet Partisi*, AP; the extension of the DP) was a liberal conservative political party that operated between 1961 and 1980.

lowest level of organization to oppose political authority (Aydın, 2005: 35). So the 1961 Constitution enabled the rise of the left-wing movement from the 1960s onwards in Turkey. Furthermore, the salaries of bureaucrats increased compared to the previous period, and a certain rise in the status of the technocratic stratum among the high civil servants was observed. Yet, none of these developments meant that the bureaucracy gained a class position as it had before the war or achieved a privileged status.

The ISI in Turkey began in the traditional sectors in basic consumption sectors such as food and textile and continued in intermediate goods such as iron and steel and petrochemicals, as well as in some investment goods (Eşiyok, 2004: 4). During the first years of the 1960s, industrialization was aimed at domestic consumption (Bruton, 1968: 309). The Turkish governments implemented policies to increase the incomes of all working people for increasing the potential consumption of workers, peasants, civil servants, and farmers (Bahar, 2005: 84-85). Investments in the production of consumer goods in the manufacturing industry gained relative importance, depending on the expanding internal market (Bahar, 2005: 75). During this process, the public sector mainly focused on infrastructure investments and started to build transportation, communications, ports, and dams. The private sector, on the other hand, entered the consumer goods industry, especially durable consumer goods (Boratav, 2018: 132).

It is right to state that there was no coordination between the projects until the 1960s. In addition, those projects could not be financed in the right way. For this reason, the State Planning Organization (SPO) was established with the 1961 Constitution (Karataşlı, 2015: 396; Okyar, 1979: 333). Thus, the planned development period began in Turkey after 1962. During the 1st Plan period, 28 percent of investments were made in consumer goods, 58,2 percent of them were in intermediaries and 13,8 percent of them were in investment goods (Bahar, 2005: 81).

In this period, investments were made in the intermediate goods industry more than in the investment goods industry. Moreover, foreign capital tried to be encouraged, but without much success. The private sector was made to benefit from external sources and loans. In addition, private sector participation in the established industrial facilities was encouraged. For capital goods, imports had been liberalized considerably and some export restrictions had been lifted (Keyder, 1989: 179).

It is also important to state that at the beginning of the years of industrialization, developing countries needed foreign currency (Bruton, 1968: 311). For example, in those years, American aid was used by many countries in this sense. When the US lost its hegemonic power along with the Vietnam War, its aid including to Turkey declined. Yet, Turkey and its ISI strategy gained a new source with workers' remittances by the early 1960s³¹. Workers' remittances had contributed to the development of the domestic market as well as the financing of the foreign trade deficit (Eşiyok, 2004: 20). In this context, the Turkish economy had achieved a significant foreign exchange inflow until the 1970s (Bayar, 1996: 777-778). For instance, the workers' remittances reached a level to close the entire foreign trade deficit of 1971-73 (Keyder, 1989: 224; Aydın, 2005: 37). In this short period, the presence of remittances solved the balance of payments problems. However, with the world economic crisis of the 1970s (oil crisis), the workers' remittances began to slow down and this created a crisis in the balance of payments of the Turkish economy (Bayar, 1996: 778).

In the 1960s, Turkey had undergone unprecedented developments in industrial accumulation, under the auspices of the private sector and state support (Eşiyok, 2004: 3). Domestic products with low competitive capacity were protected by import quotas

³¹ Republic of Turkey and the Federal Republic of Germany signed an agreement on labor migration on 31 October 1961 and it was agreed on that Turkish labors migrated to Germany to work (Steinert, 2014: 11).

and customs walls. Of course, this provided a huge contribution to industrialists to sell their products. Furthermore, the public sector had made a significant contribution to the capital accumulation process through the investment of the manufacturing industry and the infrastructure as well as the incentives for the private sector investments (Bahar, 2005: 86). The state provided different incentive mechanisms such as tax exemptions, cheap credit, and market protection, to strengthen the capitalist class. In that period, the value of the Turkish Lira was kept high and real interest rates were kept low and even negative, and capital-intensive investments were tried to be encouraged. Moreover, in the 1960s, in sectors where private sector capital accumulation and investment opportunities and experience were insufficient, or in sectors where investment for the private sector was not attractive, the state was engaged in intermediary and investment goods sectors as a producer (Dumludağ, 2002: 64).

Unsurprisingly, the ISI policies helped to strengthen and expand domestic industrial bourgeoisies. As a result, they got organized under the Turkish Industry and Business Association (*Türk Sanayicileri ve İş İnsanları Derneği*, TÜSİAD)³² in 1971 (Karataşlı, 2015: 401). It can be said that during this period, the big bourgeoisie became successful to reach the capital and revived business. Although big capitalists took advantage of state incentives during the ISI period, small capitalists were excluded (Özel, 2013: 1090-1091, 1096). However, while the modern industry was growing rapidly, many small businesses survived, or even evolved. In terms of origins, the Turkish bourgeoisie can be divided into two groups (Keyder, 1989: 212). The first group, which owed its existence to the economic growth of the 1960s, gathered around industrial centers. New entrepreneurs and newly urbanized workers were employed in

³² TÜSİAD represents Istanbul based big industrialists.

the workplaces of this group. In the second group, there were traditional industries in Anatolia that met local demand in small cities. These industries, whose origins dated back to the early years of the 1950s, and often up to the 1930s, were founded by small capitalists who took advantage of easy import substitution opportunities (Keyder, 1989: 212). Considering their technology, market, and the nature of the goods, the small industrial enterprises in this group were doomed to be removed from the market as the modern sector grew.

The 1960s were also important years for the working class. The 1961 constitution offered a wide range of rights to the workers to pursue and organize their demands (Aydın, 2005: 35). So the Workers Party of Turkey (*Türkiye İşçi Partisi*, TİP) was established in 1961, founded by labor unionists and socialist intellectuals. TİP increased its popularity immediately and achieved to send fifteen members to the Parliament in the 1965 general elections (Karataşlı, 2015: 398). On the other hand, in those years, it was understood that the Confederation of Turkish Trade Unions (*Türkiye İşçi Sendikaları Konfederasyonu*, Türk-İş)³³ was unable to support the rights of the working class in the economic struggles, so four unions, including Maden-İş (*Türkiye Maden İşçileri Sendikası*), Lastik-İş (*Türkiye Petrol, Kimya ve Lastik Sanayii İşçileri Sendikası*), Basın-İş (*Türkiye Basın, Yayın, Gazetecilik, Grafik-Tasarım, Baskı ve Ambalaj Sanayi İşçileri Sendikası*) and Gıda-İş (*Türkiye Gıda Sanayii İşçileri Sendikası*) left Türk-İş and established a new confederation called the Confederation of Progressive Trade Unions of Turkey (*Türkiye Devrimci İşçi Sendikaları Konfederasyonu*, DİSK) in 1967 (Karataşlı, 2015: 398).

Under the influence of the industrialists, the Second Five-Year Development Plan covering 1968-1972 was prepared. In the second plan, the balanced growth

³³ Türk-İş was founded in 1952 which operated under the state control (Karataşlı, 2015: 398).

between the agricultural and industrial sectors was abandoned and the industrial sector was highlighted as the driving force of economic growth (Bahar, 2005: 81-82). During this process, durable consumer goods such as refrigerators, televisions, washing machines, and as well as automobiles, were produced in Turkey. At the same time, it can be seen that the "heavy industry" in addition to the subsidiary industry, which consisted of small and medium-sized enterprises, expanded significantly in the country (Boratav, 2018: 209). Meanwhile, the share of industrial production in the national income started to increase steadily, and heavy industrial establishments, implemented high technology in big cities, emerged (Keyder, 1989: 232). Yet, Turkey continued to be dependent on the developed countries for importing capital goods rather than consumer goods.

By the end of the 1960s, the working class became powerful and its organized social segment was able to affect the dynamics of Turkey (Bahar, 2005: 84). Many leftists, including workers and students, came together under only the leftist party TİP, despite their different tendencies. Many university student associations came together and organized a federation, called *Fikir Kulüpleri Federasyonu* (FKF) in 1965, "which formed the backbone of anti-American youth movements in 1967-68" (Karataşlı, 2015: 398). It can be said that these two organizations gained huge power to criticize and mobilize against the AP government which was established by Süleyman Demirel after the 1965 elections. Despite the success of the economic policies, the opposition of workers and students to the government under the leftist perspective continued to grow. The number of unionized workers increased gradually from 298.000 to 819.373 between 1961 and 1970 (Gürcan and Mete, 2019: 4). In order to suppress the rising leftist movement, the AP government organized the reaction movements by using religious beliefs (Akyeşilmen and Özcan, 2014: 31).

The bourgeoisie meanwhile attacked both labor union organizations and union rights (Karataşlı, 2015: 398-399). The rising power of labor unions gave damage to their interests. At this point, the bourgeoisie gave support to the AP government to decide to control the unions. The government prepared legislative measures to be able to restrict workers' freedom to choose their labor unions and make it difficult to change their labor unions. Against these developments, on June 15 and 16, 1970 workers organized demonstrations against the government which was known as one of the most important struggles by the Turkish working class (Gunter, 1989: 63-64). During the protests, the police used guns and three people were killed, including two hundred injured.

Due to the growth of tension in the country, the military intervened in the government the second time in 1971³⁴ and the Demirel government had to resign (Bayar, 1996: 777; Gunter, 1989: 64). A semi-military regime was established. The big bourgeoisie under TÜSİAD supported this coup because the protests of the working class against the ruling class and the US imperialism had become unbeatable. They wanted to discourage the revolutionary youth and isolate the socialists. In this way, the workers' movements and the socialist movements were suppressed. TİP was closed down; in addition, the youth associations and DİSK were banned. Several socialist workers, intellectuals, and students were arrested (Gökay, 2018: 145). This meant that labor unions lost their power. After the intervention, a technocratic government was established and Nihat Erim became the prime minister.

In 1973, the general election was held and Bülent Ecevit became the prime minister from the CHP (Narlı, 2000: 113), so we can say that a new political term began both for the working class and the bourgeoisie class due to his left of center

³⁴ It was known as the 1971 Turkish military memorandum (*12 Mart Muhtırası*) which was issued on March 12, 1971.

perspective. In economic terms, ISI policies continued to dominate the agenda in those years. Yet, the economic recession began in Turkey. With industrialization, Turkey became dependent on oil, so when oil prices tripled in 1973, the imports of intermediate goods of Turkey became expensive. In addition to the oil crisis, the Cyprus military intervention in 1974 followed by the embargo imposed on Turkey created a very difficult situation concerning foreign exchange. As mentioned in the previous pages, the sudden increase in the import value was covered by the reserves accumulated through workers' remittances. Yet, in 1977, the Central Bank's gold and foreign exchange reserves were exhausted (Keyder, 1989, 39). In 1975 and 1976, the Nationalist Front coalition government³⁵ took short-term and high-interest rate debts from the Eurodollar market to postpone its current debt (Baysan and Blitzer, 1991: 274), but this caused an even worse result³⁶.

The factors that transformed the crisis of the system into a crisis of capital and eventually led the bourgeoisie to seek an appropriate solution by political means were the difficulty of maintaining the means of material production and the growth of the size of the profit squeeze. The crisis of the system in Turkey compared to other countries could be postponed for a long time, thanks to workers' remittances and short-term loans.

³⁵ The Nationalist Front coalition was established by right-wing parties, which had a group in the Parliament in order to prevent left-wing party – CHP – coming into power (Narlı, 1999: 39).

³⁶ In this borrowing method, Turkish industrialists borrowed from the European banks where there were plenty of funds with interest rates above the current rates, and the Turkish government guaranteed the repayment of these debts in dollars. Yet, borrower companies paid these amounts to the government in Turkish Liras.

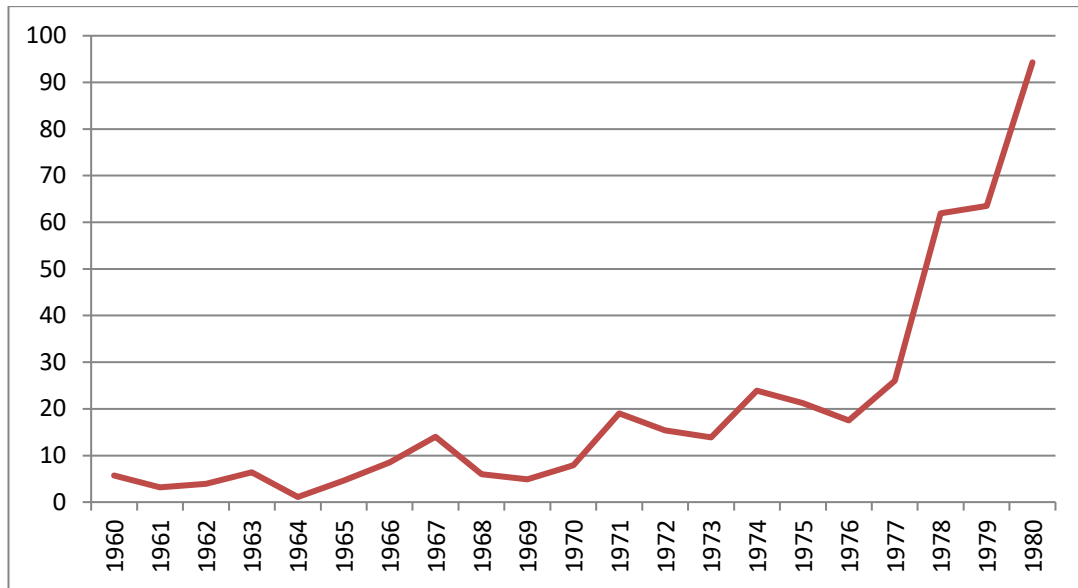


Figure 4: Inflation of Turkey, (%), 1960-1980
Source: World Development Indicators

Production stopped when inputs could not be found, but capitalists had to continue to pay fixed production costs and workers' wages. Laws prevented the arbitrary dismissal of workers, and the capitalists had to pay severance pay for the workers who were dismissed. As production began to stop frequently in factories, the bourgeoisie of the import substitution industry formed permanent lobbies against the political authority (Keyder, 1989: 231). It had become inevitable to resort to high-rate devaluations with various stabilization measures. Inflation rose dramatically in those years. It increased from 13,9 percent to 26 percent between 1973 and 1977 and it reached 94,3 percent in 1980 (Please see Figure 4). As it was mentioned, due to the economic slowdown in the world, the demand for Turkish immigrant workers got reduced in Europe, so unemployment increased seriously to 5,4 percent an average between the years 1973 and 1977 and to 10,3 percent between 1977 and 1980 (Bayar, 1996: 778). External debt increased from \$4 billion to \$19 billion between the years 1973 and 1980 (Please see Figure 5 on page 130). Turkey could not find a foreign

exchange to recover its debt. The economic growth rate turned negative in the late 1970s (Please see Figure 6).

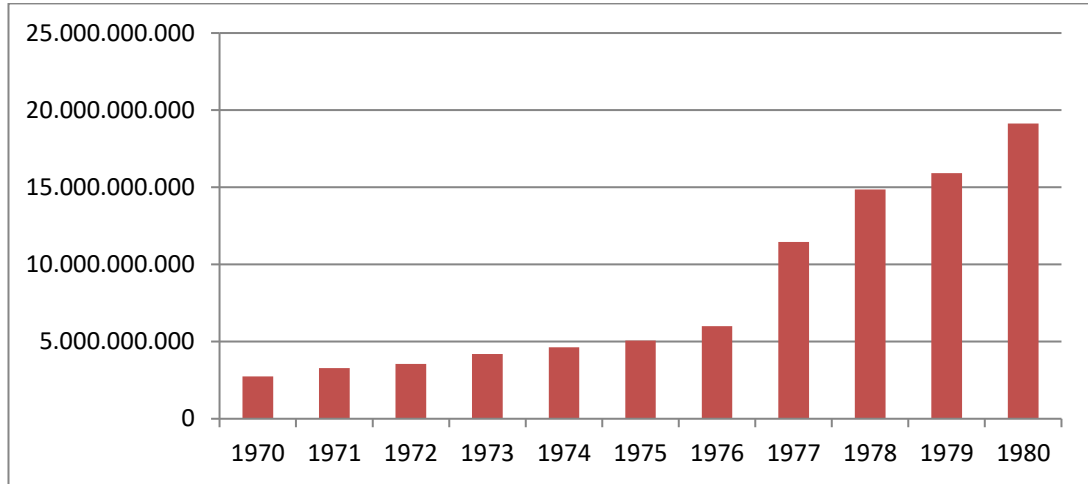


Figure 5: External debt stocks of Turkey (DOD, current US\$), 1970-1980
Source: World Development Indicators

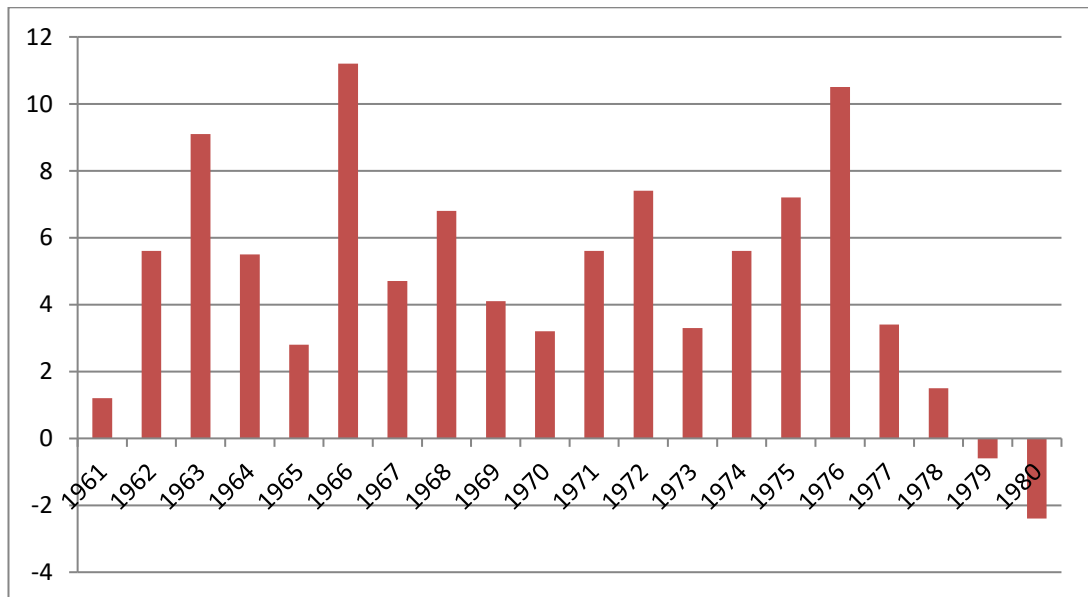


Figure 6: GDP growth rate of Turkey, (%), 1961-1980
Source: World Development Indicators

On the other hand, the period between 1970 and 1980 was significant and unforgettable for the working-class movements. The number of unionized workers increased importantly from 819.373 to 1.049.250 between 1970 and 1980 (Gürcan and

Mete, 2019: 7). The DİSK, under the Communist Party of Turkey (*Türkiye Komünist Partisi*, TKP)³⁷, organized the first Mayday event in 1976 (Gökay, 2018: 146). More people joined the next Mayday celebrations, over five hundred thousand people. The bourgeoisie was not pleased with the rise of the labor movement and the increasing number of strikes. “Workdays lost to strikes rose to approximately 19.7 thousand days in 1963. As trade unions gained power, workdays lost to strikes rose to 1.1 million days in 1974 and 1.4 million days in 1978” (Ünal and Köse, 2018: 8-9). In 1980, the number of days lost in strike activity reached to 5.408.618 days (Gürcan and Mete, 2019: 6). The Nationalist Movement Party (*Milliyetçi Hareket Partisi*, MHP) came up against the workers’ leaders and socialists. The 1970s in Turkey was marked by both political and economic tensions.

To sum up, from 1930 to 1980, the Turkish economy had several turning points. In addition to external factors, the state-capital relationship and the state-labor relationship were effective in those turning points. After the declaration of the Republic, Turkey had to use open trade policies until 1930. Then, Turkey began to implement protectionist policies as similar to the many other countries at the time, when the 1929 Great Depression occurred (Boratav, 2018: 67-69). At this point, the Turkish state took an active role to establish the industrial base. In time, Turkey became successful in creating a strong capitalist class. In the late 1940s, under the influence of the US, Turkey introduced liberal economic policies. The only political party, CHP, was seen as a representative of bureaucracy-bourgeoisie-big landowners, but there was not a class conflict in those years because the working class at the time was very weak. Thus, the Turkish government could introduce liberal economic

³⁷ TKP was established in 1920 and was soon banned. It worked as an illegal party for many years and in 1988, it merged with the TİP under the name of the United Communist Party of Turkey (*Türkiye Birleşik Komünist Partisi*, TBKP) in order to gain legal status (Gökay, 2018: 147).

policies easily, which was a benefit for the capital. Yet economic crisis occurred in a short time. As a result, by the 1960s, ISI policies were prepared by the Turkish government.

Although ISI policies brought huge economic growth to Turkey, the Turkish economy faced a profound crisis at the end of the 1970s. In those years, workers began to notice that they could influence and change the government, so a large number of workers and leftist students organized several demonstrations due to the prevailing economic crisis. However, the Turkish government used religious beliefs and prepared legislative measures to be able to restrict workers' freedom to repress the rising leftist movement. The bourgeoisie in addition attacked both labor union organizations and union rights. As a result, under the political and social turmoil, the government announced a neoliberal stabilization program in order to stabilize at least the economy.

4.3 Conclusion

Turkey and Brazil shared similar political and economic conditions. Both countries experienced important political and economic turning points at similar times. In the 1930s, the Great Depression forced countries to implement protectionist strategies. Brazil and Turkey were also among these countries. There was a weak bourgeoisie and labor class in both Brazil and Turkey in those years. By the 1950s, import-substitution industrialization policies were initiated by the Brazilian government and then in the 1960s by the Turkish government for producing certain imported goods and minimizing dependency on foreign markets. With these policies, the bourgeoisie class strengthened in both countries; whereas, the labor class tried to be kept as ineffective in order to eliminate any possible attacks to capital accumulation. However, both economies faced a profound crisis at the end of the 1970s due to the problems encountered by the ISI policies. The Bourgeoisie class both in Turkey by the

late 1970s and Brazil by the beginning of the 1980s criticized excessive state intervention in the economy. To restructure the economy, with the initiatives of bourgeoisie classes, a new economic program was accepted by Brazil and Turkey, with the support of the IMF and the World Bank. This was the beginning of the neoliberal policies in both countries.

Table 4: Economic policies and strength of classes, 1930s-1970s

	1930s	1950s	1960s-1970s
Brazil	<p>Protectionist industrialization policies</p> <ul style="list-style-type: none"> • Strong agricultural elites • Weak bourgeoisie • Weak labor class 	<p>ISI policies</p> <ul style="list-style-type: none"> • Landowners began to invest in the industry • Bourgeoisie class gaining power • Still weak labor class 	<p>ISI policies</p> <ul style="list-style-type: none"> • Strong bourgeoisie class • Stronger labor class
Turkey	<p>Protectionist policies</p> <ul style="list-style-type: none"> • Small-medium landowners • Weak bourgeoisie • Weak labor class 	<p>Liberal economic policies</p> <ul style="list-style-type: none"> • Landowners were removed from the power bloc • Bourgeoisie class strengthening • Still weak bourgeoisie class 	<p>ISI policies</p> <ul style="list-style-type: none"> • Strong bourgeoisie class • Stronger labor class

Table four summarizes economic policies and the strength of classes between 1930s and 1970s in Brazil and Turkey by taking into account the economic turning points, changes in world economic conjuncture, state-capital relations and state-labor relations. As Open Marxists stated, the state has to ensure capital accumulation as its

existence depends on this. Nevertheless, the state cannot be seen as an instrument of a particular capital fractions, and to maintain its neutrality, it may react to the interests of the working class as well. While the bourgeoisie class was strengthening in Brazil throughout the years, labor class was under the control of the state. During the twenty-one-year military dictatorship of 1964-1985, trade unionism was under state control. Yet, the military government did not abolish all forms of leftist activities and they allowed laborers to organize. On the other hand, in Turkey, the unionization movement of laborers strengthened since the 1960s. The ISI years were the strongest years of workers in Turkey, but the 1980 military coup broke the power of organized labor and the Left. The next four chapters will analyze the implementation of neoliberal policies under the Washington Consensus and AWC in Brazil and Turkey by drawing on the state-capital and the state-labor relationships.

Chapter 5

WASHINGTON CONSENSUS POLICIES IN BRAZIL

During the Monarchy years until 1889, agricultural elites dominated both Brazilian politics and economics, but industrialization after the Great Depression led to the rise of the Brazilian bourgeoisie while agriculture lost its importance in the economy by the 1930s; so as a result, agricultural elites lost their power. In those years, the labor class did not organize well yet. Throughout the years under military rule, from 1964 to 1985, the governments implemented a repressive policy. However, in the late 1970s, the labor class gained power and began to protest the military government. In addition, the bourgeoisie class was criticizing the military rule due to excessive state intervention in the economy.

The new political period, democratic civilian rule, began in 1985. In order to stabilize the economy and create growth, both the IMF and other foreign creditors proposed neoliberal policies to Brazil. This chapter aims to explain how Brazil decided to implement neoliberal policies and extended them throughout the years and how these policies were influenced by state-capital and state-labor relations. Although neoliberal policies began to be implemented by the mid-1980s, the Washington Consensus reform package was put into practice by 1990.

5.1 Introduction of Neoliberalism in Brazil

The economic recession and consequently huge social unrest brought the end of the military rule in Brazil after twenty-one years. The military regime ended in 1985 and Brazil returned to a democratic system. The working class and the middle class,

which were suppressed by the elites in the transition to military rule, were able to stand against conservative authoritarianism by making alliances during the democratization process in the 1980s (Andrews and Chapman, 1995: 18). On the other hand, it is not possible to say that there was a real and permanent alliance between the military and the agricultural elite throughout the years between 1964 and 1985. The democratization process experienced in the 1980s emerged with the support of the broad public masses, the state bureaucrats, and especially the bourgeoisie (Bresser-Pereira, 2007: 24). Therefore, the democratization process, which received the support of almost the entire society, witnessed the emergence of the country's largest political alliance. The democratic regime was easily accepted and even preferred by the bourgeoisie (Welch, 2006: 44). With the advent of the civil administration, policies were prepared to increase Brazil's ties with the global economy. The first aim was to sustain high economic growth and reduce inflation.

Tancredo Neves, who came from Vargas' tradition, was elected as the president in the 1985 free elections, but Neves died four months after his presidency. So his deputy head Jose Sarney came to power (Vanden and Prevost, 2009: 491). Sarney had a close relationship with groups that relied on the import substitution industry model and military power. In those years, the Brazilian economy had big problems such as huge poverty (please see Figure 7 on page 137), high inflation (please see Figure 8 on page 137), and high debt (please see Figure 9 on page 138).

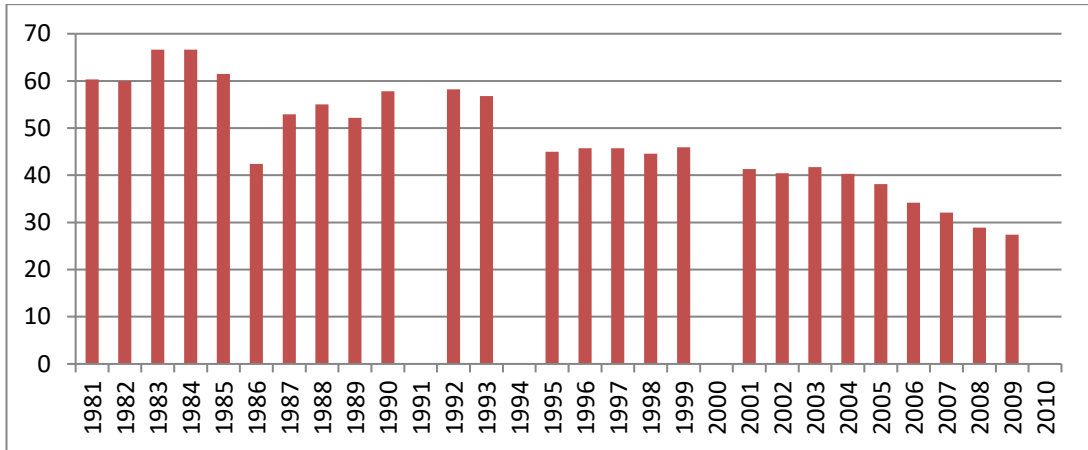


Figure 7: Poverty headcount ratio at \$5.50 a day of Brazil (2011 PPP) (% of population), 1981-2010
 Source: World Development Indicators

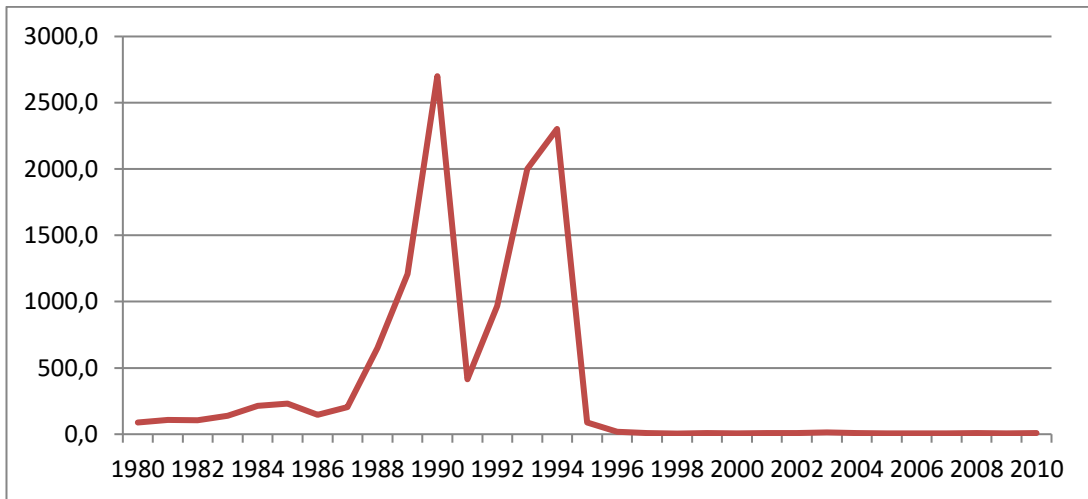


Figure 8: Inflation of Brazil, GDP deflator (annual %), 1980-2010
 Source: World Development Indicators

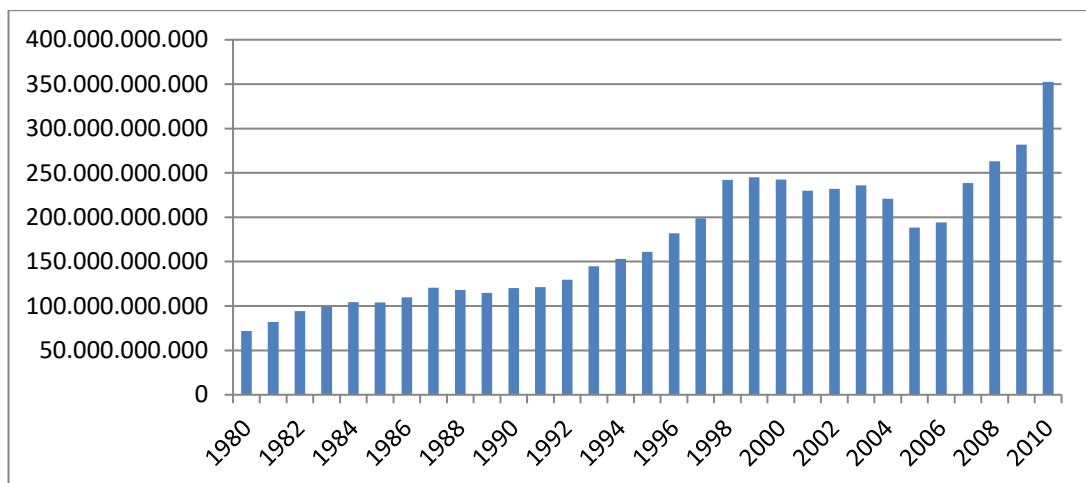


Figure 9: External debt stocks of Brazil (DOD, current US\$), 1980-2010
Source: World Development Indicators

In the 1980s, the financial irresponsibility of the federal governments and their use of local banks for their financing caused budget deficits and crises (Dalto, 2019: 15). Thus, the Sarney government sought to sustain high economic growth, implement extensive institutional and financial reforms in the public sector, and significantly reduce poverty (TMMOB, 2007: 24). The state-capital and state-labor relations are important. The struggle between the bourgeoisie and labor class determines state policies, so from this perspective, although Sarney emphasized the importance of fiscal discipline, he could not take radical steps because the support base in the Congress did not want to give up resources distributed from the center.

In order to solve the chronic inflation problem of Brazil, the Sarney administration prepared the *Cruzado Plan*³⁸ which was an anti-inflationary program in 1986 (Flynn, 1986: 115; Bresser-Pereira, 1990: 1). The plan aimed to freeze wages and prices “while increasing the income of the lowest-paid workers” (Vanden and Prevost, 2009: 376). With this plan, the exchange rate was fixed and the new currency

³⁸ Brazilian economists designed the plan by analyzing the Austral Plan which was introduced in Argentina based on same theory (Bresser-Pereira, 1990: 6).

“Cruzado”³⁹ was put into operation. The plan worked well to reduce inflation until the end of the year, but the subsequent rise in consumer spending increased inflation again (please see Figure 8 on page 137). Moreover, although the prices of the goods were frozen, the existing budget deficits of the state continued to increase, as tax revenues were not increased (TMMOB, 2007: 25).

The Cruzado Plan could not be successful, due to insufficient control and balance between frozen wages and price, lack of necessary financial arrangements, and lack of community support. As a result of this failure, Sarney appointed Luiz Carlos Bresser-Pereira as the Finance Minister. He froze prices for the second time and called this new plan the *Bresser Plan* or the *1987 Plan* (Bresser-Pereira, 1990: 7). With this plan, austerity policies were resumed and monetary adjustments were made to keep the economy under control. Big bourgeoisie, relying on domestic demand, was opposed to wage freezing and radical cuts in public spending. As a result, a moratorium was declared by the bourgeoisie in 1987, due to debt payments (Bresser-Pereira, 1991: 4).

The Sarney government, moreover, prepared the National Plan for Agrarian Reform (*Programa Nacional de Reforma Agrária, PNRA*) with the pressure of MST, PT, CONTAG, and the Catholic and Lutheran Churches (Robles, 2018: 5-6). According to this plan, it was aimed to settle 1.4 million landless peasants over four years. Furthermore, the Special Credit Program for Agrarian Reform (*Programa de Crédito Especial para Reforma Agrária, PROCERA*) was prepared by the Sarney government to encourage settled peasants to produce by supplying them credit with low-interest rates (Robles, 2018: 6). This increased the popularity of Sarney among the working class. On the other hand, the anti-agrarian reform groups within the

³⁹ Cruzado was the currency of Brazil between 1986 ad 1989.

National Constituency Assembly (*Assembleia Nacional Constituinte*, ANC) tried to use their political power in order to inhibit the implementation of PNRA and PROCERA (Robles, 2018: 7). For instance, some of these anti-agrarian reform groups in the Sarney administration who were close to the bourgeoisie were reluctant to take measures to tighten credit.

Throughout the years, the pro-agrarian reform groups noticed that the Sarney government broke their promises and began to increase land occupations. Of course, this created land conflicts between landowners and landless peasants. In four years, between 1985 and 1989, 767 landless peasants were killed (Robles, 2018: 8). It can be said that Sarney's promise of agricultural reform had not been fulfilled. Although it was aimed to settle 1.4 million landless peasants over four years, it was less than 90,000 landless rural workers who were settled. Actually, during this process, the middle and lower classes could not put pressure on the government, because they concentrated on economic problems such as inflation and unemployment (Robles, 2018: 11-12).

The policies implemented by the Sarney government led to the worsening of the economy, rather than implementing the agrarian reform (Robles, 2018: 12). There was an economic recession, high inflation, and huge budget deficits when he came to power. The only successful sector in those years was agribusiness⁴⁰, so that was why the government did not want to disrupt the interests of this sector by making radical changes in the land tenure system. However, the government also considered the wills of landless peasants. Hence, the responsibility of the agrarian reform was given to the Ministry of Agriculture, yet the Ministry did not have such an experience before, so this created bureaucratic chaos in the implementation of the PNRA and PROCERA.

⁴⁰ Agribusiness sector had a gradual growth since the 1960s (Robles, 2018: 9).

The groups, which emerged with agricultural modernization during the military rule, began to unite rapidly in the period of democratic transition (Robles, 2018: 9-10). Hence, fallow lands were “capitalized, corporatized and cultivated” (Robles, 2018: 10).

In response to the re-emergence of rural mobilization for radical agrarian reform, the old and new landholding class joined forces to defend their interests by strengthening the anti-agrarian reform forces inside and outside the ANC, in particular the vociferous Ruralist Democratic Union (*the União Democrática Ruralista, UDR*)⁴¹.

State technocrats in the BNDES were aware that the Brazilian economy was losing ground in the global economy, so they tried to prepare an economic package (Kingstone, 2009: 107-108). There was a need for a proper growth strategy. According to them, the Brazilian economy could be categorized into two sectors: competitive and modern sectors, and backward and uncompetitive sectors. It was clear that due to the disorder of the state and loss of investment capacity, the competitive and modern sectors were losing their competitiveness.

The economists in BNDES stated the need for deviation from ISI and the importance of the integration with the global economy yet following the conditions of Brazil (Kingstone, 2009: 108). The world was changing and Brazilian economists saw this as a necessity to follow up changing world trends. The target was to increase the competitiveness of the Brazilian economy by closing the gap between the modern and backward sectors. As a result of this, the Sarney government “announced a new industrial policy in 1988 that incorporated the competitive integration philosophy, including selective, limited liberalization, within its proposals, though ultimately, this incorporation amounted to little” (Kingstone, 2009: 108). Moreover, the Sarney administration reformed the domestic financial system in 1988 and liberalized

⁴¹ UDR was playing an important factor in the stalling agrarian reform (Robles, 2018: 10).

international capital flows in 1989 (Studart, 2000: 22). In the following years, Brazil began to use a flexible exchange rate regime. The implementation of these measures meant the beginning of neoliberalism in Brazil. While the Brazilian government considered the requests of the bourgeoisie and labor, it also pursued changes in world capitalism.

The new constitution of Brazil began to be written by 1987, which was promulgated on 5 October 1988⁴² (Kingstone, 2009: 109). In this process, the leftist and nationalist groups mobilized well and effectively influenced the character of the constitution. For instance, “the constitution contained articles detailing extensive social and labor rights, limiting interest rates, and closing off important segments of the economy to foreign investment” (Kingstone, 2009: 109). The new constitution continues to include nationalist and statist economic principles, yet it also created a kind of perverse fiscal federalism⁴³ that compromised the fiscal health of the state (Kingstone, 2009: 109). With the new constitution, socioeconomic issues in Brazil started to change. Vanden and Prevost (2009: 376-377) argued that “the new 1988 constitution provided liberal benefits for many formerly left out of social services and distributed a larger portion of the federal tax receipts to the states and municipalities”. It created new social rights which directly led to some social reforms. Compared to the previous constitution which had an elitist social insurance system, the new constitution guaranteed social, economic, and political rights for all Brazilians equally. The state is responsible for maintaining capital accumulation. However, it is not the instrument of individual capital groups and therefore it may sometimes have to respond to the

⁴² It is the current Brazilian constitution.

⁴³ Fiscal federalism means the division of financial relations and governmental functions between levels of government.

demands of the working class. So in this sense, social rights were extended for the continuity of neoliberal policies.

During the twenty-one-year military dictatorship of 1964-1985, trade unionism was under state control. The Sarney government adopted a conciliatory attitude rather than confrontation with the unions. In the new Constitution of 1988, by making some changes regarding trade unionism, the state control over trade unions was reduced (Menezes-Filho et al., 2008: 56). In addition, the government reduced the control over strikes and no longer interfered in the unions' internal affairs. The new constitution also gave public officials the right to organize unions. It also ensured the establishment of new labor confederations. Undoubtedly, the pressure of the current trade union movements was effective in the new regulations. The capitalist state needs to take the interests of the working class into account to maintain its neutral form and class struggle and state policy are shaped in a context defined by class struggle. The pressure of the trade unions played an important role in this result and the new Constitution gave extensive rights to labor unions. At the same time, in 1986, the PT as a leftist party increased its votes and took 16 seats in the parliament out of 487 (Mainwaring et al., 1999: 32). This was a significant gain in favor of trade unionism in the new constitutional and legal arrangements because the PT was close to unions and took an important role in social movements. For instance, it supported the landless worker's movements and struggled against the military rule with labor organizations (Almeida et al., 2000: 26).

Although the Bresser Plan seemed initially more successful, the plan collapsed once again with demands for decentralized distribution prevailing and with increases in wages of public employees and transfers to state-owned enterprises. The Sarney administration once again changed the Finance Minister and preferred to use a more

superficial program that did not include deep structural reforms. As expected, in an environment where inflation continued to increase, workers' wages declined (Bresser-Pereira, 1990: 17). Of course, this increased discontent with the government. With the new plan called *Plano Verao* in 1989, the government introduced relatively easier measures such as freezing wages, stopping indexation of wage and price, introducing a new currency (*Cruzado Novo*)⁴⁴, taking measures to prevent monetary and credit expansion, and devaluation of money (Baer, 2008: 177). However, the plan quickly became unsuccessful, as it failed to deliver a solution to public finance and structural problems. Moreover, the other problem was exacerbated when the new constitution of 1988 brought more resources from the central government to the states.

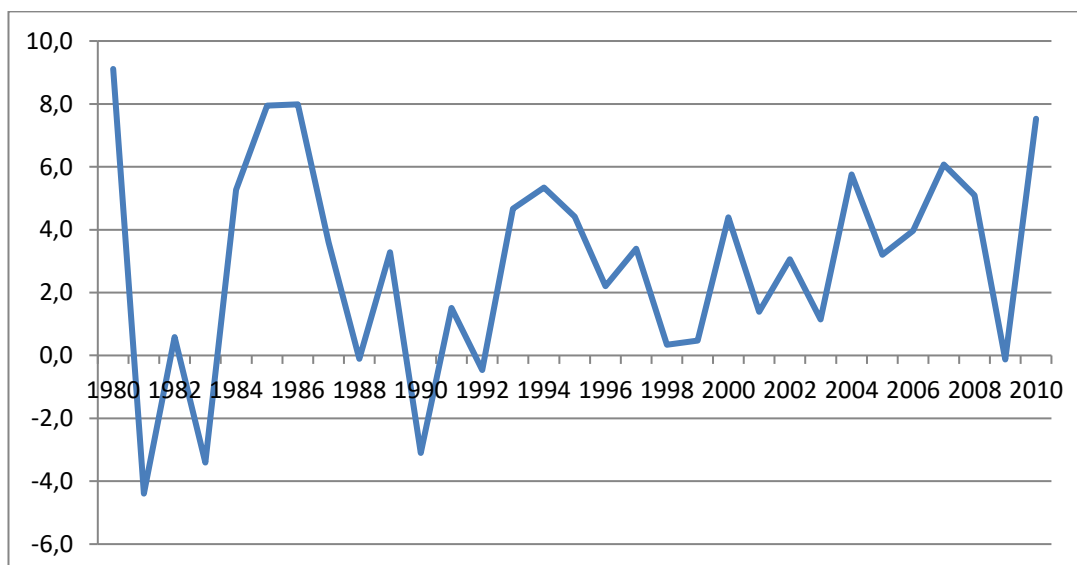


Figure 10: GDP growth of Brazil (annual %), 1980-2010
Source: World Development Indicators

The 1980s passed with low and unsteady growth (Please see Figure 10). By the late 1980s, inflation increased dramatically from 204,1 percent to 1.209,1 percent between 1987 and 1989 (Please see Figure 8 on page 137). Moreover, during the

⁴⁴ It was the currency of Brazil between 1989 and 1990.

1980s, Brazil had a huge debt problem (Please see Figure 9 on page 138), while having fewer reserves (Please see Figure 11). Many strikes in 1988 and 1989 were organized against the bad economic conditions (Hunter, 1995: 425). In 1985, 48,8 million days were lost in strikes; whereas, in 1988, 63,5 million days were lost (Rodrigues and Child, 2009: 46). In the four years, the Sarney government prepared three economic plans, which were put into practice consecutively; none of them achieved success, because of a lack of political ability to implement those plans. In addition to bourgeoisie class, workers also began to express their demands through trade unions.

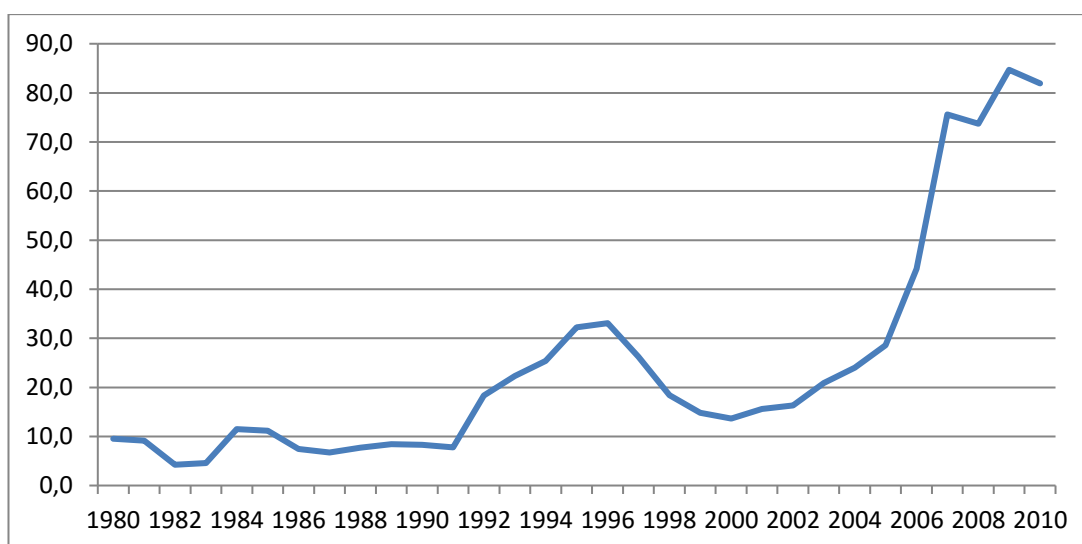


Figure 11: Total reserves of Brazil (% of total external debt), 1980-2010
Source: World Development Indicators

5.2 Washington Consensus policies in Brazil

The 1989 presidential election was held on November 16, 1989 (Robles, 2018: 11). After the first round, two candidates Fernando Affonso Collor de Mello⁴⁵ and Luís Inácio Lula da Silva⁴⁶ qualified for the second round. Although Collor and Lula had

⁴⁵ Collor de Mello was the candidate of the National Reconstruction Party (*Partido da Reconstrução Nacional*, PRN). He was the son of the elite northeastern family, offered neoliberal policies.

⁴⁶ Lula da Silva was the candidate of the PT. He was a labor leader, offered policies on nationalism and socialism.

different ideologies and came from different economic classes, both candidates mainly concentrated on the middle and lower class voters. Collor used the PNRA in his election campaigns and gave a promise to implement the reform; on the other hand, Lula gave a promise for radical agrarian reform (Robles, 2018: 10). The Brazilian bourgeoisie was afraid of a radical socialist coming to power, so they were supporting Collor. Collor used this support and manipulated the media against Lula to influence middle and lower-class voters (Robles, 2018: 11). “Until 1989, the country experienced a succession of general strikes, such as the one in March that year involving some thirty-five million workers, the largest and best supported general strike in the history of industrial relations in Brazil (Antunes, 2012: 258). In the end, Collor became successful by influencing the poor with the promise of combating inflation and the bourgeoisie with his neopopulist attitude (Kingstone, 2009: 110). As a result, he was elected as the president.

Right-wing politics created disconnection and pressure in society. In response to this established relationship, Brazilian politicians increasingly distanced themselves from the right after democratization. The painful experience of the military administration associated with the right pushed the parties to present themselves as left-wing or centrist (Cardoso, 2012: 71). In this process, even though parties envisioned themselves to implement right-wing programs, they avoided expressing the right-wing discourse in order not to be associated with the legacy of the authoritarian military rule politically (Cardoso, 2012: 71-72).

Although four different plans were implemented between 1985 and 1990, economic growth did not occur. Funding sources could not be found during this process. Despite the increase in exports and the surplus of foreign trade, the problem of financing in the economy could not be solved due to foreign debt payments and

capital outflow. It can be said that there was a significant decrease in external debt, yet the ratio of short-term debt to total debt increased, due to the need for financing. The Collor administration, which came to power under these circumstances, showed its intention to solve the economic problems with the 1st Collor Plan in 1990 (Kingstone, 2009: 110).

The 1st Collor Plan restricted bank withdrawals by freezing 80 percent of the money supply of Brazil (Kingstone, 2009: 110). The industrial bourgeoisie had two different views about the Collor Plan. Firstly, they understood that a tariff reduction was necessary for opening the economy. Secondly, they were aware that trade liberalization could lead to de-industrialization without macroeconomic stability and complementary policies (Kingstone, 2009: 111). The support of industrialists depended on the improvement of the state's fiscal health, yet there was little progress. With the implementation of the plan, a huge cash shortage emerged, so the government had to unravel the financial assets which were frozen (Fleischer, 1997: 5).

With the Collor plan, inflation began to decline gradually (Please see Figure 8 on page 137). Of course, this increased the popularity of Collor among Brazilians. By using this popularity, he uncovered his neoliberal agenda that included privatization and deregulation policies, cuts in government spending, and trade liberalization (Kingstone, 2009: 111). Actually, Collor was interested in neoliberal policies, so he aimed to transform the country from a state-led development model to a market-led development model (Robles, 2018: 11). In this sense, the economy needed to be restructured by certain economic reforms. On March 15, 1990, Collor announced the neoliberal agenda in the National Congress by emphasizing “the suspension of all government subsidies and incentives, more taxes, progressive reduction of import barriers and privatization of many government-run corporations” (Long, 1990: 1).

In short, this agenda aimed at an open economy, privatization, deregulation, liberalization, and reducing expenses, which directly means Washington Consensus. Brazil under the influence of the World Bank and the IMF began to implement Washington Consensus principles. On the other hand, it is important to state that the implementation of those principles was under the influence of internal dynamics as well, that is why the implementation of those principles could be differentiated in different countries. It can be said that the state bourgeoisie and state-labor relations were determinative in the implementation of those principles. During those years, in Brazil, the bourgeoisie class supported Collor's neoliberal agenda because it complied with their interests. Workers also obeyed the neoliberal economic policies of Collor's administration in the first instance due to reducing inflation.

Privatization was the primary policy of the Collor government. A comprehensive privatization program started with state-owned chemical and steel industry enterprises (Amann and Baer, 2002: 948). The National Privatization Program (PND) was approved by Congress. Yet, "foreign participation in privatized public enterprises was at first limited to 40 percent of voting capital and unlimited for nonvoting capital, and the maximum discount for debt conversion was set at 25 percent" (Baer, 2008: 230). From 1990 to 1994, many state institutions, especially in the steel, petrochemical, and aircraft sectors, were sold to the private sector (Ter-Minassian, 2012: 21). In addition, the Collor administration, invited foreign companies to invest in Brazil (Anner, 2007: 19). As mentioned in chapter four, foreign investments had begun in the automobile industry already by the 1960s.

Trade liberalization was one of the most important policies among the principles of the Washington Consensus in the Collor administration. It was considered as a shock therapy by Collor to fight hyperinflation. The Collor government

aimed to reduce tariffs within four years by falling tariffs first for basic inputs and capital goods and then heavily protected consumer goods sectors, such as automobiles. In this way, Brazil would be ready for a competitive global economy. Capital goods and equipment were not produced locally, so immediately the Collor government reduced their tariffs to 0 percent (Kingstone, 2009: 111). Thus, they reduced the barriers which had protected Brazilian industry from foreign competition. Yet, “Collor pursued a significant, unilateral trade liberalization that included a reasonable adjustment timeframe for domestic producers” (Kingstone, 2009: 111). In this sense, Collor’s trade liberalization was different than drastic Latin American trade liberalizations, including Chile and Argentina in the 1970s.

Commercial liberalization, initiated in a much more cautious manner under President Sarney, gained a much stronger dynamic with the Collor administration. As these reforms sometimes hurt certain segments of the bourgeoisie, they encountered significant resistance. However, this approach, which reduced the weight of the public in the economy, increased the importance of the bourgeoisie and brought private property to the fore.

With the freezing of financial assets, the economy shrank by 7,8 percent in the second period of 1990. However, when a step back was taken, the economy began to recover, while inflation began to increase at the same time. In such an environment, the 2nd Collor Plan emerged in 1991, as a program to prevent the long-term spread of overnight deposits and inflation indexing (Schneider, 1991: 334). With this new program, governmental spending and investment on education, health, workers and social development was also reduced. Moreover, the attempt to freeze prices received strong backlash from the private sector. The new program also included steps for privatization. Hence, public finances were improved; both by the cash flow from

privatization attempts and by suppressing wages (Kaynak, 2012: 157). For fiscal discipline, the Collor administration cut social spending⁴⁷ to reduce public spending (Afonso et al., 2016: 45) and sought to downsize the public personnel (Valença, 1998: 34). Yet, both the Constitution and Congress tried to prevent the cuts in spending by firing public servants. Furthermore, Collor removed agrarian reform from his agenda to move forward with the neoliberal policies. The Bourgeoisie class was effective on this decision.

However, Collor's economic plans became unsuccessful in solving economic problems (Robles, 2018: 12). According to some economists, the biggest factor in the failure of this plan was its extremely complex structure (TMMOB, 2007: 25). Although the Plans created a huge fiscal and monetary adjustment, they failed to neutralize inflationary inertia (Bresser-Pereira, 2007: 26). Despite inflation declined from 2.700,4 percent to 414,2 percent between 1990 and 1991, it again started to increase and reached 968,2 percent in 1992 (Please see Figure 8 on page 137). The Collor government failed to control inflation, yet it had successfully changed the direction of the Brazilian economy (Kingstone, 2009: 112).

Bourgeoisie had to negotiate with the government in order to pay salaries and taxes and spend the necessary expenses. Thus, a tight dependency relationship between the bourgeoisie class and the government was formed. It was alleged that in the negotiations, Paulo Cesar Farias, who gave fiduciary service to Collor, had significant financial gains for himself, and the President, and his family (Valença, 1998: 49; Flynn, 1993: 363). Furthermore, as a result of the privatization program being carried out by decree-laws within the framework of the authority given by the parliament, Collor transferred the state-owned banks and industrial enterprises to the private sector

⁴⁷ Federal social spending during the Collor administration reached its low rate in the 1990s (Baumann, 2002: 95).

in return for agricultural debt securities without any market value. To oppose O Globo⁴⁸, which had reservations about President Collor's policies, Collor and Farias began to buy rival media companies (Flynn, 1993: 357). However, this situation caused an investigation process and street protests that would lead the parliament to act against Collor (Kingstone, 2009: 112). As a result, Parliament impeached Collor after a bribery operation in 1992 (Flynn, 1993: 351).

Itamar Franco, who was known to be openly against market reforms and privatization, became the president in 1992 after the impeachment of Collor. He did not announce the continuity of neoliberalism in the economy, but he also did not share an alternative plan or agenda (Novelli and Galvao, 2001: 7). It can be said that Franco slowed down the neoliberal policy program by considering the discontent that arose both in the trade union front and in the public sector. He also appointed a unionist to the Ministry of Labor to reconcile with the trade unions (Flynn, 1993: 367). However, these efforts of Franco, particularly in wage policy, did not correspond to the demands of the trade unions. Both Collor and Franco sought a compromise with the unions, so they began an unconditional negotiation with the most powerful trade union CUT on the neoliberal policies and working life. CUT saw that realpolitik is not in the class struggle, but in the practice of cooperating between stakeholders, government, and employers, but no result had been received from this convergence and cooperation (Mahiroğulları, 2016: 91).

The new administration specified a tariff reduction schedule and promoted non-tariff barriers under the conditions on the requirement of companies on their needs of foreign products, and the requirement of prior consent from agencies to be able to import certain products. Furthermore, Franco reduced tariffs and trivialized foreign

⁴⁸ It was the largest media group in Brazil.

products; in addition, he increased the price of domestic products by removing tax incentives, canceling particular import regimes, and removing the possibility to apply a portion of income tax based on investment funds (Novelli and Galvao, 2001: 8). Franco could not keep away from neoliberal policies and reformed Brazil's trade policies by considering capitalist development. This satisfied capital of Brazil.

Although Franco was at first reluctant to implement the privatization program, after a short time, he decided to continue with the same program, but with a difference by allowing for unlimited participation of foreigners (Baer, 2008: 4). Any state-owned companies were privatized during his presidency. Steel, fertilizer, and petrochemicals were the main areas to be privatized. For example, from the steel sector, Acesita, which was started to be privatized by the Collor administration, was privatized completely in this period. Furthermore, the National Steel Company (*Companhia Siderurgica Nacional*, Cosipa) was privatized in 1993. After the steel sector, privatization began both in the petrochemical sector and the fertilizers sector. In fact, four petrochemical companies and three fertilizer companies were privatized (Novelli and Galvao, 2001: 9).

The biggest problem of the Franco government was instability. Inflation was fluctuating in the 15-30 percent monthly range and it was still so high (Please see Figure 8 on page 137). It would be right to state that the most important decision of Franco was the appointment of Fernando Henrique Cardoso, who later became the President, as the Finance Minister in May 1993. Cardoso prepared a new stabilization program which was called the Real Plan (*Plano Real*) to create the lowest inflation in Brazil (Gaetani and Heredia, 2002: 11). Although the inflation problem was a priority of Brazilian leaders throughout the years, they could not be successful to solve this problem. With the lessons learned from the failure of the previous program, Cardoso

launched a program of persuasion rather than a gradual and top-down program while continuing with market reforms. He succeeded in implementing a much deeper privatization and liberalization program, as well as a transformation that strengthened the dominance of the international and deepening the bourgeoisie class while weakening the power of trade unions.

The Real Plan was based on tightening public spending, making tax collection more effective, and controlling state budgets. The first aim was “to promote a cut of approximately US\$6 billion in the 1993 budget” (Novelli and Galvao, 2001:13). The plan also aimed at fiscal reorganization. In this way, the Social Emergency Fund could be created. In addition, the third aim was monetary reform which had two stages. In the first stage, a new indexing mechanism – the Real Unit of Value – would be created and universalized. Then, in the second stage, the Real Unit of Value – *the Real* – turned into the new currency as US\$1.00=R\$1.00 (Novelli and Galvao, 2001: 13). In this way, without wage or price freezes, Cardoso aimed to reduce inflation. At the same time, he aimed to control the balance of payments and the budgets of the federal government and the states (Schwartzman, 2000: 40).

As stated, the Real Plan was prepared for further consolidation of the neoliberal transition. This plan included key neoliberal policies such as high-interest rates, capital account liberalization, and privatization, so on. role of the Brazilian state in the economy began to decrease since the end of the 1980s. Furthermore, privatization and liberalization of trade, finance, and capital account were already implemented by the beginning of the 1990s. The Real Plan was prepared to organize these policies methodically and eliminate high inflation and the relics of the previous policy processes of import substitution industrialization (Saad-Filho and Morais, 2000: 23).

In detail, the Real Plan had five economic policies (Saad-Filho, 2007b: 20). The first one was trade liberalization. The argument was that local firms had to compete against foreign producers. In this way, they could increase their productivity. The second policy was exchange rate overvaluation. This policy could raise the effect of trade liberalization on inflation and competitiveness. The third policy was domestic financial liberalization. It was believed that it is possible to increase savings and find funds for investment with the deregulation of the financial sector. Fiscal reforms were the fourth policy in the Real Plan to control the budget deficit. These reforms included privatizations, expenditure cuts, and tax increases. The last policy was the liberalization of the capital account of the balance of payments. With this policy, foreign savings could be attracted and modern technology can be caught. These were all reform policies of the Washington Consensus. It can be said that Washington Consensus in Brazil was deepened in this period. The bourgeoisie class welcomed those policies while the labor class kept silent.

Furthermore, it was stated in Washington Consensus that a high interest rate is the main way to reduce high inflation. The Brazilian interest rates increased substantially in 1992 with the liberalization of capital account of the balance of payments (Mollo and Saad-Filho, 2006: 103). With the Real Plan, Brazil increased its interest rate further⁴⁹. The high interest rate influenced foreign capital to choose Brazil for investment. Thus, during the early and the mid-1990s, there was a high inflow of foreign capital (Mollo and Saad-Filho, 2006: 104). This of course caused an overvaluation of the Brazilian currency. The Brazilian authorities used this overvaluation as an advantage to promote the influence of import liberalization⁵⁰. For

⁴⁹ Although Brazil started to reduce its interest rate after the 1999 crisis, they had the highest rate in the world for a decade.

⁵⁰ Mollo and Saad-Filho (2006: 104) emphasize that currency overvaluation and import liberalization were the key functioning policies of the Real plan.

instance, import tariffs on autos decreased from 85 percent to 34,3 percent between 1990 and 1994 and it continued to decrease during the 1990s (Anner, 2007: 31). Competitive pressure on the automobile manufacturers caused them to use outsourcing to be able to increase competitiveness and reduce costs (Anner, 2007: 31). In addition, Real Plan also stabilized prices and dropped the nominal fee for investors, so in this way, there was an increase in consumption as well (Novelli and Galvao, 2001: 14; Amann and Baer, 2002: 954-955).

Brazil's democratization and economic reform programs were not started simultaneously. Although Brazil returned to democracy in 1985, the implementation of economic reform programs started in the 1990s, and a successful stabilization program was initiated barely with the Real Plan. The Plan became successful in reducing the chronic inflation rate strictly from 2.001,3 percent to 89,5 percent between 1993 and 1995 (Please see Figure 8 on page 137). Despite reducing the high inflation rate expeditiously, neoliberal policies created further problems for the labor class such as informality, unemployment, and limitation to wage growth (Maia and Menezes, 2014: 214).

The success of the Real plan helped Cardoso to be elected in the 1994 presidential elections from the Party of Brazilian Social Democracy (*Partido da Social Democracia Brasileira* – PSDB). The Bourgeoisie class supported Cardoso due to his successful economic policies. The international political and economic context also supported Cardoso's victory (Robles, 2018: 16). Although the labor class benefited from the reduction of inflation through Real Plan, they did not support Cardoso in the presidential elections. In fact, after the election, Cardoso continued to use the same economic policies which created economic stability in Brazil such as decentralization, privatization, deregulation, and liberalization policies under the influence of the

Washington Consensus which were welcomed by the bourgeoisie class. In addition, by considering the interests labor class, he began to concentrate on social programs, especially in his second term. This situation can be evaluated as follows; to sustain neoliberal economic policies, Cardoso provided policies to the labor class to neutralize critiques against his economic policies and gain their supports as well.

There was a belief that the mismanagement of monetary policy causes always an increase in inflation (Mollo and Saad-Filho, 2006: 101), so it was important to prepare healthier policies in the monetary system. At the end of 1994, the foreign exchange crisis in Mexico and Argentina made it clear that there were limits in the monetary stabilization strategy (Novelli and Galvao, 2001: 15). In order to restrain such a crisis, Cardoso took precautions such as:

Raising the interest rate to contain capital flight; devaluing the real and creating a foreign-exchange band within which the currency would fluctuate; increasing the mandatory deposits of banks; reducing the consortium term and the number of payments for installment purchases; increasing the import-tax quota, the export incentive, and the entry of speculative capital via a reduction in or exemption from the tax on financial transactions; establishing import quotas on automobiles; and cutting the budget (Novelli and Galvao, 2001: 14-15).

Fiscal discipline constituted the main policy of the Washington Consensus. The main way to cut the fiscal deficit is either increasing public revenues or reducing public expenditures. Cardoso increased taxes and cut spending to be able to reduce the fiscal deficit of Brazil. Although it is believed that fiscal deficit could be reduced through cutting governmental spending, the labor class was against reducing governmental spending on social policies. Cardoso also consolidated exchange rates to sustain price stability, control government spending, encourage exports and increase foreign investment (Robles, 2018: 16). He decided to use a pegged exchange rate system. This meant that “the real was to be devalued only by 7,5 percent a year against the dollar”

(The Economist, 27th March 1999: 3). In this way, inflation continued to fall (Please see Figure 8 on page 137).

Furthermore, the Brazilian financial system is certainly different from some other Latin American countries. Brazil has a mixed financial system. For example, banks are controlled 50 percent by the government, 25 percent by Brazilian families, and 25 percent by international banks (Novelli and Galvao, 2001: 15-16). According to Cardoso, this financial system of Brazil could be seen as an advantage for economic growth.

Despite opposing criticism and social movements⁵¹ by laborers, Cardoso focused, especially on privatization. He prepared many privatization programs. Many public firms such as aluminum, steel, mining, petroleum, and petrochemicals were privatized during his period. In addition, Cardoso opened sectors such as telecommunications, electricity, ports, railways, and highways into privatization (Valença, 1998: 42). “In the last half of the 1990s, privatization was also extended to include firms that were owned by individual states and municipalities” (Baer, 2008: 230). This means that the bourgeoisie class grew more and gained more strength during this period. In this way, throughout the years in the Cardoso’s period, many Brazilian companies were internationalized.

Brazil joined Mercosul in 1994 which was a free trade agreement between Argentina, Paraguay, and Uruguay, due to the trade liberalization of the Washington Consensus. As a result, regional barriers disappeared for trade and investment. However, Mercosur was used by the Cardoso government to be able to increase

⁵¹ In 1995, Cardoso suppressed the strike of the oil workers by the soldiers. In the rural areas of the Eldorado, Corumbiara and Carajas regions, the Landless Movement which was organized by the Landless People by took the support of the MTS occupied lands (Mahiroğulları, 2016: 92). Many massacres came to exist; whereas, Cardoso did not even make serious investigations to investigate the massacres of the peasants. In fact, Continuation of privatization pushed the unions into action. Number of strikes and the number of loss days in 1994 and 1995 increased.

external common tariffs and ensure protection for many industrial goods. From 1995 to 2002, tariffs were raised fundamentally (Kingstone, 2009: 115). Actually, this gave benefits, especially to domestically oriented industries.

With neoliberal policies, FDI was allowed as well. FDI inflow increased dramatically, especially after the Real Plan (Please see Figure 12 on page 159). It “stagnated in the early 1990s, averaging US\$1.3 billion a year, only gaining momentum after 1994, reaching US\$4.4 billion in-1995, US\$10.7 billion in 1996, US\$19 billion in 1997, and US\$28.6 billion in 1998” (Baer, 2008: 205). There were three factors of this dramatic increase in FDI inflows. Firstly, the Real Plan provided ground for foreign corporations by reducing the volatility of prices which directly decreased business costs (Baer, 2008: 8). Secondly, privatization was the other important factor in the rise of FDI inflows in Brazil. In the early years of privatization, foreign capital was only 5 percent of total privatization and this increased to 35 percent in 1997⁵² (Baer, 2008: 14). Thirdly, the involvement in Mercosul also increased the attention of multinational corporations in Brazil.

⁵² Until 2005, foreign investment constituted 36,4 percent of total privatization (Baer, 2008: 14).

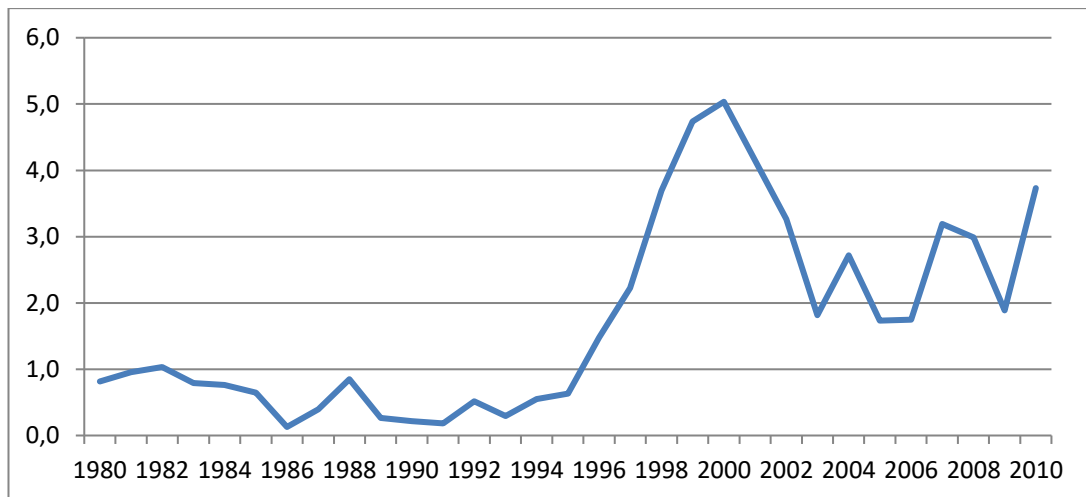


Figure 12: Foreign Direct Investment, net inflows of Brazil (% of GDP), 1980-2010
Source: World Development Indicators

As a consequence of neoliberal trends, Brazil also made some changes in its legislation regarding foreign capital. For instance, the constitution was modified to eliminate the discrimination between Brazilian companies as a resident and non-resident ownership. As a consequence, many foreign firms began to invest in the sectors such as mining, petroleum, transportation, telecommunications, and electricity which were controlled by domestic private or state firms (Baer, 2008: 15). Furthermore, the Brazilian government introduced nondiscrimination in tax treatment. Previously, there were higher taxes on profit distribution to nonresidents. Moreover, in order to attract foreign investment, the depositary receipts mechanism was created and foreign involvement was accepted also in stock exchanges (Baer, 2008: 18).

Cardoso had to take several measures to have sufficient reserves. In this way, macroeconomic stability was sustained, but these measures created some other problems for Brazil. At the beginning of the 1990s, “financial liberalization, the privatization of most state-owned banks and the internationalization and consolidation of the financial institutions would increase the efficiency of the financial sector, raise the savings rate and improve the availability of funds for long-term investment” (Mollo

and Saad-Filho, 2006: 110). However, in practice, there was a decrease in the savings and investment rates. For instance, in order to maintain foreign capital inflows, the Cardoso government concentrated on renewed privatization policy and high real interest rate policy. Yet, “high real interest rates discouraged investment”, appreciated the currency, and increased public sector debt (Kingstone, 2009: 115; Mollo and Saad-Filho, 2006: 108). In addition, due to an overvalued currency, exports reduced and imports increased, trade balance and current account shifted from surplus to deficit, which directly negatively influenced domestic industry (Please see Figure 13). This practice especially affected negatively the bourgeoisie class which exported products abroad.

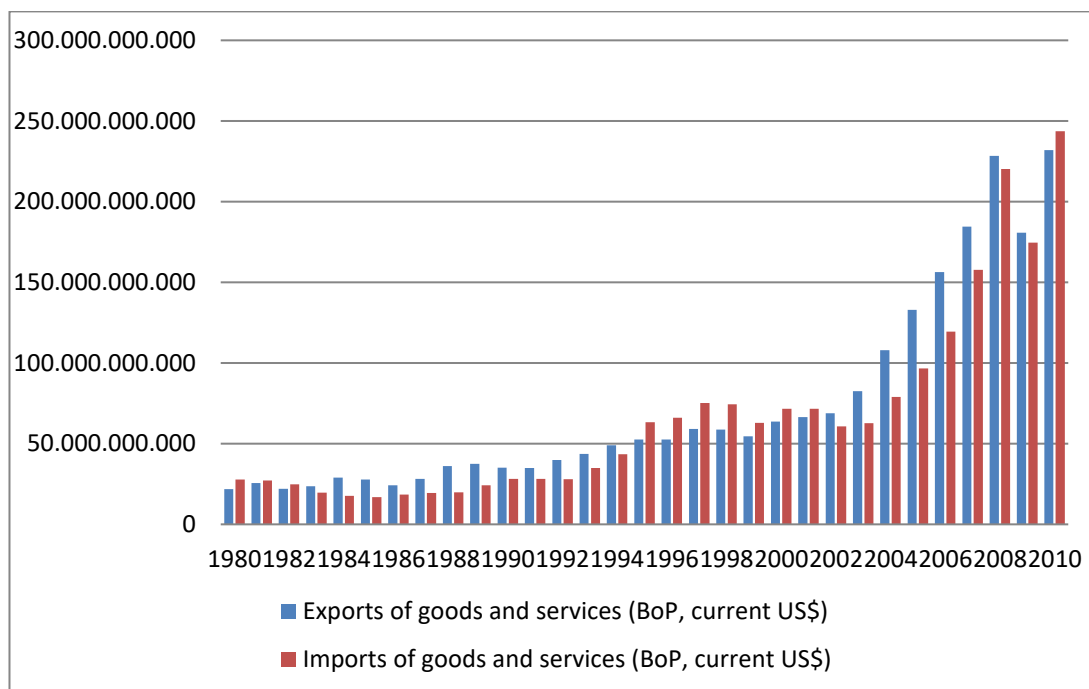


Figure 13: Exports and Imports of goods and services of Brazil (BoP, current US\$), 1980-2010

Source: World Development Indicators

Furthermore, an exchange-rate overvaluation in the years between 1994 and 1998 caused substantial changes in the industrial structure of Brazil such as a reduction

in producing raw materials and components in national companies (Novelli and Galvao, 2001: 17). With Cardoso, the industrial sector increased its importance compared to the agricultural sector. The government prepared an industrial policy for the auto sector which led to an increase in tariffs on imported vehicles and incentives to encourage exports from the sector (Kingstone, 2009: 115). Tariffs on several other important sectors and products also increased. Yet, these protectionist policies did not mean a return to state-led and inward-oriented development. The Cardoso government can be categorized into two in terms of trade and industrial policy. On the one hand, there was a neoliberal approach by Finance Minister Pedro Malan and on the other hand, the Minister of Planning, Jose Serra, supported a more nationalist competitive integration perspective (Kingstone, 2009: 115). The neoliberal view was stronger. While implementing neoliberal policies, it was also aimed to establish a strong domestic industrial sector and companies.

Land reform in Brazil was discussed for many years. The Cardoso government also put it into the agenda. There were many landless peasants, so by enacting a land reform, he tried to provide income for them. In this sense, he was aware that it required considerable public investment (Robles, 2018: 17). In 1994, US\$0.4 billion was used for land reform, and in 1995, the Cardoso government used US\$1.3 billion (Deininger, 1998: 23). In addition to neoliberal policies, the government tried to provide policies to improve the conditions of landless peasants. In this way, Cardoso could neutralize critiques from the labor class while implementing neoliberal policies, and gain their supports without facing any attacks.

The government used US\$30,000 per person for land reform, but this was costly and the procedure was lengthy and bureaucratically cumbersome. So, Cardoso changed the procedure of land reform. Agribusiness groups increased the number of

their representatives in the Chamber of Deputies after the 1994 general elections, so this defended agribusiness interests (Robles, 2018: 12). Thus, Cardoso prepared his agrarian reform without consultation with the landless rural workers in 1996, called National Program for Strengthening Family Farming (*Programa Nacional de Fortalecimento da Agricultura Familiar*, PRONAF). According to the new mechanism, “land is selected by community groups on a willing seller-willing buyer basis” (Deininger, 1998: 20). In this way, Cardoso aimed to decrease the price of land. In order to coordinate the agrarian reform projects better, Cardoso established the Ministry of Agrarian Development (Ministério do Desenvolvimento Agrário, MDA) in 1999 (Robles, 2018: 18).

On the other hand, the MST was not pleased with Cardoso’s attempts. They did not find it sufficient, so the MST increased its mobilization through a national campaign for agrarian reform (Sandoval, 2007: 80). First, a march was organized in Brasilia⁵³ for protesting recessionary government policies and demanding agrarian reform. Then, such demonstrations were organized in the other cities as well. The MST had an active role in mobilizing the rural and urban workers against neoliberal policies. The MST continued its action against the government and combined its power with the CUT, the Catholic Church, and opposition leftist political parties such as PT and PSB (Sandoval, 2007: 81). This shows how the labor class tried to unite and show up their requests.

In order to neutralize labor movements and sustain neoliberal reforms, Cardoso decided to focus on social areas and provide policies that were welcomed by laborers. For instance, Cardoso focused on unemployment insurance and created a new system. It was not a big system, but it is true to say that many Brazilians benefited from this

⁵³ Brasilia is the federal capital of Brazil.

insurance. In 1995, nearly, 4.5 million people who lost their jobs benefited from unemployment insurance. To be more precise, this insurance system helped about 60 percent of the total unemployed in the same year (Schwartzman, 2000: 51).

There was also huge inequality in education. The Cardoso government prepared a program for basic education, called Basic Education Maintenance and Development and Teachers' Fund (*Fundo de Manutenção e Desenvolvimento do Ensino Fundamental e de Valorização do Magisterio – Fundef*) in 1996 to provide funds for primary education (Almeida, 2005: 8-9). The 40 percent of Fundef spending went to schools and 60 percent went to teachers' salaries (Almeida, 2005: 8-9). In general, there was a good improvement in Brazil in terms of social conditions. This created a positive environment in Brazil to support Cardoso's policies. In addition to the bourgeoisie class, the labor class also began to see the benefits of his policies through the improvement of social conditions.

In the first years of the administration of Cardoso, the economy was good. As a result of Cardoso's economic policies, Brazil's currency, the Real, became strong and stable. During this process, there was positive economic growth compared to the beginning of the 1990s (Please see Figure 10 on page 144). In this process, inflation continued to go down (Please see Figure 8 on page 137). The bourgeoisie class benefited from neoliberal policies and their positive results in this period. The labor class was also satisfied with economic growth.

Although there were 9.833 trade unions in Brazil by the late 1980s, this number increased to 15. 972 in 1995 (Antunes, 2012: 258). There was an average of 2.200 strikes in a year during the second half of the 1980s, yet from 1991 to 1997, the annual average reduced to 930 (Boito and Marcelino, 2011: 62). Although there was a restrictive labor code on union organization in Brazil during the military rule

(Menezes-Filho et al., 2008: 56), the current Brazilian Constitution which was written in 1988 after the military regime, guaranteed social, economic and political rights for all Brazilians equally. Furthermore, it reduced the control over strikes and interference in the unions' internal affairs (Menezes-Filho et al., 2008: 56). In fact, the end of the military regime and bad economic conditions were the main reasons of the strikes throughout the late 1980s.

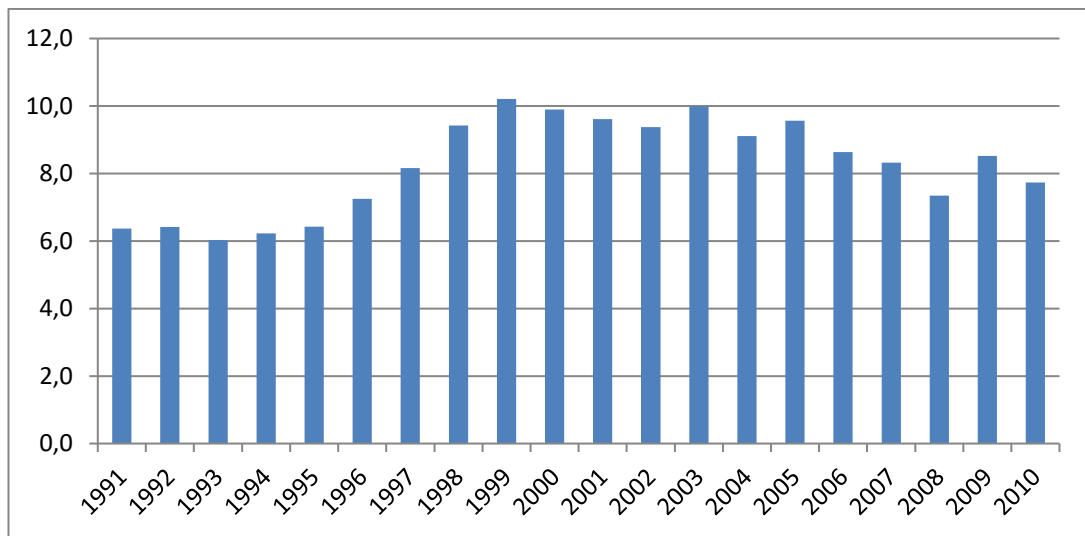


Figure 14: Unemployment of Brazil (% of total labor force), 1991-2010
Source: World Development Indicators

The unemployment rate increased from 6,1 percent to 9,4 percent between 1994 and 1998, despite positive growth (Please see Figure 14). It can be said that the economy could not provide new jobs. During the import substitution industrialization periods in Brazil, the working areas of domestic private, state, and foreign capital were separated from each other to a certain extent. Domestic capital focused on fast-moving consumer and investment goods. Foreign capital produced durable consumer goods. The state, on the other hand, focused on businesses that required large capital investments such as steel, electricity, telecommunications, oil, transportation, ports, as well as infrastructure. The neoliberal reform program brought about the privatization

of many of these state institutions. However, during this stage, there was a decline in the number of stable and good-paying businesses. Companies only focused on increasing their productivity to be able to survive. But overall, it was seen that the industrial base narrowed and unemployment increased.

In Latin America, voters tended to punish low growth rates, high unemployment, and declining incomes in elections. However, if the reform program was successful, the ruling party was rewarded. Cardoso was reelected in the 1998 elections against Lula and Gomes by getting 53 percent of the votes, thanks to his success in controlling inflation in Brazil (Vanden and Prevost, 2009: 503-504). Cardoso's policies worked well in the beginning, but then problems began. This was certainly related to the nature of Washington Consensus policies. That is why, by the mid-1990s, Washington Consensus was augmented and enlarged with several reforms.

5.3 Conclusion

Following the debt crisis at the beginning of the 1980s, most of the developing countries felt under pressure to accept policies of the IMF promoted by the major advanced countries. From this point of view, many Latin American countries were forced to adopt the policy of neoliberalism and leave the ISI economic model. Brazil began to implement neoliberalism under the Washington Consensus by the mid-1980s, due to its growing economic crisis. To manage Washington Consensus principles, Brazil prepared extensive regulatory reforms throughout the years which included privatization, open trade, liberalization of capital account, deregulation, and exchange rate movements. In this sense, the state-capital and state-labor relations were determinative in the implementation of those policies. Table five shows the strength of class in Brazil during the 1980s and 1990s.

Table 5: Strength of classes in Brazil, 1980s-1990s

	1980s	1990s
Brazil	<ul style="list-style-type: none"> • Strong bourgeoisie class • Strong labor class 	<ul style="list-style-type: none"> • Strong bourgeoisie class; many companies began to internationalized • Strong labor class

To be more precise, Brazil started to implement neoliberal policies right after the end of the military regime. The Sarney administration used limited liberalization policies such as reforming the domestic financial system, liberalization of international capital flows, and flexible exchange rate regime. Neoliberal policies under the Washington Consensus were deepened by the Collor, Franco, and Cardoso administrations. Privatization, trade liberalization, deregulation, and reducing expenses began to be implemented with Collor's period. During his term, foreign companies were also invited to invest in Brazil. With Franco's administration, neoliberal policies extended in Brazil, thank Real Plan, which was prepared by Cardoso and helped him to be elected in the following presidential elections due to its success to reduce the hyperinflation of Brazil. Thus, during this period, deeper privatization and liberalization program was used. Brazilian governments used high interest rates to take interest of foreign investors. The capital account was liberalized. Furthermore, in order to control the budget deficit, fiscal reforms such as expenditure cuts and tax increases were implemented. The bourgeoisie class benefited from Washington Consensus policies and gave support to extend neoliberal reforms; whereas, those policies created further problems for the labor class such as limitation to wage growth, unemployment, and informality.

When Cardoso came to power, despite criticism and social movements by the labor class, he continued to implement Washington Consensus principles. He especially focused on privatization. Many state-owned companies were privatized during his term. On the other hand, to maintain neoliberal economic policies and neutralize critiques of the labor class, he also began to focus on social policies as well and created a new system on unemployment insurance. Laborers were satisfied with these policies. The dramatic reduction of inflation also helped Cardoso government to influence the labor class in a positive way.

Chapter 6

WASHINGTON CONSENSUS POLICIES IN TURKEY

This chapter aims to explain how Turkey made the transition to neoliberal order with Washington Consensus and how those neoliberal policies were implemented and extended throughout the years by considering the state-capital relations and the state-labor relations. The oil crisis and the Cyprus military intervention in 1974 followed by the embargo imposed on Turkey caused a significant foreign exchange loss that was not expected. Especially towards the end of the 1970s, private sector investments and public investments came to a stopping point. ISI policies caused large deficits and debts, as in other developing countries. As a result, Turkey followed the global capitalist development and with the support of the IMF and the World Bank in 1980, the Economic Stabilization Decisions of January 24 were taken by the Demirel government to restructure the economy. The target of the 1980 stabilization program was to transform the Turkish economy from ISI to a free-market economy. This program included radical changes in the past policies. The program aimed at stabilizing the economy by increasing foreign trade and encouraging foreign investment. The program also included the privatization of state-owned enterprises and the transition to a flexible exchange rate. So this was the beginning of the Washington Consensus in Turkey⁵⁴. It is important to state that the 1980 stabilization program did

⁵⁴ Turkey began to implement policies of Washington Consensus, even earlier than most of the developing countries.

not only aim to stabilize the Turkish economy, but also make a structural adjustment in the Washington Consensus style.

Although the Demirel government tried to stabilize the country by taking the decisions of January 24, demonstrations against the government continued during those years. People lost their confidence in the coalition governments. As a result, the third military coup occurred in Turkey in September 1980, so neoliberal policies in Turkey were firstly implemented by the military government. However, it is important to state that the Özal government was the main administration that implemented neoliberal policies under the Washington Consensus, until the beginning of the 1990s.

6.1 Introduction of Neoliberalism in Turkey

Turkey had serious economic problems since the late 1970s, so the Economic Stabilization Decisions of January 24 was taken by the Demirel government. Although the labor class did not request such policies, the bourgeoisie class supported the transformation of the ISI model especially since the second half of the 1970s. TÜSİAD was one of the groups to give support to the Demirel government to take this decision. For instance, in May-June 1979, TÜSİAD emphasized the necessity of liberal economic policies in the newspapers (Eray and Bayram, 2018: 6622). Furthermore, while Turgut Özal⁵⁵ was working at the World Bank between 1971 and 1973, he wrote a letter to his close friends, including Demirel. In his letter, he stated that liberalization, deregulation, and privatization were the necessary policies for Turkey to eliminate economic crises (Karataşlı, 2015: 399). This means that the discussion of neoliberal transition had started even before the 24th of January Decisions.

After the “24 January Decrees”, the Demirel government took “a decision of devaluation of the Turkish lira by almost 49 percent from 47 TL per dollar to 70 TL

⁵⁵ Turgut Özal was coming from conservative perspective.

per dollar” (Bayar, 1996: 778). The other requirements of the agreement with the IMF were “export incentives and the liberalization of import regulations and foreign capital inflow” (Bayar, 1996: 778). The policy on the price controls was removed and in order to decrease public deficits, it was agreed to increase the prices of products. In addition, interest rates became flexible. In fact, it was necessary to have a strong rule to implement all these policies to succeed (Bayar, 1996: 778-779). Yet, the Demirel government, which was a coalition government of three right-wing parties, lacked such power.

It is right to state that there was political instability during the 1970s. Five elections were held in a decade and none of the political parties had achieved the majority (Bayar, 1996: 779). Coalition governments could not be successful to implement radical policies and sustain stability. In this uncertainty, as mentioned, several demonstrations were organized against the government. So to control the economic and political crisis, on 12 September 1980, Turkey experienced the third military coup. In this process, both the parliament and the constitution were overridden. All parties were closed, including the bourgeois parties, and party leaders were arrested (Karataşlı, 2015: 403-404). All the agreements with the unions were canceled and unionists were arrested. During this process, nearly tens of thousands of people were arrested and hundreds were killed. Indeed, the military coup of 12th September was known as a counter-response of the bourgeoisie to the left political movements (Bayar, 1996: 779). In this way, impasses for the bourgeoisie class ended, and the bourgeois political order was restructured. In the meanwhile, the labor class lost all its power and capacity with the 1980 coup. Many gains of the laborers were eliminated, union activities were banned and strikes were ended (Boratav, 2005: 148). The labor class was depoliticized in this way.

Although the democratically elected coalition government of that time took the Economic Stabilization Decisions of January 24, those policies could begin to be implemented under the military government between 1980 and 1983. Like the Latin American countries, Turkey also implemented neoliberalism with a military government (Boratav, 2018: 148-149). The first short-term aim of the military government in this process was to achieve political stability by passifying and depoliticizing the society and thus achieving economic stability. The Bourgeoisie class criticized excessive state intervention in the economy, so they tried to influence the military government to take decisions in line with their interests (Boratav, 2005: 63). For example, right after the coup, the big bourgeoisie, such as Vehbi Koç, asked Kenan Evren, the junta leader, to reinstate Turgut Özal as the Minister of Economy⁵⁶ (Boratav, 2005: 63-64). So he was appointed as the deputy prime minister responsible for the economy of the military government. This shows the influence of the bourgeoisie class on government decisions. Although there was an intense class struggle by the late 1970s due to the rise of strike actions of workers, with the military coup, the labor class lost its capacity

In those years, the military government mainly focused on the basic neoliberal policies such as the devaluation of the TL, flexible exchange rate, promotion of exports with tax rebates and export credits, and import liberalization. Until the 1980s, the state was the main investor in heavy industry, energy, and infrastructure, and administrative bureaucracy conducted these sectors (Özcan and Turunç, 2011: 65), but this changed with the privatization policies. The January 24 Decisions made it possible for the large industrial capital to establish a new hegemony by its interests and create a new integration process with international capitalism (Gülalp, 1993: 48). The economic and

⁵⁶ This was also the demand of the IMF, World Bank and the US (Karataşlı, 2015: 404).

political crisis of the end of the 1970s was solved in the favor of capitalists and the labor movement was suppressed. The absence of an influential labor movement in Turkey in the post-80 period helped to shape and extend neoliberal policies.

As a result of the introduction of neoliberal policies, tariffs were reduced from 19 percent to 12 percent immediately at the beginning of the 1980s (Bayar, 1996: 779). In addition, the quota list had been abolished (Türkiye Cumhuriyet Merkez Bankası, 2002: 9). Trade reforms and the devaluation of TL helped to increase exports of Turkey. “In 1981 the dollar value of exports rose by 62 percent and in 1982 by 25 percent and in 1981 manufacturing exports doubled in dollar value”⁵⁷ (Bayar, 1996: 779). In order to reduce high inflation, the military government used two ways. Firstly, it was decided to decrease public expenditure and increase prices of state-owned enterprise (SOE) products and taxes. Secondly, financial deregulation was used with the liberalization of interest rates. In this way, savings could be encouraged. Consequently, inflation reduced from 37,6 percent to 29,1 percent between 1981 and 1982 (Please see Figure 15 on page 173). Yet, it rose again after the military regime.

⁵⁷ In addition, it can be seen an increase in the share of manufacturing exports in total exports in the years between 1980 and 1987 from 36 percent to 80 percent (Bayar, 1996: 779).

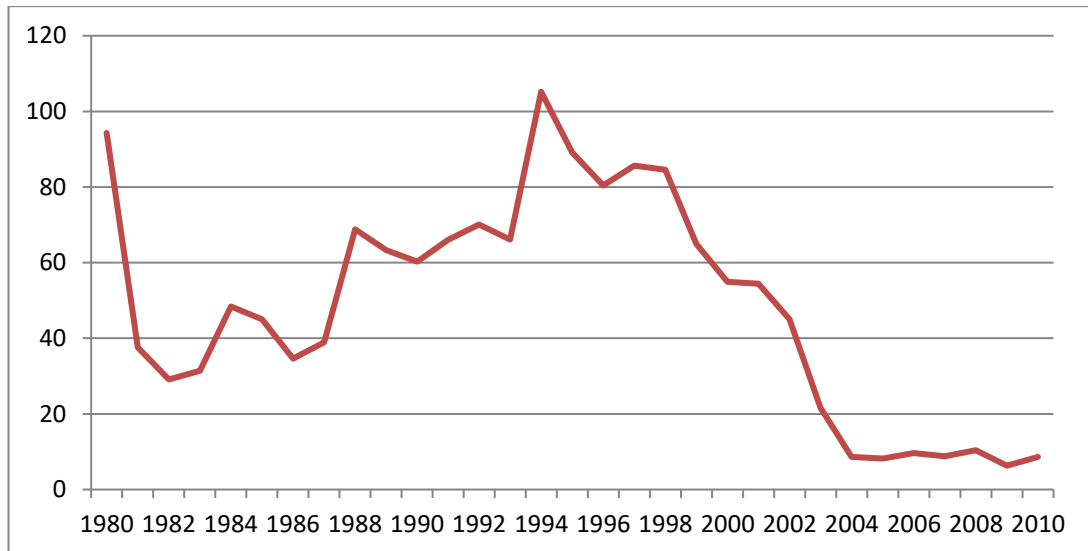


Figure 15: Inflation of Turkey (%), 1980-2010
Source: World Development Indicators

In addition to the economy, the military government also focused on political institutions. The new constitution, called the 1982 Constitution, was prepared and a new electoral system was created. Instead of the bicameral parliament⁵⁸, a unicameral parliament was established (Hazama, 1996: 321). The military government enhanced the powers of the President as well. The 1982 Constitution centralized the power in the executive and diminished social and political rights (Özbudun, 2002: 61-63). With the new constitution, individual freedoms and freedom of the press were restricted seriously (Kırçak, 1993: 312). This was bad for labor classes and their organizations. The autonomy of universities was also restricted to be able to centralize all universities. This decision was taken to prevent any possible organized demonstrations by the students in the following years as the late 1970s (Boratav, 2018: 150). Labor unions and associations were also restricted. Moreover, the labor rights were interrupted. “The new constitution required to abstain from all political activity prohibited them from supporting or receiving any support from political parties” (Bayar, 1996: 781). In

⁵⁸ The bicameral parliament system in Turkey was established by the 1961 constitution.

addition, it was required for unions to deposit their funds in state-owned banks. All these changes meant the de-politicization of society and repression of the growth of any opposition.

Capitalists supported the military regime and its policies. It can be said that there was a close relationship between military rule and the bourgeoisie. Hence, the military regime considered the interests of the bourgeoisie class; whereas it excluded the labor class. TÜSİAD was satisfied with the macroeconomic policies of the military rule between 1980 and 1983. During this period, big capitalists benefited from trade liberalization and investment, so they grew further (Özel, 2013: 1083). On the other hand, during the military government, companies close to the Islamic parties were excluded from the state contracts. In that period, those companies could not get any public contracts. While the big bourgeoisie class was increasing its power, the labor class lost all its capacity to reorganize again. “After the coup, when the trade unions were banned, lost days in strike fell to zero in 1981, 1982 and 1983” (Ünal and Köse, 2018: 9). The integration with the world market worsened the situation of the labor further. From 1977 to 1987, labor wages were reduced approximately by 20-30 percent (Boratav, 2018: 151). Of course, the bourgeoisie class was satisfied with this wage reduction. The only way to be able to compete in the international market was to reduce labor wages⁵⁹. Yet, the labor class was again in a disadvantaged position.

6.2 Washington Consensus Policies in Turkey

After the three years of military rule, the general elections were held in 1983. Özal’s party – the Motherland Party (*Anavatan Partisi*, ANAP)⁶⁰ – obtained 45 percent of the votes and Özal became the Prime Minister (Bayar, 1996: 782). It is

⁵⁹ The strategy of the Özal period to open up the economy by suppressing workers' wages was interrupted by the radical struggles of the labor movement in the late 1980s (Akça and Özden, 2015: 13).

⁶⁰ The ANAP was founded by Turgut Özal just before the 1983 elections.

important to emphasize that he played an important role in Turkish politics. It is right to state that the neoliberal transition of Turkey settled in his period. When he came to power in 1983, economic instability was the main issue for the Turkish society, so the Özal government concentrated on the economy and tried to extend neoliberal policies for sustaining stability. He extended neoliberal policies in many areas and implemented Washington Consensus principles. The state-capital and state-labor relationships played an important role in the implementation of those policies. The state is not an instrument of individual capital groups. Sometimes it may have to respond to the demands of the working class because it is responsible for maintaining accumulation.

Although privatization constituted the main policy of Özal's neoliberal program, as Washington Consensus initiated, it was not easy to transform the Turkish economy into a neoliberal culture. Özal faced several resistances from the traditional economic bureaucracy and the status quo who were against market-oriented reforms and supported state controls on the economy. To deal with these resistances, he centralized policy-making authority. Instead of using the existing set of bureaucratic organizations, Özal created new layers of bureaucracy. For example, "an Undersecretariat of Treasury and Foreign Trade was established under the Prime Ministry" (Atiyas, 2012: 50).

The privatization process was progressing slowly. Zaifer (2014: 63) associated the stalling of the privatization process until the end of the 1990s with capital accumulation conditions and intra-capital conflicts. According to him, the accumulation of capital of the Turkish bourgeoisie was based on labor-intensive production and export of goods since the 1980s. Since due to the cheap intermediate goods produced by state enterprises played a functional role in nurturing this process

of accumulation, privatization policies did not enter the agenda of the bourgeoisie until the 1990s. Zaifer (2014: 65) pointed out that this situation began to change with the transition to advanced stages of the capital accumulation regime towards the end of the 1990s. So then, privatization increased its importance over the bourgeoisie.

The Özal government also concentrated on financial liberalization. One of the policies in the Washington Consensus is the unified and competitive exchange rates. It began to be implemented in Turkey in 1984 by the Özal government (Özdemir, 2017: 182). The foreign exchange regime was liberalized first. Then some steps were taken to strengthen the independence of the Central Bank⁶¹. For instance, a banking law was prepared in 1985 and gave the responsibility of the supervision and the regulation of banks to the Treasury and the Central Bank. On the other hand:

This created a major conflict of interest since the banking system was the main holder of government debt, creating disincentives for these public institutions to intervene when the finances of the banks deteriorated (Atiyas, 2012: 51).

As mentioned before, trade liberalization, which means the elimination of the market protection, began to be implemented with the military regime, yet it was extended with the ANAP government. With the import regime reform in January 1984, a very different understanding from the past practices was brought. While the two main lists were canceled, three new lists were introduced, namely the Prohibited List, the List of Imported Goods Subject to Authorization, and the Fund List (including luxury goods). Under the new regime, any goods whose importation was not explicitly prohibited could be imported (Türkiye Cumhuriyet Merkez Bankası, 2002: 9). In addition to the reduction of quantity restrictions, customs tariffs were also reduced. Furthermore, in 1985, the Forbidden Goods List was abolished and the number of

⁶¹ Independent Central Banks as policy option is taken place in the Augmented Washington Consensus. Although some attempts were taken in Turkey with the Özal government, the main policy implementation was done by the AKP government.

goods forbidden to import has been reduced from 500 to 3 (weapons, ammunition, and drugs). In 1988, 33 different goods required import permits (Türkiye Cumhuriyet Merkez Bankası, 2002: 9). Liberalization in imports accelerated in 1989. The number of goods, subject to permission, was reduced from 33 to 16. Tariffs and taxes on imports were also significantly reduced (Türkiye Cumhuriyet Merkez Bankası, 2002: 9). Under this condition, both export and import rates increased steadily in Turkey (Please see Figure 16). The big capitalists invested in their products in order to struggle in the global market. It can be said that they became successful to survive independently in the competitive global market. They were satisfied by trade liberalization.

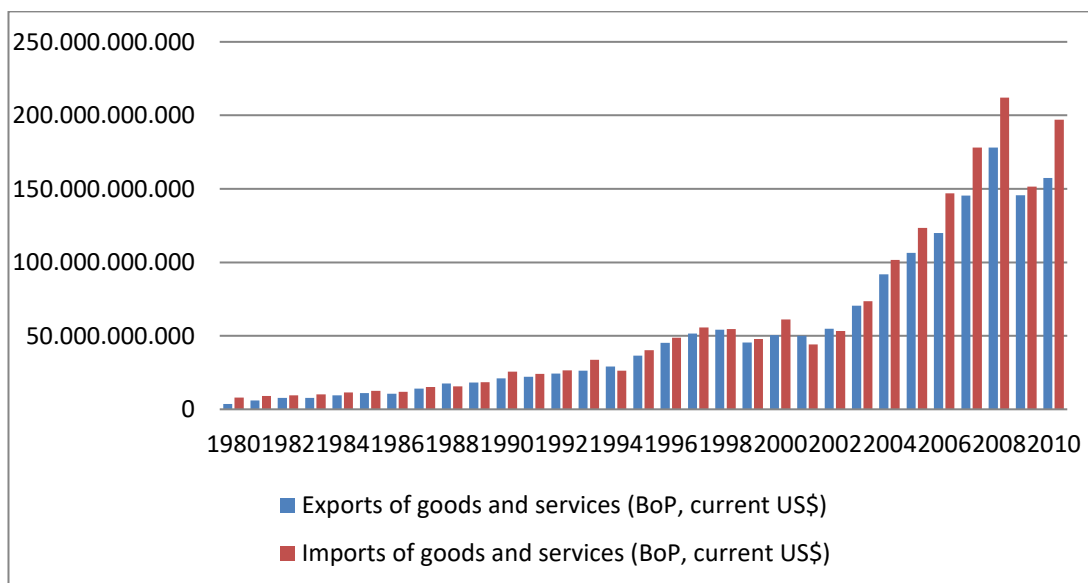


Figure 16: Exports and imports of goods and services of Turkey (BoP, current US\$), 1980-2010

Source: World Development Indicators

In addition to economic stability, Özal aimed to create long-run social and political stability due to the previous traumas (Karataşlı, 2015: 404). He wanted to be more inclusive and to be closer with different groups. ANAP under the Özal administration had a hybrid ideology that combined liberalism, conservatism,

Islamism, nationalism, and welfarism. Indeed, Özal became successful to influence different segments of individuals. By the mid-1980s, he was called the “central pillar” (*orta direk*) of the Turkish people. This means “Turks of modest means, hardworking and often self-employed, who had been the forgotten people of the *etatiste era*” (Waterbury, 1992: 130). It can be said that middle and lower-middle classes for improving welfare levels and living standards supported ANAP. As Waterbury (1992: 130) mentioned, different segments of occupational groups gave support to ANAP. Furthermore, Özal, thanks to his past and moderate Islamist tendencies, while addressing the conservative masses of Turkish society, he also addressed secular audiences with his good relations with the Western world⁶² and his projects aimed at modernization and economic reform (Öniş, 2004: 6).

Until the 1980s, private businesses in many Anatolian towns developed and extended with the state reinforcement. However, the big capital groups dominated the access to financial resources, so this restrained the Anatolian capitalists to reach resources. During the DP administration, this group of businesses found a chance to develop, yet Özal implemented a radical economic transformation project and created a new class of Islamist entrepreneurs. With the post-1980 industrialization, many new factories were established in the Anatolian cities; in addition to factories in the Marmara region (Özden et al., 2017: 190). It is important to state that until 1980, the interests of the big urban industrialists dominated the state’s action, but after that year, small capitalists’ interests also found a place in the state agenda.

In the meantime, a new Anatolian-based Islamic bourgeoisie was on the rise, known as “Anatolian Tigers” (Demir et al., 2004: 166). Although these entrepreneurs

⁶² For example, Özal was a major actor on the Turkey's application for EC membership in 1987. Although the application was rejected, Özal’s initiatives played an important role in the membership of the Customs Union which prepared the full-scale liberalization of the Turkish economy of the 1990s (Öniş, 2004: 119).

were not supported during the ISI strategy, the new economic model provided them an opportunity to achieve capital accumulation and compete with the Istanbul bourgeoisie (Buğra, 1998: 307-308; Bozkurt, 2021: 17). “Some of these businesses rose above the status of small and medium-size enterprises, accumulated capital to a degree that challenged the older and larger bourgeoisies” (Karataşlı, 2015: 405). The small capitalists of the pre-1980s, which had less than 50 workers, depended on cheap labor because they were labor-intensive industries. The falling labor wages in the 1980s gave them the advantage to increase their competitiveness and export their products. This was also an effective mechanism in their rise. In this way, they began to increase their economic and political power continuously.

Therefore, by the 1980s, Turkey had two main groups within the bourgeoisie. These are the secular urban bourgeoisie growing with the Kemalist state – the secular economic elites in Ankara and Istanbul – and a conservative small merchant class in Anatolia, which contrast with the first group (Haenni, 2011: 264). Since then, these two bourgeoisie groups competed to shape state policies according to their interests. Afterward, the Islamic bourgeoisie established a new business organization, called the Independent Businessmen and Industrialists Association⁶³ (*Müstakil Sanayici ve İşadamları Derneği*, MÜSİAD) in 1990 (Karatepe, 2013: 56) and it began to challenge TÜSİAD both in economic and political areas. It is necessary to emphasize that “MÜSİAD does not represent a single capital group with distinct interests, since it is not only composed of small and medium-scale capital but also includes major conglomerates” (Bozkurt, 2021: 20). So the conflict between MÜSİAD and TÜSİAD is based on accessing resources.

⁶³ MÜSİAD has used its Islamic identity both in international and domestic area to create cooperation with businessmen (Buğra, 1998: 311).

Özal argued that long-run social and political stability could be achieved with a larger middle class (Karataşlı, 2015: 405). So he tried to expand the middle class by encouraging new entrepreneurs and creating a large consumer society. Of course, expanding consumer society gave direct benefits to the bourgeoisie class, so in this sense, bourgeoisie groups supported the government to enlarge consumption.

On the other hand, in the 1980s, workers were ineffective in making their voices heard and voicing the government. Neoliberal restructuring weakened the power of workers to organize huge and strong trade unions and left-wing parties to show up their opposition opinions. Neoliberal reforms made institutional changes that reduced the political and ideological influence of trade unions on society (Özden et al., 2017: 195). Furthermore, with neoliberalism, farmers lost state support for agriculture, so marketization took place in agriculture. As a result of this, migration to urban places increased rapidly. People migrated to urban places to find jobs. Terror action in the Southeastern region was the other reason for migration to urban places. Yet, these migrants, who settled in shantytowns (*gecekondu*), could not find jobs in the formal sectors and caused an increase in the number of informal workers in cities and towns. “In the post-1980 context, labor organizations were consistently excluded from the policy-making processes directly concerned with the working and living conditions of the laboring classes” (Bozkurt, 2021: 11).

It can be said that populism in Turkey was reborn with Özal. Due to his populist policies, public resources were used to gain political support⁶⁴ (Atiyas, 2012: 3). In this sense, he provided several types of gifts, rewards, and redistributions to the most disadvantaged groups in society. For instance, he gave construction licenses under the shantytown amnesty (*gecekondu affi*) and allowed people to build more stories to their

⁶⁴ However, this increased pressure on public finance and public deficits.

houses⁶⁵. Actually, this policy implementation can be evaluated with the tenth policy of the Washington Consensus, secure property rights. Özal's policy on the shantytown amnesty also provided benefits to the government in two ways: "help to reduce reproduction costs of laborers and kept wages as low as possible for capital and help himself to stay in power during elections" (Karataşlı, 2015: 406). In other words, while providing policies that gave benefits to the bourgeoisie class, Özal also tried to prepare policies for the interests of laborers to maintain the capitalist system and get the support of the labor class in the elections. In this way, he could eliminate any possible criticism against him and his neoliberal policies. Yet critiques from laborers increased day by day due to low wages in addition to bad economic conditions. Although wages increased regularly from the 1950s to late 1970s due to expand the domestic market during the ISI regime, they reduced 20-30 percent between 1977 and 1987 (Boratav, 2018: 180).

The abolition of the ban on politics against the former politicians such as Demirel, Ecevit, Necmettin Erbakan, and Alparslan Türkeş, and the return of these politicians to the politics as the party heads created serious political competition against the ANAP in 1987⁶⁶. So Prime Minister Özal decided to go for an early election to show his strength and prevent those former politicians from regaining power. Yet, these developments forced ANAP to make concessions to the masses to be able to save its power. For instance, the significant increase in base prices and subsidies before the 1987 elections was the first concession given to small farmers after the 1980 coup⁶⁷.

⁶⁵ By the 1950s, migration began from the small towns of Anatolia to large cities. As a result of this, the number of the semi-legal housing areas (*gecekondu*) increased with the 1970s (Özcan and Turunç, 2011: 66).

⁶⁶ A constitutional referendum was held on 6 September 1987 to vote the political ban of political leaders. Although the ruling party – ANAP – campaigned for "NO", the result was "YES" by 50,2 percent (BBC News Türkçe, 2018).

⁶⁷ The ANAP government had sought to withdraw this concession immediately after the elections, but had to step back with the pressure of the farmers (BBC News Türkçe, 2018).

The general election was made on 29 November 1987 (Öniş, 2004: 117). The ANAP came to power once again by increasing the number of its deputies to 292 despite the eight-point decline in its votes, compared to the 1983 elections, by the new electoral system.

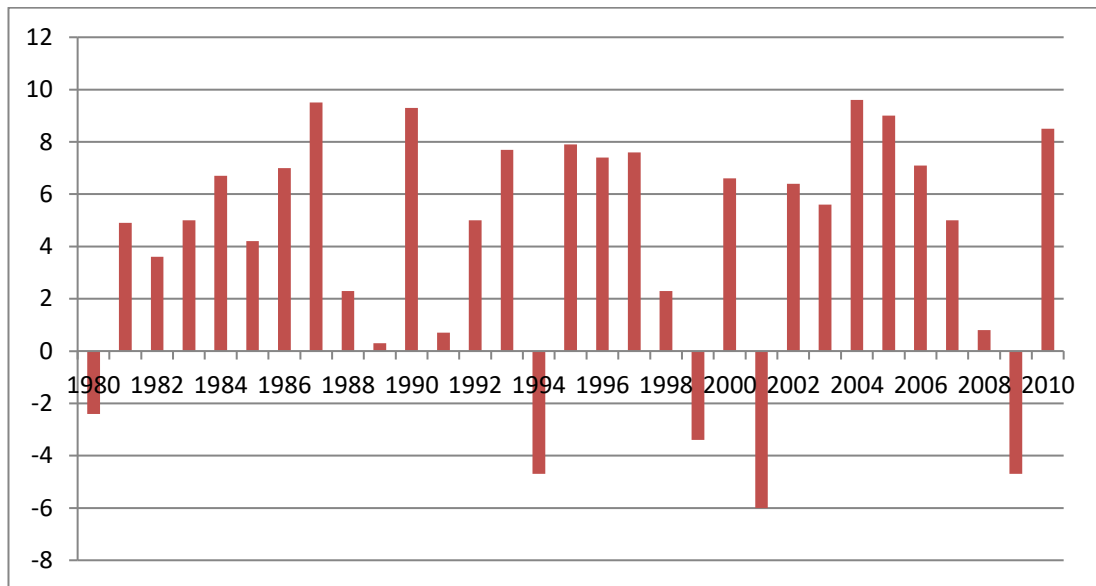


Figure 17: GDP growth rate of Turkey (%), 1980-2010
Source: World Development Indicators

In the second government program, Özal made a strong emphasis on the free-market economy (Özen, 2011: 133). This means the continuation of Washington Consensus principles. By the late 1980s, economic growth and investment decreased significantly in Turkey due to tight monetary policies. GDP growth rate in Turkey declined from 9,5 percent to 0,3 percent between 1987 and 1989 (Please see Figure 17). In this process, although the Central Bank was against this decision, the Özal government “fully liberalized inflow and outflow of all kinds of capital but also made the Turkish lira convertible”⁶⁸ (Özdemir, 2017: 183). Özal expected to attract large amounts of external capital with open capital account regime. In this way, he thought

⁶⁸ Actually, this was his last decision as the Prime Minister.

that the pace of economic growth could be accelerated. Moreover, it was expected to create a proper context to accelerate the momentum of trade liberalization to decrease inflation with the pressure of low-cost consumer goods imports. Yet, all these were miscalculated, because Turkey had a huge external debt. Turkey's external debt increased from 26 billion \$ to 41 billion \$ between 1985 and 1988 (Please see Figure 18). Its share in GNI reached 46,4 percent in 1988, but then it began to decline steadily until 1993 (Please see Figure 19 on page 184). At the same time, there was no control over inflation. The inflation rate rose from 38,9 percent to 63,3 percent between 1987 and 1989 (Please see Figure 15 on page 173).

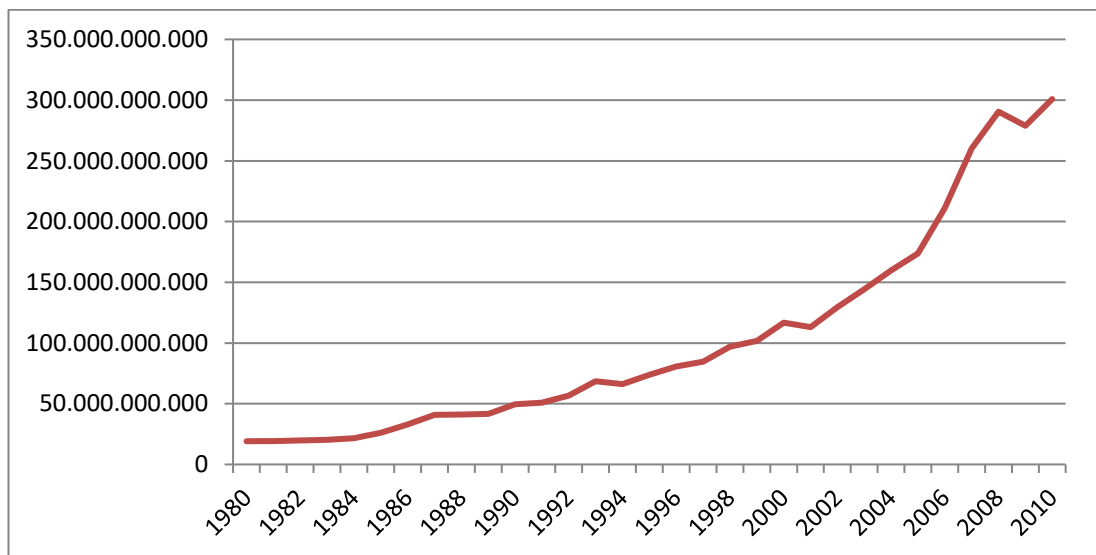


Figure 18: External debt stocks of Turkey (DOD, current US\$), 1980-2010
Source: World Development Indicators

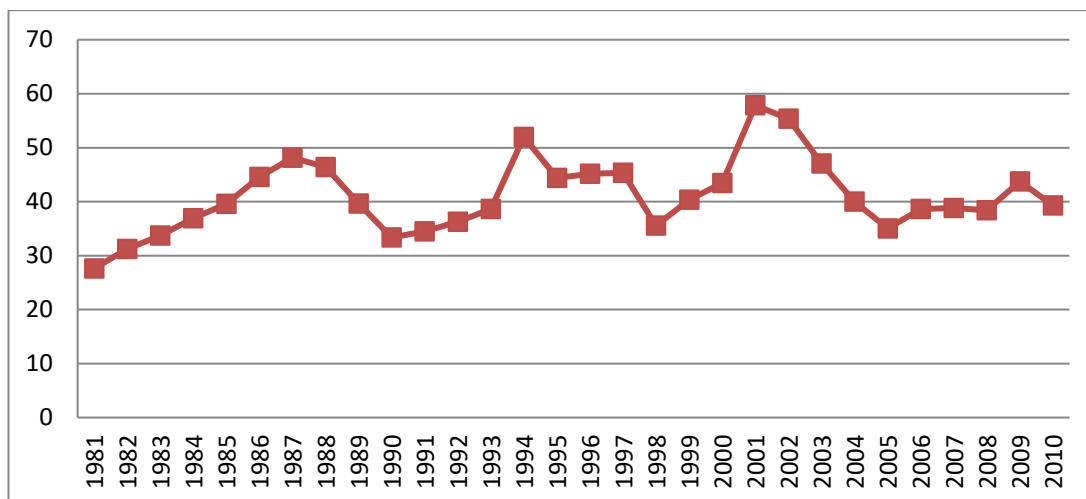


Figure 19: External debt stocks of Turkey (% of GNI), 1981-2010

Source: World Development Indicators

The decision to liberalize the capital account in an environment of high degree of macroeconomic instability and the absence of an adequate institutional framework to regulate the financial sector rendered the Turkish economy highly dependent on short term and highly speculative capital flows. Short-term capital inflows magnified the degree of instability in the Turkish economy as political actors used these funds to finance rising budget deficits thereby postponing costly adjustment decisions to the future (Öniş, 2004: 123-124).

By 1989, the real wages of workers had dropped drastically and impoverishment reached its peak (Torun et al., 2011: 5). Due to bad economic conditions in the late 1980s, public workers came together and began to protest their low wages in 1989. The protests, known as the Spring Protests⁶⁹, became widespread in a very short time and reached 600 thousand public workers. These protests were the first major labor movement after September 12, 1980. In the local elections of March 29, 1989, ANAP's vote rate fell from 35 percent to 22 percent. Thus, the government had to deal with the workers to maintain the capitalist system and protect its votes. As a result, wages of public workers were increased after the protests⁷⁰ (Onaran, 2002: 771).

⁶⁹ Protests continued during three months from March to May.

⁷⁰ Yet, with the economic crisis in 1994, wages again reduced (Onaran, 2002: 772).

In the late 1980s, Özal returned to traditional populist policies and temporarily slowed down the neoliberal agenda. So privatization and deregulation policies lost their importance in the Turkish economy. Although at the beginning Turkey began to implement the Washington Consensus policies rapidly, the neoliberal process stagnated by the late 1980s. Neoliberal reforms could not be implemented effectively until 2002. Instead of these policies, Özal prepared more populist policies. The presidential election in 1989 played an important role in this policy choice. In 1989, Özal became the president⁷¹.

While income taxes decreased year by year, VAT increased year by year⁷², and this caused the voters to lose their trust and support for Özal and the ANAP. Within the framework of the laws enacted on workers with the September 12 Constitution, workers were entitled to many rights and had no bargaining power. The working class, which had to work with low wages, was getting worse with each passing day with the increasing inflation. In addition, farmers, always supported by the right-wing governments, suffered serious losses during this period as a result of price policies and incentives. Due to these economic practices, laborers lost their trust and support for Özal and his party.

Following the successfully organized spring protests, workers' protests continued with the Zonguldak mine walks. In Zonguldak, collective bargaining negotiations between the employer and the union to which the workers working in the mines were affiliated resulted in negativity. The union organized a strike on 30 November 1990 with the participation of 48 thousand workers and their supports

⁷¹ Even though Özal's influence over the government continued, he lost his effectiveness entirely with the election of the coalition government of 1991.

⁷² With the regulation made in the tax system in 1985, indirect and unfair Value Added Tax (VAT) came into force and the tax burden of the lower class citizens increased (Hodzic and Celebi, 2017: 80).

(Bakioğlu, 2014: 3). Mineworkers received the support of political parties, professional and mass organizations. In general, the people of Zonguldak supported this strike. When the government did not find a middle ground, the miners started walking to Ankara on January 4, 1991. The march reached 100 thousand people with the support of the public (Bakioğlu, 2014: 4). The impact of these mass actions of the miners spread all over Turkey and walking became the most important item of the country. Negotiations were held again with the ANAP government, which was afraid of the social support given to miners, and the march was ended on January 8 with the expectation that the government would accept the demands. A series of protest movements, known as the 1989 Spring Actions and then the Zonguldak strike and march, stopped the decline in real wages in this period. With these actions, the policies based on the suppression of wages after 1980 reached their limits (Çarıkçı, 2019: 161).

Although the ANAP government solved the labor problem⁷³, workers lost their trust in the government (Öniş and Webb, 1992: 44). As a result of economic and political policies of the 1980s on the labor class, labor increased its mobilization and protested the government by the late 1980s. Although 4.9 thousand days lost to strikes in 1982, it increased dramatically during the years and in 1990, it reached to 3.5 million days (Ünal and Köse, 2018: 9). The most concrete evidence for this was that the Motherland party received 45 percent of the votes in the 1983 general elections, 36 percent of the votes in 1988, and lost power by receiving 24 percent of the votes in 1991. Labor movements were the main factor in the ANAP's electoral defeat in 1991 (Gürcan and Mete, 2019: 8). The intra-party conflicts also played an important factor in this loss of votes, so for the first time after eight years, it took a part in the opposition.

⁷³ With the rising momentum of the labor movements, the May 1 bans started to be overcome since the early 1990s. Celebrations that started in factories in 1990 began in halls in 1991 and in the fields in 1992.

After the 1991 elections, a coalition government between the True Path Party (*Doğru Yol Partisi*, DYP)⁷⁴ and the Social Democratic Populist Party (*Sosyaldemokrat Halkçı Partisi*, SHP)⁷⁵ was established (Metin and Çelik, 2021: 90). The coalition government can be named as “the coalition of the losers” whose supporters, such as workers, farmers, and retired people were aggrieved by the Washington Consensus policies. The first two years of the DYP and SHP coalition government were the peak of concessions given to the workers after the 1980 military coup (Heper and Keyman, 1998: 271). The DYP-SHP government reduced the retirement age and launched the Green Card program which facilitated the access of the poor to health services⁷⁶. Due to worker movements since the late 1980s, the DYP-SHP government tried to normalize the relations between the labor class and the state by providing several advantageous reform policies for laborers. In fact, the state is not an instrument of individual capital groups. Sometimes it may have to respond to the demands of the working class because the state is responsible for maintaining accumulation. Consequently, workers became successful in increasing their wages and even could slow down the pace of neoliberal reforms in the 1990s. In fact, there was a similar period in the world and there was a pause in Washington Consensus policies due to lack of economic growth and increasing poverty. As a result of this conjuncture, the AWC was created. However, Turkey could not put this consensus into practice until 2001.

⁷⁴ DYP was a center-right political party in Turkey which was widely considered the successor of both the AP and the DP; active from 1983 to 2007.

⁷⁵ SHP was a Turkish social-democratic party which was established to collect the votes of the CHP, which was closed down after the September 12 Coup.

⁷⁶ However, after the 1994 crisis, the coalition government stopped the concessions to farmers with the April 5 Decisions (BBC News Türkçe, 2018).

On the other hand, these reforms and wage increases of public employees after the 1989 strikes increased the public debt in the country. The central government debt (% of GDP) rose from 32,1 percent to 44 percent between 1991 and 1994 (Please see Figure 20). The government began to use loans from state banks for public spending and came under a very serious debt burden over time⁷⁷ (BBC News Türkçe, 2018).

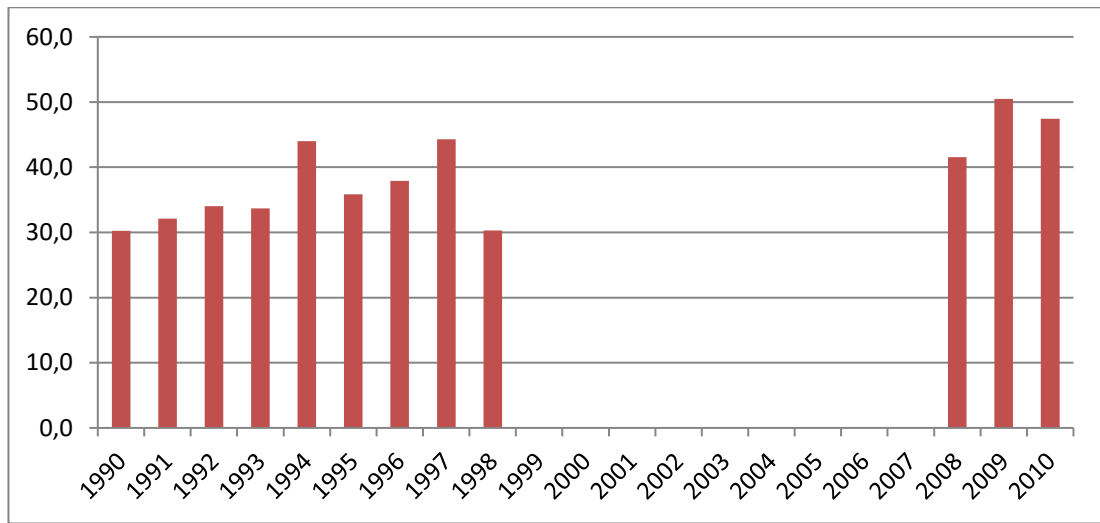


Figure 20: Central government debt of Turkey, total (% of GDP), 1990-2010
Source: World Development Indicators

With the death of Turgut Özal due to a heart attack on 1 April 1993 (Karataşlı, 2015: 408), in addition to economic problems, political instability also occurred in Turkey. Süleyman Demirel was elected as the president to replace Turgut Özal and Tansu Çiller became the prime minister in 1993 under a coalition government (BBC News Türkçe, 2018). The Çiller administration took a series of steps aimed at reducing interest rates to decrease the public debt burden. These included the cancellation of the Treasury's borrowing auctions and the increase of tax rates on the interest income from bonds and bills. To prevent the loss of revenue through the cancellation of debt

⁷⁷ In this period, private banks collected deposits by giving high interest rates and gave loans to the public with high interest rates. At the end of 1993 and the early 1994, both the budget and the current account deficit had increased significantly (BBC News Türkçe, 2018).

auctions, the government initiated a tender process for the privatization of telephone services (BBC News Türkçe, 2018). It was expected to get revenue from this privatization approximately as the total debt of Turkey. However, this privatization process was canceled by the Constitutional Court.

Like the Mexican peso crisis, Turkey also faced a currency crisis in 1994. As a result of the 1994 crisis, there was a very serious capital outflow from Turkey, falling by 6 percent (Celasun, 1998: 85). Inflation increased from 60,3 percent to 105,2 percent between 1990 and 1994 (Please see Figure 15 on page 173). At the same time, state reserves fell from 15,4 percent to 13 percent (Please see Figure 21 on page 190). To overcome the crisis, stabilization measures known as April 5 Decisions were taken (Polat, 2019: 332-333). This policy aimed to eliminate the causes of the crisis and to ensure sustainable economic growth. So Turkish lira was devalued and tax rates were increased considerably. However, stabilization measures could not be completely implemented due to the unstable and ineffective coalition government and the expected sustainable economic growth was not realized (Kepenek and Yentürk, 1990: 294).

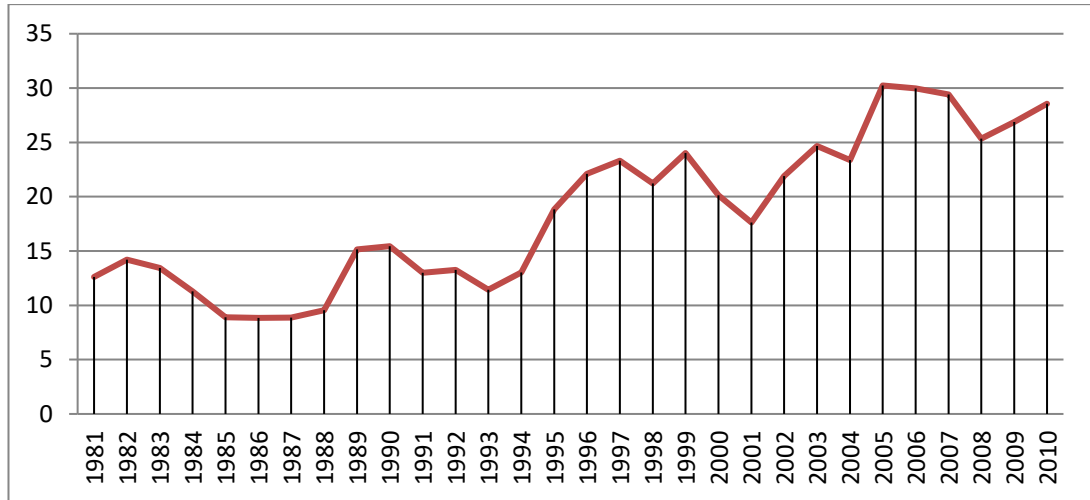


Figure 21: Total reserves of Turkey (% of total external debt), 1981-2010
Source: World Development Indicators

On the other hand, the economic crisis in 1994 caused again a reason for reducing labor wages, so the success of labor on the wage rises was short-lived only from 1989 to 1993. During this period, the government had to struggle with labor movements. In response to their resistance, the government had to provide some policies. In November 1994, workers organized a strike in Ankara. The aim of the action was the provisions in the 1995 budget law aimed at removing some of the rights of employees in line with the stabilization program known as the April 5 Decisions. As a result of the workers' action, anti-worker provisions were removed from the draft budget law (Koç, 1997: 21). The government did not want to face any more problems from the working class, so had to decide in favor of the working class in maintaining the capitalist system. However, because of the economic problems in 1994, the government announced a zero wage increase in 1995. With the support of the media, the government tried to impose this on the workers. The collective bargaining process between Prime Minister Tansu Çiller and Türk-İş ended negatively and a big meeting took place in Ankara in August 1995. On the other hand, public workers continued their struggle for unionization. Finally, with the amendment made in the 53rd article of

the constitution in July 1995, the unionization rights of public workers were recognized at the constitutional level (Cerev, 2014: 31).

Due to economic instability, the EU membership and Custom Union agreement increased their importance among the bourgeoisie class. Although TÜSİAD and groups from similar perspectives supported the EU reforms from the beginning, with the 1990s, other groups from different perspectives also began to support the EU membership, except Türk-İş⁷⁸ and Trade Union Confederation (*Hak İşçi Sendikaları Konfederasyonu*, HAK-İŞ)⁷⁹. For instance, during the Cold War period, DİSK, that had a socialist perspective, was against the European Economic Community (EEC) and capitalist partners. After this period, DİSK changed its position and began to support globalization by using the slogan that “another globalization, in the benefit of workers, is possible” (Uzgören, 2021: 206). DİSK stated that democracy and social standards could be consolidated and developed with the EU membership. In this sense, they believed that it is possible to establish “Labor’s Europe” to protect labor rights (Uzgören, 2021: 209). In addition, the EU membership could contribute to solving the Kurdish problem democratically and peacefully. Although MÜSİAD and its members were conservative and had Islamic backgrounds, by the mid-1990s, they began to support the EU membership as well (Bozkurt, 2021: 16). MÜSİAD argued that Islamic companies could get rid of state pressure from the EU. It was believed that the EU rules could democratize Turkey.

As a result, Turkey and the EU agreed to implement Custom Union conditions in 1995, so a customs union was established between the EU and Turkey. With the

⁷⁸ Türk-İş criticized the EU during the 1990s as an imperialist unit (Uzgören, 2021: 206).

⁷⁹ Hak-İş as a nationalist and conservative association criticized the EU until the end of the 1990s, yet, by 2000s, Hak-İş changed its perspective and began to support the EU reform process (Uzgören, 2021: 207). Their important argument was that if Turkey reached the EU countries’ position, then the EU membership should not be considered.

Custom Union, the EU also required the Turkish government to restructure agriculture. This means liberalizing agricultural trade, eliminating all kinds of state subsidies to agriculture, and reducing export subsidies (Aydın, 2005: 152). Although rural producers constituted 45 percent of the labor force, they could not influence the state to transform policies in favor of their interests (Aydın, 2005: 159). However, the EU pushed Turkey to harmonize its agricultural policies with the EU.

It is right to state that the traditional right-wing parties began to lose their popularity during the 1990s due to corruption (Özcan and Turunç, 2011: 68) and economic instability. Financial liberalization and capital account liberalization gave the way to big capitalists to reach different financial sources. This group of capitalists did not need state support as much. They became less dependent on the state, so by the 1990s, big capitalists began to challenge the state for democratization. Moreover, the newly developed Islamic bourgeoisie formed its middle class, intellectuals, and professionals (Özcan and Turunç, 2011: 65). So during the 1980s and 1990s, Islamic groups tried to expand their social base by using Islamic brotherhoods and business networks. Ultra-nationalist movements regained power and none of the center rightist parties could withstand the conservative Islamist groups (Karataşlı, 2015: 409).

Under these conditions, the Welfare Party (*Refah Partisi*, RP), an Islamist political party that was established in 1983, increased its popularity in Turkey immediately. MÜSİAD also gave support to the RP. At the beginning of the 1990s, the Welfare Party concentrated on urban poor and informal employees⁸⁰. In this way, the RP achieved electoral success in the 1994 and 1995 elections. The RP won the mayoral elections in two major cities, Ankara and İstanbul, in 1994 (Özcan and Turunç, 2011: 69). This helped Islamist groups to get municipal procurement and

⁸⁰ When the AKP was established, same manner was also used by them.

construction bids. The RP won a significant portion of the seats in the parliament with the 1995 elections and after the collapse of the government established after the 1995 elections, formed a coalition government with the DYP. As a result, Erbakan⁸¹ became the Prime Minister in 1996 (Karakaş, 2007: 25).

The policies of the RP included societal justice, the establishment of an Islamic currency, an Islamic common market, and heavy industries under state-led developmentalism. “These ideas were especially effective among the urban poor and those small businessmen who considered themselves as the losers of the early years of neoliberalism” (Özcan and Turunç, 2011: 69). Especially due to economic instability, poor people saw the RP as an alternative party against the parties which supported western-oriented neoliberal policies. Traditional Islamist Anatolian people were influenced by the RP. So those people felt close to the RP and gave their support to this party. Conservative ideas were used by the RP successfully to influence the Turkish people. The Islamist bourgeoisie was also close to the RP due to its perspective. As mentioned, especially after the 1994 municipal elections, receiving many municipal procurement and construction bids by Islamist companies in İstanbul and Ankara increased relations between the Islamist bourgeoisie group and the RP (Bakan and Çimen, 2018: 43).

On the other hand, there was a concern among the Istanbul bourgeoisie on the RP policies. Due to the Customs Union signed in 1995, trade expanded between the

⁸¹ Necmettin Erbakan dominated Turkish Islamic politics between the 1960s and 2010s. He was the founder and leader of several Islamic political parties in Turkey, including the National Order Party (Milli Nizam Partisi, MNP), the National Salvation Party (Milli Selamet Partisi, MSP), the Welfare Party (Refah Partisi, RP), the Virtue Party (Fazilet Partisi, FP), and the Felicity Party (Saadet Partisi, SP). He was also creator and supporter of the “national vision” (*Milli Görüş*) tradition. According to this tradition, Turkey could be developing its own human and economic power, while maintaining their core values, taking the force given by the history behind. The National Vision movement aimed to establish a New World with the Organization of Islamic Economic Cooperation, and the Organization of Islamic Military Associations by combining Islamic countries in the world.

EU countries and Turkey; in addition, enterprises began to find business opportunities in the European markets (Özcan and Turunç, 2011: 71-72). At the same time, the big bourgeoisie began to invest in their factories in order to produce and sell more to Europe (Özden et al., 2017: 191), so they did not want to lose their benefits. The İstanbul bourgeoisie tried to use its close relations with the military to influence politics. As a result, the Turkish military by using the reason of protection of secularism launched a campaign, known as the “post-modern coup” against the government (Özden et al., 2017: 191) which also satisfied the interests of the İstanbul bourgeoisie. In 1997, the army succeeded in forcing Erbakan to resign from the Prime Ministry (Aydın, 2005: 204). After that was the period of coalition governments headed by leftist politician Bülent Ecevit.

It is important to emphasize that the labor class in Turkey could not be organized well and the unionization rate reduced throughout the years. Despite successful labor movements since the late 1980s and early 1990s, the density of trade unions reduced from 20 percent to 14,7 percent between 1980 and 1995 and it decreased from 14,7 percent to 10 percent between 1995 and 2000 (Çelik, 2015: 620). That is why trade unions could not become effective actors in politics. The governments disregarded trade unions. Even in the 1989 strikes, the ANAP government instead of unionists negotiated with a delegation selected from among workers. Although DİSK often tried to mobilize the workers working in the private sectors, it could not become successful. Mainly the labor class in the public sector was organized under trade unions (Çelik, 2015: 632). The labor organization was achieved only in big industrial companies. Many companies, which were considered cheap labor-based export companies, did not tolerate the unionization of workers. Of course, organized laborers had better conditions compared to unorganized labor.

The Turkish economy needed further radical reforms. Yet, the governments during those years were unstable and weak (Özden et al., 2017: 191). Although they tried to continue neoliberal reforms, they did not want to work on those controversial policies. Instead, they just wanted to save their places (Akçay, 2018: 7; Özdemir, 2017: 184). However, in order to implement the key aspects of the neoliberal program, it is necessary to have strong regulatory institutions. In the 1990s, these initiatives were taken by the external actors rather than the domestic actors. This means that for instance, the Customs Union agreement was conducted to establish the Competition Board. Furthermore, a key regulatory institution in the banking sector, the Banking Regulatory and Supervisory Authority (BRSA), was introduced by the initiatives of the IMF to have a productive capital-based accumulation. In this way, it was aimed to “end the rent transfer to banks through state borrowing, and restructure the banking system according to international standards” (Oğuz, 2013: 200). During the 1990s, both the IMF and the EU pushed Turkey to institutionalize its reforms and enlarge its fiscal discipline.

The 1990s were known as the “lost decade” in Turkey (Bahçe and Köse, 2017: 577). The decade passed with political and economic turmoil. Although there was a temporary relief in the economy after the 1994 crisis, it was not possible to solve the main economic problems. After the common economic problems in the developing countries at the beginning of the 1990s, which implemented Washington Consensus principles, the neoliberal agenda was augmented and extended with further reforms with the AWC. However, coalition governments “were too weak to go on with such controversial policies, and instead chose just to save the day” (Özdemir, 2017: 184). So, Turkey could not implement AWC principles until 2001 (Özdemir, 2017: 185).

In 1998, Turkey's most important trade partner – Russia – had a crisis. In addition, the Marmara earthquake created additional pressures on the budget in 1999. These successive events created a huge economic recession in the country (Özdemir, 2017: 184). Instability was created in the foreign exchange and financial markets. During the 1990s, borrowing from the banks became highly expensive as a result of the rising interest rates. Although there was a GDP growth of 7,7 percent in 1993, there was much more growth in the public deficit (Bayar, 1996: 782). Turkey experienced negative growth two times in a decade, -4,7 percent in 1994 and -3,4 percent in 1999 (Please see Figure 17 on page 182). The average inflation was 77 percent in the 1990s (Please see Figure 15 on page 173). Moreover, the external debt of GNI increased from 33,4 percent to 40,3 percent between 1990 and 1999, peaking to 52 percent in 1994 (Please see Figure 19 on page 184).

A short time before the 2001 crisis, a new stabilization program began to be implemented by Turkey, as demanded by the IMF (Bahçe and Köse, 2017: 577). It was aimed at lowering the inflation rate. Within the scope of the program as the Washington Consensus initiated, a free interest and fixed exchange rate regime was implemented. While the exchange rate was kept constant at the exchange rate announced by the Central Bank every day, interest rates were determined by the market (BBC News Türkçe, 2018).

The 2001 crisis triggered a series of critical events (Akçay, 2018: 6). The first blow to the economy was a liquidity crisis in November 2000. As the banking sector sought to close its open positions towards the end of the year, interest rates rose rapidly (Akçay, 2018: 8). The Central Bank, with the support of the IMF, provided funds to the market. In this way, the turmoil ended for a while. However, interest rates remained at a higher level than before the crisis. There were hard sales in the markets, so a series

of economic crises occurred in Turkey. The GDP per capita declined 27,7 percent from \$4,317 to \$3,120 between 2000 and 2001 (Please see Figure 22). There was a negative growth rate in 2001, as 6 percent (Please see Figure 17 on page 182). Inflation continued to be out of control. The unemployment rate increased to 8,4 percent from 6,5 percent between 2000 and 2001 (Please see Figure 23). Turkey urgently needed funds to stabilize the economy and restore the confidence of foreign investors.

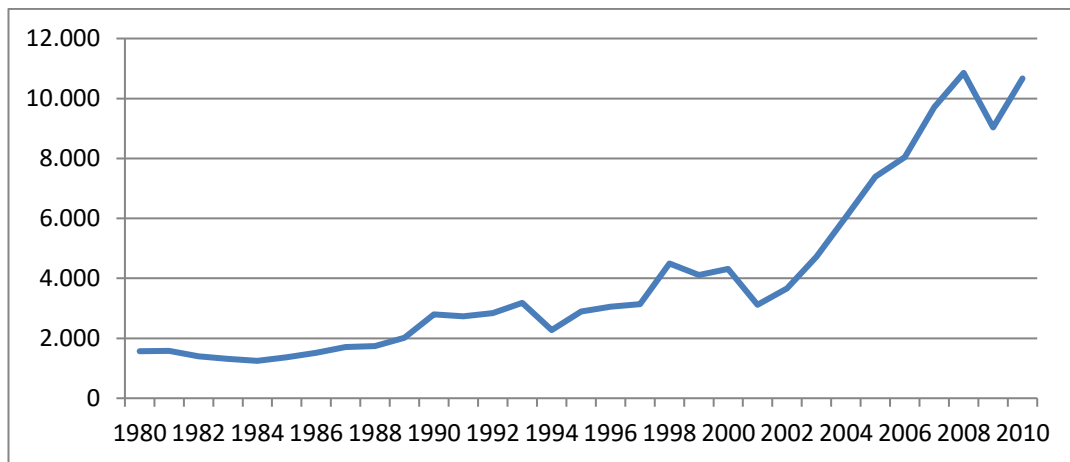


Figure 22: GDP per capita of Turkey (\$), 1980-2010
Source: World Development Indicators

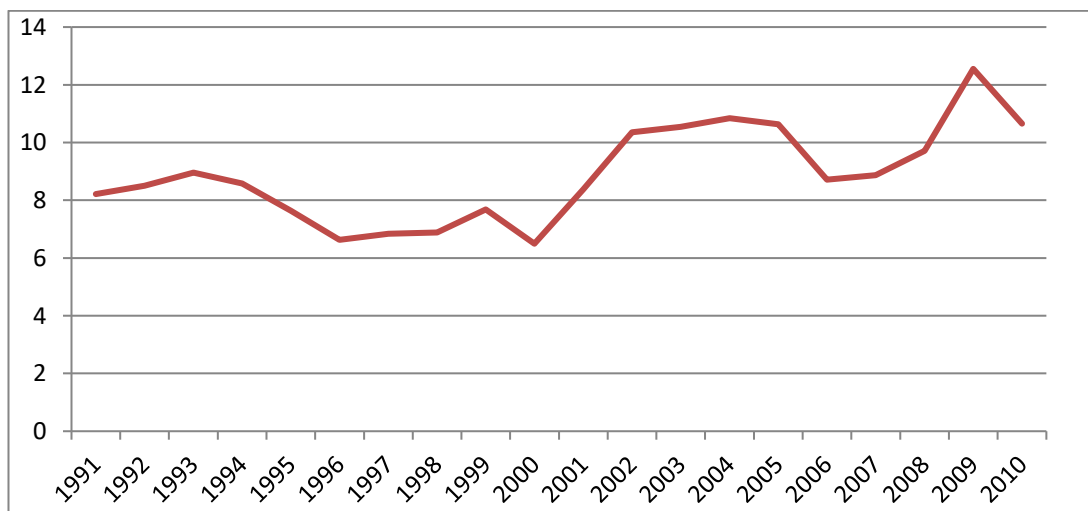


Figure 23: Unemployment of Turkey (% of total labor force), 1991-2010
Source: World Development Indicators

During the 1990s, TÜSİAD attributed the reason for the crisis to not adhering to IMF prescriptions. It was believed that the economic problems could be solved with the perspective and policies of the IMF, so TÜSİAD continued to press the government in this direction. The 2001 crisis showed the necessity of a new neoliberal program (Bahçe and Köse, 2017: 577). As a result, on 14 April 2001, the government implemented the IMF program and pursued various policies within the framework of the program. Kemal Derviş who had various positions at the World Bank was appointed as the technocratic Economy Minister of Turkey by Prime Minister Bülent Ecevit. The IMF required Washington Consensus policies again such as tight banking sector and fiscal discipline. Furthermore, the elimination of government price subsidies and liberalization of state-dominated markets were the other important policy reforms of the IMF (Özdemir, 2017: 186). To take funds from the IMF, Derviş had to accept all new legislation required by them and he prepared the Transition to Strong Economy Program in a short time (Yeldan, 2002: 2). The purpose of this program was not different from the previously prepared programs. Basic strategies were as follows: to minimize the state in the economy, to eliminate the imbalance of public revenue and expenditure, to liberalize markets, to reorganize the financial markets, and to increase the competitiveness of Turkey to integrate into the world economy (Yeldan, 2002: 6). This program means a return to the augmentation of the Washington Consensus (Özdemir, 2017: 187).

The Turkish government's commitment to the new reform package increased the confidence of international investors. As a result, economic indicators turned positive. The negative economic growth rate turned positive immediately and Turkey experienced 6,4 percent GDP growth in 2002 (Please see Figure 17 on page 182). Inflation began to fall. It decreased from 54,4 percent to 45 percent between 2001 and

2002 (Please see Figure 15 on page 173). In addition, while the external debt of Turkey was declining, its reserves increased in a year. Reserves increased from 17,6 percent to 21,9 percent (Please see Figure 21 on page 190); in contrast, external debt of GNI reduced from 57,8 percent to 55,4 percent between 2001 and 2002 (Please see Figure 19 on page 184).

The economic crisis is always an important turning point in the relations between the state and the capitalists. Capitalists are always worried about political and economic instability. So the 2001 economic crisis changed and reoriented the relations again between the state and the bourgeoisie class. With this crisis, the government paid attention to the opinions and suggestions of the bourgeoisie. After 2001, labor market reforms were seen as a remedy to put the cost of the crisis on the back of the working class (Akça and Özden, 2015: 13). The already high unemployment rate had reached a record level with the crisis. Moreover, with the 2001 economic crisis, informal employment became an important problem as well. In addition, the increase in the number of those who lost their hope of finding a job and those in the long-term unemployed categories showed that unemployment became permanent. Especially youth unemployment was remarkable. Laborers tried to protect their jobs by accepting more exploitation. The 2001 economic crisis had a great impact on the working class and broke their resistance power, due to job loss (Ekinci, 2013: 110).

In the 1980s and 1990s, labor was mostly controlled through policies of absolute surplus value production and wage suppression, which was made possible through a series of restrictions on trade unions. From the late 1990s onwards, policies towards increasing labor productivity through relative surplus value production required more qualified labor power, i.e., 'active labor policies' for the creation of a flexible labor power capable of adapting to the rapidly changing conditions of global capital accumulation (Ercan and Oğuz, 2014: 121).

The 2001 economic crisis was an important turning point in the Turkish economy. It opened a new era in Turkish history. Neoliberal policies began to be

implemented again in Turkey after a decade. Although the economy began to recover by early 2002, parties in the coalition government could not sustain their popularity among the people due to the 2001 crisis. Both bourgeoisie and labor class showed their reaction to the 2001 financial crisis with the 2002 elections. The Justice and Development Party⁸² (*Adalet ve Kalkınma Partisi*, AKP), newly established just 14 months before the elections, came to power with an unexpected majority in the November 2002 elections⁸³. After more than a decade, Turkey began to be governed by a single-party government. The 2001 economic crisis prepared the factors for the success of the AKP in the 2002 elections. The coalition government parties such as the Democratic Left Party (*Demokratik Sol Parti*, DSP), the MHP, and the ANAP lost their popularity in the country. So this ensured a much strong position for the AKP after the 2002 context.

6.3 Conclusion

The adventure of neoliberalism in Turkey began in the 1980s, following the economic difficulties experienced in the late 1970s. Although the decision on transition to neoliberalism was taken before the military coup of 1980, the implementation of neoliberal policies started with the military administration. After the military rule, the ANAP government in 1983 under Özal implemented neoliberal reforms effectively. Many neoliberal reforms under the Washington Consensus such as fiscal discipline, unified and competitive exchange rate, trade liberalization, openness to FDI, privatization, deregulation, secure property rights, prudent capital

⁸² A group of reformists from the Welfare Party left their party and established the AKP in 2001.

⁸³ Although Recep Tayyip Erdoğan was a party leader, co-founder of the party Abdullah Gül became the prime minister of Turkey due to Erdoğan's political ban until his government annulled Erdoğan's ban from political office. After winning a by-election in Siirt in March 2003, Erdoğan became Prime Minister.

account, adherence to WTO discipline, and interest rate liberalization were applied during this period in Turkey.

Table 6: Strength of classes in Turkey, 1980s-1990s

	1980s	1990s
Turkey	<ul style="list-style-type: none"> • Strong bourgeoisie class • Weaker labor class; while the labor class in Brazil was emerging stronger from introducing neoliberal process, Turkish laborers were significantly weakened due to military coup. 	<ul style="list-style-type: none"> • Strong bourgeoisie class; small capitalists and Islamist capitalists began to grow • Stronger labor class with short-lived labor actions

Labor rights were slashed significantly in Turkey with the military coup. On the other hand, the integration with the world market worsened the situation of the labor further. As mentioned, although the Özal government tried to prepare some policies following the interests of laborers to get their support and maintain the capitalist system, critiques from laborers increased day by day due to low wages in addition to bad economic conditions. By the late 1980s, labor increased its mobilization and protested the government. Consequently, workers became successful in increasing their wages and even could slow down the pace of neoliberal reforms in the 1990s. In fact, many countries have experienced a similar period. As a result of the lack of economic growth and rising poverty, there was a pause in the policies of the Washington Consensus. As a result of this conjuncture, the AWC was created (Rodrik, 2002a: 7; Naim, 1994: 35). However, Turkey could not put this consensus into practice until 2001.

On the other hand, the economic crisis in 1994 caused again a reason for reducing labor wages, so the success of labor on the wage rises was short-lived only from 1989 to 1993. Workdays lost to strikes reduced importantly in subsequent years (Ünal and Köse, 2018: 9). Furthermore, with the 2001 economic crisis, more deterioration for labor class came out. On the other hand, this crisis brought the neoliberal policy agenda into the table again which directly satisfied the bourgeoisie class. Many small capitalists and Islamist capitalists began to grow in this period.

Chapter 7

AUGMENTED WASHINGTON CONSENSUS POLICIES IN BRAZIL

Brazil began to implement neoliberal policies in the mid-1980s. Those policies under the Washington Consensus were deepened by Collor, Franco, and Cardoso administrations. However, the expectations from the Consensus failed at the beginning of the 1990s, and developing countries, which were implementing Washington Consensus, faced economic and social problems by the 1990s. Brazil was also one of those countries. As mentioned in chapter three, the Consensus has been augmented with extended reform policies to maintain economic stability in developing countries again and eliminate criticism against Washington Consensus. With the changes in capitalist conjuncture, Brazil pursued the changes and began to implement an augmented version of the Washington Consensus with the second term of the Cardoso government by the late 1990s. This chapter aims to explain how Brazil implemented Augmented Washington Consensus principles throughout the years until 2010 and how these policies were influenced by state-capital and state-labor relations.

7.1 Augmented Washington Consensus policies in Brazil

The economic performance of the second Cardoso administration declined with the Russian crisis of 1998. The 1998 Russian crisis deeply affected Brazil⁸⁴ (Maia and Menezes, 2014: 214). The world economic slowdown and the flight of investors worsened the Brazilian economy. In this period, the real lost its value about 35 percent against the dollar (The Economist, 27th March 1999). GDP growth rate was respectively 0,3 percent and 0,5 percent in 1998 and 1999 (Please see Figure 10 on page 144). During this period, GDP per capita was also reduced (Please see Figure 25 on page 221); while unemployment increased (Please see Figure 14 on page 164). The Central Bank floated the Real and then devalued it by 45 percent. In order to stabilize the Brazilian economy again, after the elections in 1998, the Cardoso government prepared a new macroeconomic policy reform by focusing on inflation, fiscal deficit, and fluctuation of the Real (Saad-Filho, 2007b: 20). This new reform package aimed to maintain a low inflation rate which was achieved in the previous years, balance public debt, and decrease interest rates and deficit of the current account⁸⁵ (Mollo and Saad-Filho, 2006: 100; Özdemir, 2019: 7). It can be said that these rules strengthened the financial system. Due to these rules, banks increased their treasury bonds and decreased the availability of loans to the private sector.

As mentioned in chapter three, many developing countries such as Latin American countries, East Asian countries, and Turkey, which were using Washington Consensus policies, faced economic crisis by the late 1990s. At the same time, inequality and poverty worsened in those countries as well (Rodrik 2002a: 1). Thus,

⁸⁴ The MST, the CUT and the Catholic Church, including leftist political parties the PT and PSB, all organized anational demonstration on 26 August 1999 in Brasilia against the economic and social impacts of the Cardoso government. In order to join the demonstration, buses from many cities were provided by the municipal authorities.

⁸⁵ Actually, this reform package continued to be implemented by Lula administration as well.

the Consensus lost its credibility. Poverty began to be seen in the context of social risk and vulnerability (Best, 2013: 116). It was accepted that without achieving social development, economic development could not take place (Cammack, 2004: 195), so by considering all these, pro-poor growth strategy was taken into account and the Washington Consensus was augmented and extended with further reforms, called AWC. Brazil began to implement principles of the AWC by Cardoso's second term. In addition to previous policies⁸⁶, Cardoso prepared further reform policies for Brazil. In his second term, he implemented policies on adherence to international financial codes and standards, anti-corruption measures, social safety nets, targeted poverty reduction, flexible labor market, exchange rate regime, and capital account opening (Nassif, 2007: 15).

The Cardoso government concentrated on adherence to international financial codes and standards, as the AWC proposed. In 1999, the Cardoso administration began to implement Basel rules in tandem with the IMF agreement (Morais and Saad-Filho, 2005: 14). With the Basel standards, banks accepted international standards. The financial strength of the banks was increasing and their international connections were also increasing. However, their numbers were decreasing.

Anti-corruption measures were also taken into the agenda by the second Cardoso government. The Fiscal Responsibility Law (FRL) was prepared in 2000, to have a more balanced and transparent administration regarding public resources.

The administrators of executive, legislative and judicial powers, as well as the Federal Attorney and the three spheres of government (federal, state and municipal), are now responsible for their budgets and targets, in a way to avoid unmanageable expenses without the endorsement of the federal government (Jayme Jr and Crocco, 2005: 146).

⁸⁶ In his first term, Cardoso implemented privatization, deregulation, tax reform, liberalization, reorientation of public expenditures, fiscal discipline, openness to FDI and competitive exchange rate.

During the Cardoso administration, as a result of neoliberal policies, a newly flourishing bourgeoisie emerged in addition to the traditional bourgeoisie in Brazil. The reforms made the political oligarchy lose its base. The bourgeoisie groups which had strong links with transnational capital and globalized finance benefited from the policies of the Washington Consensus and the AWC. Financial capital holders, such as banks, insurance companies, and accounting firms, transnational and internationally integrated production capital, and media were included in this bourgeoisie group (Özdemir, 2019: 8). It can be said that this group was politically dominant during the Collor and Cardoso periods. This bourgeoisie group did not support a national development strategy; instead, they mainly concentrated on the independence of the central bank, capital flows liberalization, privatization, and further international integration which were implemented in Brazil especially by the Cardoso administration (Özdemir, 2019: 8). So this means that they became successful in influencing the state to implement policies according to their interests and benefits.

Not all bourgeoisie groups benefited from the Washington Consensus and the AWC similarly. If the internal bourgeoisie, the fraction of the bourgeoisie that is domestically oriented which included domestic industries, banks in the state sector, and the owners of agribusiness, food production, and constructions, were considered, it can be seen that they did not enjoy the advantages of the neoliberal policies as much as the other bourgeoisie groups. Despite supporting neoliberal labor and social policies, the internal bourgeoisie also demanded state intervention in the economy, including state investment in infrastructure, subsidized loans from the BNDES, protectionism in trade, and some restraints against foreign capital (Saad-Filho, 2017: 981; Özdemir, 2019: 8). In addition, it was argued that with low real interest rates, social protection, and minimum wage rise, it was possible to enhance the domestic

market. So this group of the bourgeoisie was more open to the welfare state policies. The policies of Cardoso's second term administration were prepared by considering this perspective and gave benefits to the domestic-oriented bourgeoisie and labor class as well. This enabled to implementation of neoliberal policies without facing any criticism.

Washington Consensus package was criticized mainly for focusing on economic growth while ignoring social problems. For this reason, social safety nets and targeted poverty reduction policies were added to the AWC. In 1998 Cardoso successfully made some reforms regarding social assistance and social insurance⁸⁷ (Özdemir, 2019: 7) and he concentrated more on social policies and prepared anti-poverty and anti-inequality strategies which were the first in Brazil to resolve the traditional inequality problem. In this way, critiques against neoliberal economic policies could be prevented. The Labor class welcomed the implementation of those policies. While the state fulfilled the benefits of the bourgeoisie with neoliberal economic policies, the interests of laborers could be satisfied with the social assistance mechanism.

First of all, the National Secretariat for Social Assistance (*Secretaria Nacional de Assistência Social*, SNAS) was established in 1995 (Fenwick, 2009: 110). Secondly, the Cardoso government created the first national conditional cash transfers (CCTs) program of Brazil which was *Bolsa Escola* (School Allowance). It was about education. There was a huge education inequality in Brazil which directly caused income inequality (Please see Figure 24 on page 208). *Bolsa Escola* aimed to reduce this inequality. This program was prepared in 1995 (Hall, 2006: 695), but it began to be used effectively in the second term of the Cardoso administration. Under the *Bolsa*

⁸⁷ Although the 1988 Constitution guaranteed social rights, after the military regime civilian governments could not serve these rights effectively. There was a decrease in the share of labor in national income from 50 percent to 40 percent between 1980 and 1997 (Saad-Filho, 2014: 6).

Escola, the government paid families to send their children to school because poor families sent their children to work, instead of sending them to school.

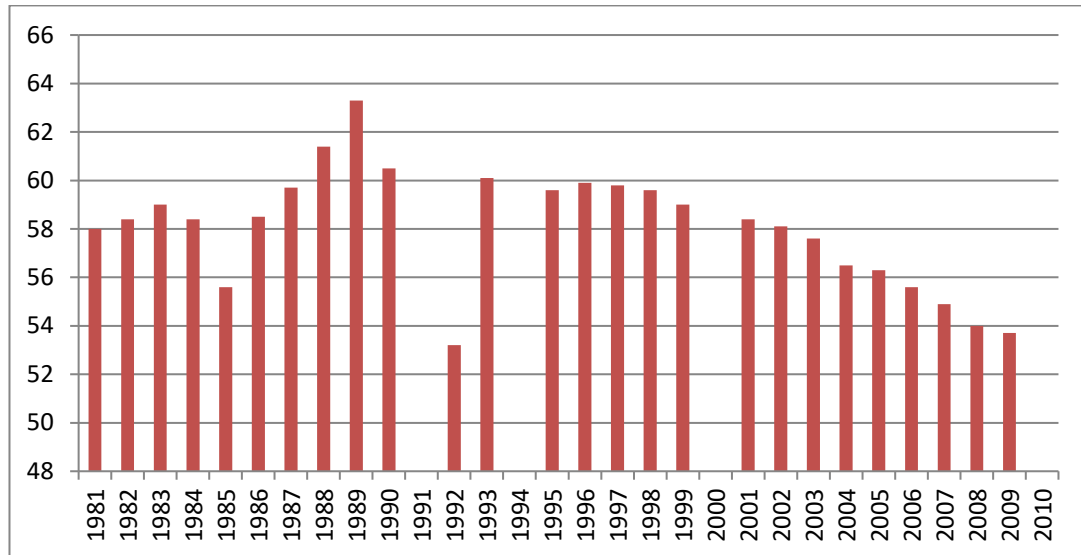


Figure 24: Gini index of Brazil, 1981-2010
Source: World Development Indicators

In addition to Bolsa Escola, the Cardoso government also prepared two important programs to fight against poverty and inequality in Brazil. *Bolsa Alimentação* (Food Allowance) was created in 2001 to provide basic food needs of low-income families especially families with infants or pregnant and lactating women (Fenwick, 2009: 113). In this way, it was also aimed to reduce malnutrition and infant mortality. The Ministry of Health was responsible for this program. The other program was *Auxilio Gas* (Gas Subsidy) which was created in 2002 to provide cooking gas for low-income families (Fenwick, 2009: 113). The National Secretary of Social Assistance was responsible for this program. Payments for all programs were made by an electronic card. All these programs were welcomed by laborers. The Bourgeoisie class also supported those programs because those programs could eliminate critiques against neoliberal policies by the labor class. Undoubtedly, the failure of the ruling parties to make significant improvements in favor of the employees and the

implementation of a flexible labor market due to the neoliberal policies implemented after 1985 weakened the trust of laborers in trade unions. In addition, for laborers, especially for urban laborers, with the sophistication of the industry and the gaining weight of the service sectors, the demands for representation of narrower interests and inclusion in the welfare society rather than radical transformation began to be strong. For this reason, trade unions lost their importance. Unionization rates gradually decreased in Brazil. The rate, which was around 30 percent in 1990, decreased to 20,6 percent by 2003 (Mahiroğulları, 2016: 96).

Although Brazil was influenced by the 1998 Russian crisis badly, the economy did not suddenly go into crisis, but in 2001, Turkey and Brazil entered the crisis with Argentina. In 2001, Brazil was also severely affected by a nationwide energy crisis. The state lost all control of public debt, loans to the private sector, and foreign capital. The ratio of Brazil's public debt to GNP increased from 28 percent to 56 percent between 1995 and 2002 (Kaynak, 2012: 215) and it became a big problem for Brazil. The Constitution of 1988 already prevented the debt from being paid by printing money. At the same time, unemployment also was still high since the mid-1990s (Please see Figure 14 on page 164). Despite the bad economic performance, Brazil successfully switched to the AWC by the late 1990s. Yet, the transition to the AWC principles was completed by the Lula administration.

Before the 2002 elections, the failure of the Real Plan and devaluation of the Brazilian currency caused a decline in the support of the PSDB. It was seen that Lula da Silva from the PT was a favorite candidate among Brazilians. The PT took a stand on the side of workers between the years 1980 and 1990. The character of the party changed after 1990. The party was estranged from its base and began to emphasize the main problems of society which were hunger and poverty instead of emphasizing

workers' rights (Güler, 2018: 1-2). In this way, the PT tried to open a new vision to take votes from other sections of society. On the other hand, Lula was not a favorite in the financial circles. Lula's radical image made the Brazilian neoliberal elites and international financiers anxious⁸⁸. There was a concern that Lula and the PT would change the political and economic tendency.

From this point of view, Lula published a letter called "Letter to the Brazilian People" to calm the market and emphasized that he would respect all contracts and economic programs (Mollo and Saad-Filho, 2006: 113). In other words, Lula was promising the bourgeoisie that he would continue to implement largely Cardoso's neoliberal economic policies. With the letter, the PT and Lula declared that they would not fight both the national bourgeoisie and the international monopolies. In fact, with this letter, Lula addressed the Brazilian bourgeoisie rather than the people. At the same time, Lula took Jose Alencar from the Liberal Party, one of the biggest textile industrialists, as the Vice President candidate to show that he would implement the economic policies as the bourgeoisie requested (Saad-Filho, 2003: 17).

Seeing that Lula was going to win the elections, the bourgeoisie class sought institutional guarantees that IMF agreements and fiscal discipline would adhere to. Thus, they pushed the current government to sign an agreement with the IMF. As a result, in September 2002, Brazil agreed on a stabilization plan and signed a Stand-by Agreement with the IMF. With this stabilization program, the government was committed to enacting a new bankruptcy law, the tax reform law, and housing reform law, to reduce public debt, to strengthen the currency of Real, and to make some other breakthroughs that would ensure macroeconomic stability (TMMOB, 2007: 26). As a

⁸⁸ That is why many financial institutions rejected to buy federal securities maturing after December 2002 which was the last day of the Cardoso administration (Mollo and Saad-Filho, 2006: 112).

new agreement was reached with the IMF, the bourgeoisie class guaranteed the continuation of neoliberal policies. In this way, financial capital had proven its strength and showed that it could be determinant not only for economic policies but also for democratic processes.

Supporters of the PT saw Lula as a leader to change everything. It can be said that Lula was supported by different groups such as those who were the losers of neoliberalism or who wanted to create an alternative to Cardoso and his policies (Morais and Saad-Filho, 2005: 4). The first group was skilled or semi-skilled workers, low-grade civil servants, and middle-class professionals working in urban and rural areas. They were adversely affected by the decrease in wages, the loss of employment, and the decline in the scope and quality of the public services (Morais and Saad-Filho, 2005: 5). Second, semi-skilled or unskilled informal workers joined the coalition supporting Lula. Although they did not have any connection with the PT, they supported Lula, due to being the losers of neoliberal policies. The third group was the traditional industrial elite, especially in the southeast of Brazil (Saad-Filho, 2007b: 9). They were affected negatively by the economic recession, as a result of the neoliberal economic policies of Cardoso. They were also uncomfortable with social phenomena such as crime and violence, which increased due to the deterioration of income distribution. They hoped that Lula would be able to cooperate with economically responsible policies and politics that could address social problems. Fourth, a group of right-wing oligarchs, landowners, and local politicians from the poor regions of the country also supported Lula (Morais and Saad-Filho, 2005: 6). This support was the result of a good political accumulation. It was thought;

Lula would depend heavily on their support in Congress and in the state governments, and that the PT would be more sensitive than the neoliberals would to the plight of poorer regions - both of which would maximize the oligarchs' political power and influence (Morais and Saad-Filho, 2005: 7).

The block against Lula supported Jose Serra⁸⁹ in the 2002 elections, who was the former Health Minister under Cardoso's presidency, from the PSDB (Saad-Filho, 2007b: 13). He also had the support of the Brazilian Democratic Movement (*Movimento Democrático Brasileiro*, MDB) from the center. Medium and large industrialists, the finance sector, exporters, merchants, big media owners, and landowners constituted a coalition against Lula. The urban middle class also supported Serra. Although they were relatively small and politically unstable, they were important, due to their influence on labor populations and their weight in the media. "This group of as a whole yearned for expansionary economic policies; however, many were reluctant to ditch the neoliberal globalist ideology that they had fully incorporated only recently" (Morais and Saad-Filho, 2005: 7). They were glad to have access to imported goods and have new international credit cards. In addition, the radical image of the PT frightened the urban middle class. In the end, the 2002 general elections were held on 6 October and the president was elected with a second-round on 27 October. Lula da Silva, the candidate from the PT, was elected as the 35th president of Brazil, by taking 61 percent of votes against Serra (Saad-Filho, 2007b: 7).

Although Lula came from the leftist culture, he did not interrupt the neoliberal policies initiated by the previous governments as promised and continued to implement the same policies with partial differences. "Like all developing countries, Brazil needs foreign capital flows and investors are reluctant to invest in Brazil if economic conditions are not attractive to them" (Özdemir, 2019: 12), so that is why the Lula government, despite its leftist perspective continued to implement neoliberal policies similar to Cardoso. In the first year of the PT administration, the government took a comprehensive structural adjustment step, which coincided with neoliberal

⁸⁹ Serra was an economist.

policies in general, with the suggestions of the IMF. This means that the AWC policies continued to be implemented in Brazil under the Lula government. The macroeconomic policies of Brazil under the PT government can be summarized with three principles: (1) Central Bank inflation targets (within a band), (2) a “very dirty” floating exchange rate regime, and (3) a target for a significant primary budget surplus” (Weisbrot et al., 2014: 10). This means that the Central Bank allowed the exchange rate to be appreciated as required. Thus, it was able to achieve its inflation target consistently after 2004.

The new government was actually in trouble, due to the major financial groups left the country by selling Real. As mentioned, there was a concern among financial groups about Lula’s victory. Some groups left the country just after the election of leftist Lula. During this period, the Brazilian currency was losing value by up to 30 percent, while the debt was constantly growing because half of the country's debt stock was in US dollars. In this sense, the PT government decided to implement tight monetary policies, like the Cardoso government. Consequently, the government became successful and a large fiscal surplus was created, even higher than foreseen fiscal target by the IMF. During the Cardoso period, it was aimed to assure a primary budget surplus of 3,75 percent of the GDP and this rate increased to 4,25 percent in the first administration period of Lula (Morais and Saad-Filho, 2005: 18). In this way, Brazil’s financial reserves were guaranteed in any case of new international crises⁹⁰. In short, Lula kept his promise and continued to maintain high-interest rates and fiscal tightness in his first administration. Thus, it was shown to foreign markets clearly that fiscal discipline continued to be applied. In other words, it means that the PT government continued to implement AWC principles.

⁹⁰ As a result, by January 2008, Brazil became a net foreign creditor and by mid-2008, status of Brazil was raised to investment grade by rating agencies (Hunter, 2010: 68).

Due to his leftist perspective and close links with laborers, Lula regarded the interests of the labor class as significant. Hence, for the benefits of the labor class in the early years of the PT government, Lula decided that unions need be represented in some public institutions. Of course, this decision created satisfaction on the part of the trade unions⁹¹. With the same logic, in 2003, the PT government created a "Council for Economic and Social Development" (*Conselho de Desenvolvimento Economico e Social*) which included the representatives of both the employers and the employees (Doctor, 2007: 131). Thus, it was signaled that policies related to working life would be determined in a macro corporatist way. Of course, these all increased hope and expectations for the PT government among especially laborers.

Compared to Cardoso's period, the Lula government implemented four new neoliberal policies, considering the AWC agenda. Firstly, the social security reform law was passed⁹² in 2003, and reforms such as increasing the retirement age by 7 years, partially privatizing the social security system, and lowering the bonuses of public retirees were implemented. At least, as in Chile, the system was not completely privatized. The social security reform law created disappointment among the trade unions⁹³. For example, the civil servant unions within the CUT, which supported the PT government strongly, criticized this decision and made a four-day strike (Savran, 2006: 130). Trade unionists who criticized and opposed the aforementioned legislation were punished by the PT administration. For example, the chairman of the "Teachers Union" in Sao Paulo lost the union presidential election in 2005 with Lula's

⁹¹ The triple structure, composed of the members of employee, employer and the state, determined the minimum wages in 2007.

⁹² In fact, the PT had previously rejected this law, while in the opposition.

⁹³ The election of a labor and unionist based president for the first time in Brazilian history and the appointment of 7 trade unionists to important positions including the Ministry of Labor and the Ministry of Social Security created a new hope and satisfaction on the trade union side.

intervention (Mahiroğulları, 2016: 95). Nevertheless, the PT government also expanded the scope of pensions, health insurance, and other social programs to groups such as women, domestic workers, and informal sector employees who were excluded from the social security system (Özdemir, 2019: 23). Such groups were previously excluded from the social security system.

Secondly, the Lula administration made a neoliberal tax reform. In this sense, Lula was affected by Cardoso's initiatives. "The reform reserved the high taxation required to service the public-sector debt, but with higher indirect taxes and rebates for financial transactions" (Morais and Saad-Filho, 2005: 19). In this way, the fiscal autonomy of the municipal and state governments was reduced. In other words, tax reform was made to deal with public debt. Thus, direct taxes were increased and local budgets were brought under control (Morais and Saad-Filho, 2005: 19).

Thirdly, the Lula government separated the regulations of the Central Bank and the financial system. This means that one of the principles of the AWC, independent central bank and inflation targeting, was accepted. As a result, inflation targeting became the main macroeconomic policy of Lula. And lastly, reform of labor law was designed to encourage free association and negotiations between the workers and their employers (Morais and Saad-Filho, 2005: 19). To be more precise, PT's four policies satisfied the interests of the domestic-oriented and international bourgeoisie, while creating disappointment among workers.

Industrialization and privatization policies in Brazil continued with Lula, but not much privatization was done under the PT government. The PT administration did not leave everything to the market. Through BNDES⁹⁴, the PT tried to intervene in the

⁹⁴ The government reserved resources for industrial policy through BNDES. BNDES's expending increased from 2,2 percent of GDP to 4,5 percent between 2005 and 2010 (Weisbrot et al., 2014: 2-3).

economy. Lula replaced the key positions at BNDES with developmentalist economists who were close to the PT. Actually, this created a ground for Lula in acting as a social liberal in the following years. BNDES in this process mainly provided state support for industrialization. The Industrial, Technological and Foreign Trade Policy (*Política Industrial, Tecnológica e de Comércio Exterior*, PITCE) which was prepared in 2004 was the first industrial policy of the PT. Industrial policy was seen as a tool to encourage growth in the preferred industries (Weisbrot et al., 2014: 13). The main aims of the PITCE were research and development, industrial modernization, institutional environment, supporting of strategic sectors, such as software and capital goods, and promoting future-leading technologies, including renewable energy. This industrial policy included both developmentalist and conservative strategies (Özdemir, 2019: 16). “Industrial policies were essential to get the political support of the internal bourgeoisie” (Özdemir, 2019: 2).

Lula was never standing against foreign capital and he supported foreign investments (Güler, 2018: 2). However, as mentioned, the possibility of leftist Lula’s victory in the 2002 elections created uncertainty in the Brazilian economy. That is why the FDI decreased dramatically from 5 percent of GDP to 1,8 percent between 2000 and 2003 (Please see Figure 12 on page 159). Lula’s strict fiscal and monetary policies not only restored the needed credibility and trust but also affected foreign investors, since 2003 (TMMOB, 2007: 26). After this period, FDI began to increase, but during the 2000s it fluctuated and never caught up with the trend of the late-1990s.

Like in the Cardoso period, trade policy was also one of the key policies for macroeconomic stabilization under the Lula administration. There was huge trade liberalization in both periods, but protection continued in the selective key industrial sectors in both periods (Kingstone, 2009: 120). After the 2001 economic crisis, the

global economy began to grow as well and Lula used this period as an advantage to enhance the Brazilian economy. As a consequence, there was a radical improvement in the trade performance of Brazil. There was a high export growth during the first years of the PT government (Please see Figure 13 on page 160). New trade partners such as South Africa, India, and China were found. In addition, they tried to create commercial ties with other developing regions, including Africa and the Middle East. The global boom and the resultant increase in exports put Brazil in an advantaged position. This positive environment helped Lula in increasing his popularity among the bourgeoisie and labor class. Due to the favorable global environment in the 2000s, Brazil had a positive macroeconomic performance, and thus policies of the PT government provided benefits to the bourgeoisie class.

The MST had played an important role in the victory of Lula in the 2002 elections. By using this importance, they managed to place land reform on the government's agenda. During the election campaign, Lula had also promised to prepare a compressive agrarian reform program. Yet, during his government, less land was redistributed, compared to the Cardoso period and those lands were private holdings rather than public holdings (Hunter, 2010: 38). Therefore, this redistribution policy could not change the highly unequal agrarian structure in Brazil. Due to this policy, the tension increased between the MST and the PT government. The PT disregarded the interests of the MST. Furthermore, Lula continued to use Cardoso's agribusiness policies and even intensified those (Robles, 2018: 23). In addition, he gave agricultural credits to small landholders. As a response to critiques about the capacity of PRONAF whether promoted poor farmers or not, the Lula government created the National Food Procurement Program (*Programa de Aquisição de Alimentos – PAA*) in 2003 (Rocha, 2009: 58). However, PRONAF was not abolished.

Until 2006, PRONAF and PAA worked separately. After 2006, the Lula government decided to unite these programs.

Although the PT came from the leftist perspective and criticized neoliberal economic policies, it conceded to the idea of liberal markets and a vibrant private sector to be able to sustain long-term economic growth. The collapse of the economy would affect the whole society negatively, so the PT government determined its priorities in this way. By moderate redistributive policies without violating the core interests of the market economy, the PT mobilized popular support, as a leftist party (Levitsky and Roberts, 2011: 23). In other words, Lula yielded to the view that “there is no alternative to neoliberalism” (Mollo and Saad-Filho, 2006: 116); however, Lula distinguished himself from other leaders by his equity, capability, credibility, and efficiency to implement social targeting programs. His social assistance policies remained within the boundaries of the AWC principles (Güler, 2018: 2). In this sense, he promised to end hunger and homelessness, give better money for state workers and provide more education and health care (The Economist, 2nd November 2002). By improving the conditions of the formal labor market, there was also an increase in average worker income. In a way, he acted like a social liberal leader in the following years.

During the election campaign, *Fome Zero* (Zero Hunger) was used as a slogan by Lula. After coming to power, he began to use this campaign as an official program. This program aimed to create a society where all Brazilians were going to eat three times a day. With this program, the Lula government expected to reach 44 million Brazilians to provide them food supply and cash aid (Hall, 2006: 690). However, Fome Zero became ineffective, due to its procedures and wrong information. Instead of this program, *Cartao Alimentação* (Food Card) was created by the Lula government in

2003 to provide basic food to poor households (Almeida, 2005: 7). Especially the semi-arid Northeastern of Brazil⁹⁵ was chosen to help poor Brazilians.

The Lula government also continued to use Cardoso's social assistance programs, but he thought that those programs could not be effective separately. So he established *Bolsa Familia* in 2004 (Family Allowance) by combining three previously existing programs – Bolsa Escola, Bolsa Alimentação, and Auxilio Gas – and his program – Cartao Alimentação (Weisbrot et al., 2014: 1). Education, maternal nutrition, food supply, and gas supply began to be controlled under one program. With Bolsa Familia, it was aimed to reduce the injustice in the distribution of income (Güler, 2018: 3).

As mentioned, there was also inequality in terms of education in Brazil. The Cardoso government created Fundef to provide funds for primary school. On the other hand, the Lula government transformed Fundef to Fundeb (Education Maintenance and Development Fund; *Fundo de Manutenção e Desenvolvimento do Educação Basica*). Fundeb was an extended version of the Fundef. In addition to primary school, secondary school and preschool education were added to the funding system (Almeida, 2005: 9). In this way, it was aimed to provide education funds for a larger segment.

Compared to the Cardoso period, the government spending on social policy increased slightly in the first period of the Lula government from 23,5 percent to 26,5 percent (Hunter, 2010: 45). In order to find more funds, international companies such as Ford and Unilever were invited to the country. In addition, the funds which were taken from the World Bank were used to expand social programs (The Economist, 17th September 2005). Furthermore, the IMF and the Inter-American Development Bank provided funds to the Lula government for this purpose. In addition to external funds,

⁹⁵ The northeast region is the poorest region in Brazil (Vanden and Prevost, 2009: 106).

the government also applied internal funds. Financial support was taken from the rich Brazilians (The Economist, 4th September 2004). During the Lula administration, social programs became crucial and the government spent an important time to find funds and expand social programs (Almeida, 2005: 9).

Although the PT concentrated on redistributive policies, social citizenship rights, and regulatory measures, it did not aim to transform the country to socialism. Those policies were prepared to support capitalism by “reducing social inequalities, controlling natural resources, and guarding against market insecurities” (Levitsky and Roberts, 2011: 20). There was a win-win scenario. By providing social assistance programs, the government satisfied the interests of the labor class. Labors no longer resisted the implementation of neoliberal economic policies. In this way, neoliberal policies could be implemented without facing any criticism, so the bourgeoisie class benefited from this. It can be said that the PT used orthodox policies, i.e. principles of economic liberalism, and supported them with extensive social policies as the AWC proposed.

Orthodox governments generally maintain strict fiscal and monetary discipline, as well as central bank independence. They may, for example, run budget surpluses, limit monetary emissions, and establish high positive interest rates, all indicating that economic stability and low inflation are prioritized over rapid growth. Similarly, they generally uphold (or expand) private ownership of productive sectors and let markets determine wages, prices, and labor relations. Finally, they maintain open trade and foreign investment regimes, with low tariffs and quotas, competitive exchange rates, and few restrictions on the movement of capital in or out of the country (Levitsky and Roberts, 2011: 21).

Brazil experienced relatively fast economic growth and relatedly employment increase from 2002 to 2010 and all social classes benefited from this. In fact, in addition to Lula’s policies, global economic conditions also helped this success (Özdemir, 2019: 2). Brazil had an average 3,5 percent growth rate between 2003 and 2006 (Please see Figure 10 on page 144) and GDP per capita increased gradually in

this period (Please see Figure 25). Except 2003, inflation was still under control (Please see Figure 8 on page 137). External debt profile also improved during the Lula government. External debt stocks reduced from 236 billion \$ to 194 billion \$ between 2003 and 2006 (Please see Figure 9 on page 138). All these helped to create improvements in the balance of payments and the financial indicators as well (Morais and Saad-Filho, 2005: 18). So confidence in the Brazilian economy increased too. Stable economic growth during the 2000s provided benefits to all social classes (Özdemir, 2019: 10).

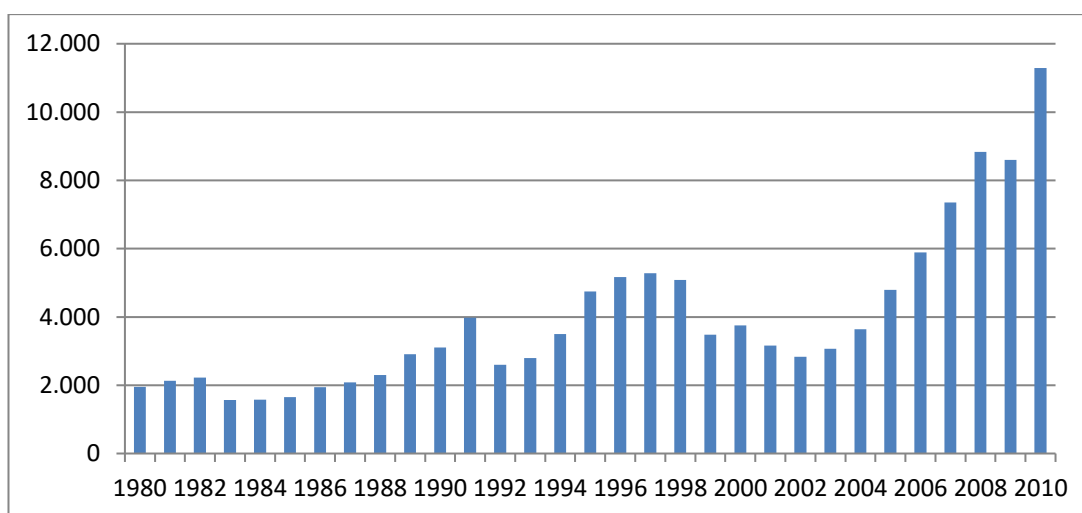


Figure 25: GDP per capita of Brazil (current US\$), 1980-2010
Source: World Development Indicators

As mentioned, Brazil was one of the most unequal countries in the world in terms of income. During the Lula government, both inequality and poverty rates decreased. Income inequality declined from 57.6 to 55.6 between 2003 and 2006 (Please see Figure 24 on page 208) and poverty decreased from 41,7 percent to 34,2 percent (Please see Figure 7 on page 137). Furthermore, during the late 1990s, Brazil faced problems in unemployment and informality. Unemployment began to decline with the Lula administration. It decreased from 10 percent to 8,6 percent between 2003

and 2006 (Please see Figure 14 on page 164). There was a 99 percent rise in unemployment insurance coverage from 2000 to 2012 (Weisbrot et al., 2014: 3). Moreover, in order to fight against informality, the PT government enforced the new labor law under the Ministry of Labor and the Public Ministry's labor (Ferreira et al., 2016). As a result, the informality rate⁹⁶ reduced steadily between 2003 and 2010 from 22,5 percent to 18 percent (Weisbrot et al., 2014: 16).

Furthermore, working conditions and working hours improved in favor of workers (Saad-Filho, 2017: 980). The PT government also increased labor wages. "The minimum wage increases and the social programs were effective in getting the support of the poor working classes" (Özdemir, 2019: 10). This also helped the PT to become successful in the labor market policy (Weisbrot et al., 2014: 16). For instance, the minimum wage increased by 53,7 percent between 2002 and 2010 (Boito and Berringer, 2014: 98). This also helped to create sustainability in the economy and current account. On this point, it can be said that Lula could be distinguished from other politicians who implemented the AWC principles. Although the AWC proposed social assistance programs, Lula went further and focused on policies that could improve working conditions, working hours, and life standards of laborers. Of course, Lula's leftist perspective and his close links with laborers played an important role in this political choice.

Due to all these positive developments, there was a static period in trade union activities. "Over the course of the 1990s and early 2000s, the number of unions in Brazil increased dramatically, reaching a total of 9,883 by 2012, with 72 percent in urban areas and 28 percent in rural areas" (Anner and Veiga, 2020: 411). Lula could

⁹⁶ The informality rate "measures the percentage of non-registered workers as a total of the employed population" (Weisbrot et al., 2014: 16).

communicate with the masses very effectively by using his humble image. He succeeded in building on an image of an extremely honest leader. Although the bribery scandals erupted in his team, Lula continued his way by dismissing those names (Wiltse, 2010: 11). Lula's popularity among the population was over 80 percent. Such a rate is so high for a politician who has remained in power for 8 years (Wiltse, 2010: 12).

Although in the early years, the party had close ties with the labor unions and had deep roots in the socialist tradition, over years, in order to broaden its electoral power base, the PT got professionalized and lost its ties with the popular movements and decreased its emphasis on grassroots organizations (Levitsky and Roberts, 2011: 13). Social movements such as the MST and the public sector unions withdrew their support from the PT because of Lula's policies such as the agrarian reform policy for MST. However, low-income and low-education people of the north and northeast Brazil began to support the PT as a result of the benefits of macroeconomic stability and Lula's social programs (Kingstone, 2009: 118). For instance, in the 2006 elections, this group constituted the main voters for Lula. The Union Power (*Força Sindical*), which adopted right-wing trade unionism in its organization, supported Lula in the 2006 elections, even though they were opposed to the PT before (Galvao and Hallewell, 2014: 189). So there was a dramatic shift in the supporters of the PT and Lula from the organized working class and middle class of the south and southeast Brazilians to low-income and low-education people of the north and northeast Brazilians.

The Bolsa Familia practice was so popular in the 2006 election campaigns. The political opponents of the PT were pledging to accept this program and to do it even better (Hall, 2012: 7). This program covered 12 million families to create a minimum

income and an ambitious education investment. Brazilians, especially the poor ones, believed and relied on this program. Therefore, the continuation of this program was so important for them. That is why Lula's opponents tried to show that they would continue to provide the same program in order to get votes. The positive developments in economic and social terms brought the reelection of Lula to the presidency in December 2006 by taking 60 percent of votes (Samuels and Zucco, 2014: 130).

In his second term, Lula continued to implement the same economic and social policies as the AWC recommended, but it is important to state that he expanded social assistance programs more in this term. During Lula's second presidency, public social expenditures, such as family benefits for the poor, income transfer to the elderly and disabled, and housing for the homeless, were increased. Furthermore, Lula in this term mainly concentrated on infrastructure and industrial policies and prepared programs in this direction. In this way, the domestic-oriented bourgeoisie class and labor class benefited from this period.

The Growth Acceleration Program (*Programa de Aceleração do Crescimento*, PAC) was prepared in 2007 to provide policies for infrastructure and investment. PAC concentrated investments of the government, state enterprises, and the private sector in sanitation, energy, housing, and transport, "The government's main objective was to increase investments in infrastructure to eliminate the main bottlenecks that limit economic growth and to increase corporate productivity in addition to stimulating private investment growth and reducing regional inequalities" (Rodrigues et al., 2018: 86). PAC became the major infrastructure program of Brazil and contributed to the increase of job supply and income generation.

It is clear to state that compared to Cardoso, Lula concentrated on industrial policy more especially in his second term. To increase industrialization, Lula prepared

a second set of industrial policies in 2008, the Productive Development Policy (*Política de Desenvolvimento Produtivo*, PDP), by considering the demands of politicians and business associations (Özdemir, 2019: 16). With this industrial policy, it was hoped that investment increased in labor-intensive sectors, such as footwear, textiles, clothing, and furniture. Under this policy, BNDES was allowed to give support to domestic Brazilian companies for internationalization. This bourgeoisie group, known as *Campeões Nacionais* (National Champions), was benefited from the BNDES funds to develop. As a result, during the Lula administration, huge Brazilian companies were established which could compete across the world. These companies had the power to compete with the world's leading companies in energy, aircraft, processed food, and mining. Of course, these companies also gave power to Brazil.

It can be summarized that during the Collor and Cardoso period, neoliberal policies benefited mainly the international bourgeoisie in Brazil; whereas, PT's policies concentrated on the interests of the domestic-oriented bourgeoisie. The policies of Collor and Cardoso provided benefits to the banking segment of internationalized bourgeoisie whereas gave damage to the interests of the domestic-oriented industrial bourgeoisie (Boito and Resende, 2007: 118). Lula's policies were particularly suited to the interests of the domestic-oriented bourgeoisie (Boito and Berringer, 2014: 98). Especially implementation of industrial and infrastructure policies in his second term gave benefits to the domestic-oriented bourgeoisie. Domestic-oriented bourgeoisie needed state support in finding new foreign markets for export and foreign direct investment. In addition, they wanted priority for their goods and services in state purchasing decisions and state-run companies (Boito and Berringer, 2014: 102). Through BNDES, state support aimed to be given to domestic Brazilian companies for internationalization.

According to Lula, “internal production is almost stagnant” (Boito and Resende, 2007: 129), which also led to negative results for laborers especially for rural laborers. While production increased, he also increased wages. This also served the economic interest of the domestically oriented bourgeoisie (Novelli, 2016: 17). Furthermore, Lula’s social policies enhanced the interests of the domestic-oriented bourgeoisie by improving their accumulation opportunities via expanding the domestic market.

Although Lula implemented more orthodox policies in his first term, during his second term, his policies could be identified as heterodox. The first Lula government was more neoliberal; while the second Lula government can be considered as a more social liberal. As mentioned, in his second term, Lula mainly concentrated on social policies. These policies are called pragmatism in some sources (Loureiro and Saad-Filho, 2018: 12) and traditional method (Hunter, 2010: 147) in others. Actually, Lula implemented neoliberal macroeconomic policy framework with a developmentalist strategy by “aiming to maintain high international reserves, raise aggregate demand, redistribute income, and expand consumer credit for the poor’ to temper more orthodox policy directed by the Central Bank” (Morais and Saad-Filho, 2011: 35). Although the AWC agenda proposed social assistance programs for the poor, Lula went further and in addition to social assistance programs, provided income redistribution-oriented policies (Braga and Purdy, 2018: 4). Good economic growth and global economic condition helped him to use pro-labor policies (Özdemir, 2019: 1). Özdemir (2019: 11) identified this kind of PT’s model as a “soft version of embedded neoliberalism”.

In those years, the Brazilian state took a responsibility to provide welfare for the whole people. It was believed that there are various rights such as health, education, work, and housing, and the state has to administrate all. For this purpose, in addition

to other social policies, in 2009, social housing and land reform called *Minha Casa Minha Vida* (My House My Life – MCMV) was realized where homelessness and landlessness were intense. MCMV provided funds for housing⁹⁷. The sources of MCMV fund were the federal budget and workers' compensation. *Caixa Economica Federal*, which is a state-owned bank, was used as a federal budget. One million families settled in their new homes until the end of 2012 (The Economist, 16th February 2013). It can be seen that Lula primarily turns towards low-income families that constitute the majority of the population, which can be interpreted under the selection strategy (Biderman et al., 2018: 3). In short, the large poor sections of Brazil, which have been under pressure for a long time, are highlighted.

The 2008-2009 economic crisis, known as the mortgage crisis, emerged in the United States in the last months of 2008. Although many countries were influenced by the 2008-2009 economic crisis very badly, which was the worst crisis since the 1930s Great Depression, Brazil was not affected by this crisis so much, thanks to the PT's industrial policies (Financial Times, 8th November 2009; Özdemir, 2019: 2). In this process, its inflation rate was under control (Please see Figure 8 on page 137). Despite having a 0,5 percent negative growth rate in 2009, in the following year, the growth rate reached 7,5 percent (Please see Figure 10 on page 144). According to Lula, public investment in infrastructure was the main reason for this success (Financial Times, 8th November 2009). Brazil had made many public investments before the crisis; while other countries were concentrating investments after the crisis. It was believed, that is why Brazil was not terribly affected by the 2008-2009 economic crisis.

Although the 2008-2009 economic crisis did not immediately create bad economic results in Brazil, both poverty and unemployment increased (Please see

⁹⁷ This fund was a part of PAC which was the main infrastructure program during Lula's period.

Figure 7 on page 137 and Figure 14 on page 164). With the increasing poverty and unemployment, conditions emerged where the economy could no longer be managed as before, especially for workers. Although the existing union organizations in Brazil had different perspectives, in the face of the increasing economic crisis, except radical left unions such as CONLUTAS and INTERSINDICAL, they came together and met with the government in January 2009. As a result, they signed a "Union Action Pact". Union leaders asked President Lula to strengthen unemployment insurance and increase funds for workers' organizations (Mahiroğulları, 2016: 98).

Although the number of strikes decreased from 935 to 411 between 1998 and 2008 and it increased to 516 in 2009 due to economic crisis, it does not mean that labor became ineffective (Boito and Marcelino, 2011: 65). Since 2004, union activity was renewed in Brazil and the majority of the strikes were done for achieving real wage increase (Boito and Marcelino, 2011: 65). During the 2000s, most of strikes were offensive which means aiming to improve labor wages and conditions instead of defending what they already had. Despite of organizing more strikes in the 1990s, most of them were defensive. "It seems that in the 1990s workers had to run hard just to stay in the same place, whereas in the following decade they were managing, with less effort, to advance and make new conquests despite striking less often" (Boito and Marcelino, 2011: 67).

On the other hand, the bourgeoisie class, especially internationalized bourgeoisie, turned to more right-wing parties (Güler, 2018: 5) because the Lula government now focused on more social liberal policies and began to disregard neoliberal economic policies. As mentioned, in his second term, he mainly focused on developmentalist social policies and policies on infrastructure and industry due to the global economic boom and good economic growth.

Despite the negative developments in the last year, generally good performance of the Lula government helped Dilma Rousseff⁹⁸ – the candidate of the PT in the 2010 election – to be elected as the President. Thus, she became the 36th President of Brazil, as the first female president. Compared to the conciliatory style of Lula, Rousseff has a strong personality, so there was an expectation from her to establish a new stage of economic and regulatory measures which could tame the exclusive Brazilian capitalism (Pinto et al., 2016: 7). Rousseff wanted to go beyond Lula to break the agreement between the PT and the dominant sectors of Brazilian capitalism and to improve the development strategy and maintain high GDP growth rates by reducing poverty and inequality in the country.

7.2 Conclusion

Brazil began to implement an augmented version of the Washington Consensus with the Cardoso's second term, so policies on a free trade agreement, independence of Central Bank, adherence to international financial codes and standards, anti-corruption measures, flexible labor market, social safety nets, and targeted poverty reduction gained importance for the Brazilian government. Cardoso prepared important social assistance programs as the AWC proposed. However, despite the social assistance programs, poverty and income inequality continued to be important problems in Brazil. Cardoso's policies mainly gave benefits to the bourgeoisie class. During the Cardoso period, many Brazilian companies were internationalized. On the other hand, the labor class struggled against low wages and bad working conditions. Table seven shows the summary of the strength of classes in Brazil from the late-1990s to 2010.

⁹⁸ Rousseff was Lula's Chief of Staff from 2005 to 2010.

Table 7: Strength of classes in Brazil, late-1990s and 2010

	Late-1990s	2000-2007	2007-2010
Brazil	<ul style="list-style-type: none"> • Closer relationship between internationalized bourgeoisie and the Cardoso government • Strong labor class 	<ul style="list-style-type: none"> • Struggle between internationalized bourgeoisie and domestic oriented bourgeoisie • Strong labor class 	<ul style="list-style-type: none"> • Closer relationship between domestic oriented bourgeoisie and the Lula government • Strong labor class

While neoliberal policies were implemented throughout the years, the labor class in Brazil continued to be powerful. The PT and ex-union leader Lula also gave the power to labor class by being in the government. As mentioned, the PT government appointed unionists to some key public positions. In his first term, despite the leftist perspective, Lula continued to implement Cardoso’s AWC neoliberal principles and provided more extensive social assistance programs compared to Cardoso. His social assistance policies remained within the boundaries of the AWC principles. However, Lula distinguished himself from other leaders by his equity, capability, credibility, and efficiency to implement social targeting programs. Hereinbefore, under the PT government, from 2002 to 2010, minimum wage in Brazil increased 53,7 percent.

On the other hand, in his second term, due to good economic growth and global economic condition, Lula implemented pro-labor policies. He focused on welfare and income redistribution-oriented policies which gave benefits to the labor class. Furthermore, he concentrated more on infrastructure and industrial policies which mainly gave benefits to domestic-oriented instead of the internationalized bourgeoisie.

Especially in his second term, Lula was close with the domestic-oriented bourgeoisie compared to internationalized bourgeoisie because of his industrial and infrastructure policies. It can be said that especially after the 2008-2009 crisis, the PT government questioned the sustainability of AWC principles.

Chapter 8

AUGMENTED WASHINGTON CONSENSUS POLICIES IN TURKEY

The 2000s in Turkey began with a huge economic crisis. During the 1990s, neoliberal policies were decelerated by the coalition governments (Özdemir, 2017: 184). To take funds from the IMF, the technocratic Economy Minister of Turkey, Kemal Derviş, prepared the TSEP (Yeldan, 2002: 2). Neoliberal policies regained importance with the TSEP (Yeldan, 2002: 2). This was the beginning of the AWC policies in Turkey. The newly established conservative party AKP came to the power in 2002 and continued to implement and deepen those policies (Özdemir, 2017: 188). In addition to previous neoliberal policies, the AKP government enlarged the neoliberal agenda due to the changing global capitalist trend and began to implement the AWC principles.

Open Marxist perspective argues that the form of the capitalist state-as a neutral arbiter autonomous from dominant interests is just its appearance. The capitalist state's autonomy from economy is limited because it needs to oversee the accumulation process. This means that the state does not function in the best interests of capital or it does not act as an instrument of capital and the state has to respond to the conflicting interests of capital as well as the different demands of the proletariat. In this chapter, I will analyze how AWC principles were implemented in Turkey by departing from this framework.

8.1 Augmented Washington Consensus Policies in Turkey

Since the very late 1990s and very early 2000s, in order to improve the global competitiveness of the Turkish economy, five major policies were implemented. These are:

a comprehensive banking reform by which the relations between banking and industry were reconfigured to shift money-capital from state debts into fixed capital investments; ii) removal of the legal-institutional barriers to private investment through the ‘reform program for the improvement of the investment climate’; iii) the shift in the sectoral composition of productive investments from labor-intensive to capital-intensive sectors; iv) transformation of the socio-spatial organization of production through regional policies that aim to increase global competitiveness; v) the establishment of new mechanisms of control over labor in line with these structural transformations (Oğuz, 2013: 200).

Although the AKP came from the “national vision” (*Milli Görüş*) tradition, it combines the center rightist Islamist perspective with the neoliberal market economy. This new generation of Islamist leaders who “came from lower and middle-class families” supported cooperation with the EU and US, contrary to the previous Islamist parties (Özcan and Turunç, 2011: 70). After coming to power, the AKP announced that they would maintain the “Transition to the Strong Economy Program” to implement the structural reforms of the IMF (Özcan and Turunç, 2011: 70). This means the continuation of neoliberal policies under the Augmented Washington Consensus. Despite the expectations, the AKP government did not follow the old populist traditions. Instead, they mainly concentrated on economic and democratic reforms. For this reason, despite the unexpected victory of the AKP, international capital did not lose its confidence in Turkey. The big bourgeoisie suspected the AKP and its policies at first, but then close relations were created with the AKP government due to its policies (Bakan and Çimen, 2018: 53). It is important to state that the AKP became an important turning point for Turkish and Islamist politics.

Neoliberal policies were first implemented by the Özal government after 1980. However, during the 1990s, those policies were only partially implemented by the coalition governments. After coming to power, the AKP government concentrated on the same neoliberal policies (Özden et al., 2017: 193). Until that time, the governments implemented policies on fiscal discipline, unified and competitive exchange rate, trade liberalization, openness to FDI, privatization, deregulation, secure property rights, prudent capital account, adherence to WTO discipline, and interest rate liberalization. In the post-2002 period, the AKP government implemented Washington Consensus principles that were augmented, enlarged, and expanded with several reforms. With the influence of the AWC, the AKP government enlarged Turkish neoliberal policies in this direction. Besides, the AKP government tried to complete the previously partial reforms such as privatization and fiscal discipline, additionally it focused on inflation targeting and independent Central Bank, tightened the financial codes and standards, non-intermediate exchange rate regimes, flexible labor market, corporate governance, social safety nets and targeted poverty reduction (Özdemir, 2017: 188, Güven, 2008: 8). Although Turkey caught the global capitalist trend late compared to other developing countries, by 2001 AWC principles began to be implemented. It is right to say that AKP in its first term implemented deep neoliberal policies.

Before coming to the power, mainly the MÜSİAD members supported the AKP, due to its conservative perspective. In fact, some of its members took place in the parliament as well. With the support of the MÜSİAD, the AKP could find a way to show itself as a liberal moderate center-right party, despite its Islamic background. On the other hand, for the Istanbul bourgeoisie, the single-party government was considered stable after several unstable coalition governments. That is why both big and small capitalists supported the AKP government. It can be said that the concerns

and policy recommendations of TÜSİAD and MÜSİAD were similar at the beginning of the AKP administration. Both associations wanted the government to take drastic measures regarding the current account deficit, hot money, and lack of sectorial discipline (Buğra and Savaşkan, 2014: 35). So policies were designed considering these suggestions.

As mentioned, TÜSİAD attributed the reason for the 2000-2001 crisis to the fact that the IMF policies were not implemented systematically. It was argued that economic problems, that constitute an obstacle to EU membership and democratic formations, could be solved with the IMF policies. So TÜSİAD tried to put pressure on the AKP government to continue negotiations with the IMF and sign an agreement. Finally, in 2005, the AKP government made a new agreement with the IMF to further liberalization (Özdemir, 2020: 7). With the standby agreement, Turkey gave a guarantee to investors and the bourgeoisie class that liberalization policies would continue until 2008. So this increased capital inflows in Turkey. This helped the AKP government in increasing the growth rate and receiving the hot money that the market needed in those years (Özdemir, 2017: 187).

The Özal government could not be successful to realize fiscal discipline in the 1980s. Additionally, during the 1990s, the coalition governments ignored fiscal discipline and transparency. As a result, the budget deficit had increased since 1990 (Aras and Öztürk, 2011: 405). It was also seen as one of the most important reasons for the 2001 economic crisis. After the crisis, Kemal Derviş concentrated on fiscal discipline and put it on the top of the agenda. Like him, the AKP government considered fiscal control and macroeconomic stability as a major economic issue (Atiyas, 2012: 12). Under the AWC, tight monetary and fiscal policies were the key economic policies to create a flexible and productive economy, so from this

perspective, macroeconomic stability could be achieved by concentrating on these policies. Since 2002, under the fiscal discipline policy, budget finance policies of Turkey are based on obtaining more non-interest surplus. The main aim of fiscal policy was to reduce the debt stock to sustainable levels and achieve a primary surplus to maintain macroeconomic stability. It was accepted that savings in non-interest surplus and stability for the implementation of budget fiscal policies showed a positive performance of Turkey (BSB, 2005: 40). As a result of the policies on fiscal discipline, public borrowing requirements got surplus in 2005 and 2006 (Akçay, 2018: 7; Aras and Öztürk, 2011: 406).

It is right to emphasize that compared to the previous governments, AKP became successful in fiscal discipline. Although small and medium-sized capital was not very satisfied with the fiscal policies implemented, this dissatisfaction was eliminated with policies reducing labor costs further (Akça and Özden, 2015: 5). However, this caused to increase in the gap in society and create a huge class divide in Turkey (Yeldan, 2007: 14). Although reducing labor wages was beneficial to the bourgeoisie class, this was a big problem for laborers. However, due to the high unemployment rate in those years (Please see Figure 23 on page 197) laborers had to accept lower wages rather losing their jobs.

Privatization was one of the main policies on the agenda of the AKP government. Privatization began in the ANAP period, but it was accelerated with the AKP government, and main sectors were privatized with the 2000s (Bozkurt, 2021: 11). Privatization revenues in 2005 and 2006 were more than double of the previous two decades and total privatization revenue in the period from 1985 to 2004 was about a quarter of the revenue from 2004 to 2011 (Buğra and Savaşkan, 2014: 113).

By ignoring all reactions, the government decided to cut public services and public spending and privatize state-owned enterprises (Yeldan 2007: 3; Atiyas, 2012: 14). This means that the AKP government reoriented public expenditure in the way AWC prompted. While they were implementing these policies, they aimed to sustain the balance of income and expenses. It can be said that privatization with the AKP government began in large industries such as petrochemicals, electricity distribution, banking, and telecommunications. As a result, a new kind of relationship was established between the state and capital. The Turkish bourgeoisie changed its orientation towards productive capital accumulation (Ercan and Oğuz, 2014: 117). Bourgeoisie wanted to be closer to the state to take advantage of any privatization attempts.

Moreover, the legal institutional obstacles against privatization were eliminated by the AKP. In addition, the existing public procurement law had limitations, covering only state departments. The new regulation was passed in January 2002 (Ercan and Oğuz, 2006: 650) which aimed to open up the procurement market to global capital⁹⁹. Internationalized big domestic capitalists, i.e. Istanbul bourgeoisie under TÜSİAD, supported the change in the procurement law. The reason was that this group of capitalists tended to create close relations with global capitals; yet in terms of state protection, they wanted to be together with other domestic capital groups against global capitalists (Ercan and Oğuz, 2006: 649). On the other hand, the newly growing medium-sized domestic capitalists, referred to as the Anatolian bourgeoisie

⁹⁹ With the development of neoliberalism in Turkey, regulations were changing. The first phase began by the 1980 and continued until the late 1990s which sought to reorganize social relationships under market principles and eliminate obstacles in this process. So in order to achieve this, economic liberalization reforms need to be implemented such as privatization, deregulation, international arbitration and convertibility of the Turkish Lira (Ercan and Oğuz, 2006: 648). The second phase began with the late 1990s. It was aimed to institutionalize neoliberal reforms, so new laws and regulations were prepared with the principles of market-oriented internationalization. By this phase, public procurement began to be modified.

under MÜSİAD, saw public procurement as a way to expand their accumulation. That was why this group of domestic capital supported the privileged position of domestic capital in public procurement. In addition to medium-sized domestic capitalists, small capitalists wanted to preserve the old procurement law in order to survive (Ercan and Oğuz, 2006: 649).

The AKP government delayed the implementation of the procurement law. Instead of this law, the new law which gave the privileged position of domestic capitals was prepared and accepted by the parliament in July 2003 (Ercan and Oğuz, 2006: 652). This gave a huge benefit to MÜSİAD members to expand their accumulation. This also shows that the AKP government was on the side of this group of the bourgeoisie from the beginning. Many MÜSİAD members took advantage of large infrastructure investments, public-private partnership projects, and loans from the state banks (Buğra and Savaşkan, 2012: 48). Moreover, many small and medium-sized enterprises (SMEs) benefited from this process by using their connections with the bigger MÜSİAD members (Buğra and Savaşkan, 2012: 49). Those enterprises could achieve state contracts, subsidies, and credits. The AKP government could be considered as the golden opportunity for the MÜSİAD members. Although big industrial companies benefited from the AKP policies, they took advantage more. Their share in the economy grew during the AKP government. By using this advantage, MÜSİAD members gradually acquired the capacity to compete in the international market.

Considering privatization policies, the AKP government established government-business joint projects which helped the AKP to accumulate capital. This created a win-win scenario for both the state and bourgeoisie. Licensing procedures for the establishment of Hydroelectric Power Plants (HEPPs) and the restructuring of

the natural gas market created new opportunities for state-supported capital accumulation (Buğra and Savaşkan, 2012: 53). Moreover, with the health reform in 2004, it was given a chance to take public service from private hospitals. The other important government-business joint project was on social housing. The Mass Housing Development Administration (*Toplu Konut İdaresi Başkanlığı*, TOKİ), which was a state institution, established an important social housing sector with public-private partnership (Buğra and Savaşkan, 2012: 54). In addition, consumer credits and mass housing projects were designed to promote the construction sector. The Islamist bourgeoisie was able to compensate for the disadvantages of macro-economic financial stability policies by taking significant shares from privatization and public tenders at both national and local levels (Bakan and Çimen, 2018: 53).

The AKP government's first attempt at tax reform was to abandon law no 4369 of 22 July 1998, known as Financial Millennium¹⁰⁰, and announced the tax amnesty in 2003. The aim of the law was “to resolve tax controversies by restructuring accused and uncontrolled taxes which belong to the taxpayer who was affected by the economic crisis of 2001” (Ateş, 2008: 3). It can be said that MÜSİAD members benefited from this tax reform more. It is important to state that during the 2000s, tax policy was changed several times. The AKP administration cut three income taxes from 2004 to 2006. Firstly, in 2004, for wage income, they reduced the marginal tax rate from 40 percent to 35 percent and for non-wage income, the marginal tax rate was reduced from 45 percent to 40 percent (Dorlach, 2015: 533). After two years, the AKP government equalized the marginal tax rate for both wage and non-wage income as 35 percent. In the same year, they also reduced the corporate income tax from 30 percent

¹⁰⁰ The coalition government established the Law on tax on July 1998 which was publicly known as “Financial millennium”. “Law had expected to persuade registration of unregistered cash and valuable riches in a day called “Financial Millennium” by depositing without the question wherefrom did you find” (Ateş, 2008: 3).

to 20 percent (Dorlach, 2015: 533). Consequently, “the final tax burden on corporate profits decreased from 44 percent to 34 percent”¹⁰¹ (Ateş, 2008: 7). On the other hand, the government increased direct tax rates. Although they did not change the VAT, the rates of Special Consumption Tax (SCT) was increased, such as alcohol and automobiles (Dorlach, 2015: 533-534).

Although the ANAP government in the 1980s tried to concentrate on creating an independent Central Bank, they did not make important changes. The independent Central Bank gained importance with the AWC, so the AKP government also took it on the agenda. It can be said that the reform of the Central Bank was one of the most important parts of the economic program implemented for eliminating the effects of the 2001 crisis as well. The distinction between the Central Bank and the Treasury was the meaning of the separation of economy and politics (Akçay, 2018: 7). In this way, the reforms under fiscal discipline could be implemented properly. In other words, the financial system was developed by creating an independent Central Bank. Independent regulatory agencies (IRA) were established within the framework of the IMF's stand-by agreements between 1999 and 2002 to check the independence of the Central Bank from politics (Çarıkçı, 2019: 165).

For adhering to international financial codes and standards which was taken place in the AWC, the AKP government also prepared a new banking law in 2004. With the new regulation, it was aimed to ensure more efficient functioning of the market, harmonize the existing law with EU directions and international standards and establish a more systematic structure (Özkan et al., 2014: 199). In addition, this law created a limitation of the full deposit insurance system. So by this way, all banks had to give part of their deposits as a loan to the SMEs.

¹⁰¹ Turkey was one of the country which experienced the largest tax rate reduction in a decade (Ateş, 2008: 7).

In addition to international financial codes and standards, Turkey knows the importance of WTO disciplines as well. She is a member of WTO for a long time. From this point of view, the criteria and standards of WTO tried to be implemented throughout the years. The AKP government was also aware of this. With the AKP government, foreign trade continued to expand in Turkey. The share of foreign trade in the GDP was 31 in 1990. In a decade, it rose to 42 percent in 2000. From 2001 to 2010, the share of foreign trade in GDP never decreased below 45 percent. During the 10 years, the share of foreign trade was 47,3 percent of GDP (Please see Figure 26).

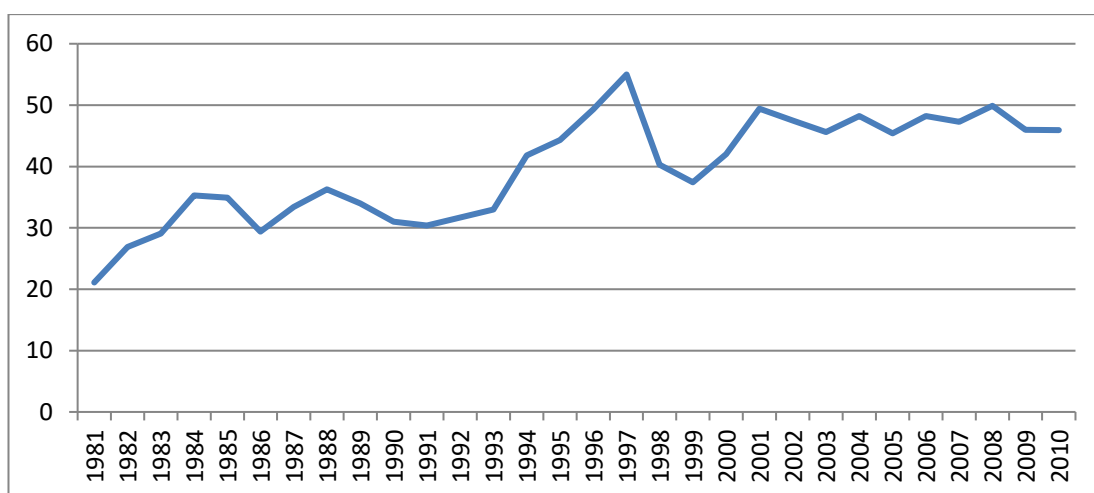


Figure 26: Foreign trade of Turkey (% of GDP), 1981-2010
Source: World Development Indicators

The AKP government focused on institutional, legal, and judicial obstacles to FDI and tried to eliminate those obstacles to increase FDI (İzmen and Yılmaz, 2009: 20). It can be said that the AKP government was successful to choose one of the FDI agenda which was acceptable for local capitals. As a result, FDI inflows increased in the country. While the average ratio of FDI inflow to the GDP was 4 percent in the 1990s, it increased to 17,9 percent in the 2000s (Please see Figure 27 on page 242). FDI inflows in Turkey were mostly related to the service sectors such as banking and

finance. Although Turkey's FDI inflow increased in two decades, it was low in the global economy.

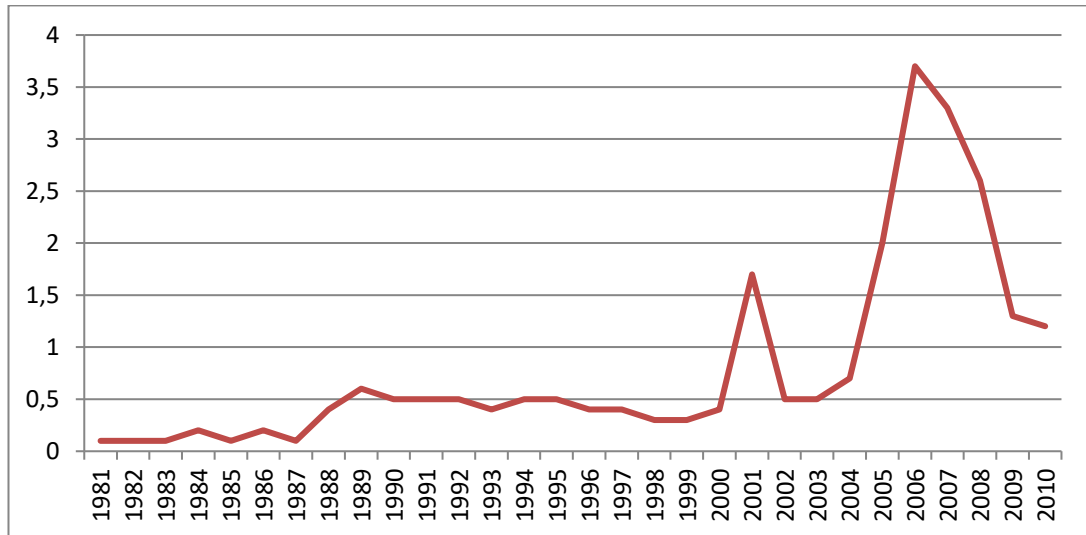


Figure 27: FDI net inflows of Turkey (% of GDP), 1981-2010
Source: World Development Indicators

The revival of the EU membership process did not function just as a guarantee mechanism for the AKP to attract international capital to the country. At the same time by fulfilling the requirements of the accession process, the elements of the old order in Turkey were dismantled (Akçay, 2018: 9). The AKP began to be seen as the driving force for the democratization process by liberals. After coming to power in 2002, the AKP focused on the Kurdish problem and prepared a democratic opening project. In fact, the main attempts for this direction were taken in 2009. This increased the popularity of the AKP among the Kurdish people as well. While the process of integration with the EU has been functional in defending the demands of the Istanbul bourgeoisie, it has also expanded the legitimacy base of the AKP (Bakan and Çimen, 2018: 46).

Capital groups took different advantages from the political rise of the AKP and the economic rise of Turkey (Akça and Özden, 2015: 8). The coalition governments

throughout the 1990s were unable to unite two different sections of the bourgeoisie (Istanbul and Anatolian bourgeoisie) under a hegemonic discourse (Oğuz, 2016: 93). In 2002, the AKP came to power by solving this hegemonic crisis, and it had received support from both bourgeoisie groups and also liberal intellectuals by using a pro-European and anti-military discourse. The Islamic-conservative sector, which was excluded from the modernization process in which westernization was placed at the center, had an important place within the AKP¹⁰². The Islamic understanding in Turkey tried to be integrated into the global capitalist system, rather than a wholesale rejection of the Kemalist thought. The fact that both the Anatolian capital and its representative MÜSİAD, as well as the AKP, made Islamist ideas more liberal and tolerant to the EU membership criteria. According to Wilts and Quittkat (2004: 25) and Beyers and Kerremans (2007: 472), there was a direct correlation between the support of EU membership and the size of capital accumulation. After the crisis of 2001, with the acceleration of internationalization, the Anatolian bourgeoisie or Islamist bourgeoisie got transformed from being an inward-oriented group to an outward-oriented group. That is why, due to financial constraints and ideological reasons, the Anatolian capital as opposed to European integration in the early 1990s (Bakan and Çimen, 2018: 33).

The other policy of the AWC was a flexible labor market. This was also on the agenda of the AKP. New labor law in labor flexibility was adopted in 2003 “which legitimized flexible work through the legal recognition of part-time, temporary and contract labor, as well as increased working time and the right of employers to

¹⁰² The economic class, on which the AKP was based, the Anatolian bourgeoisie has embraced the spirit of capitalism and Islamic capital spread its own ideas to the society. It is known that some of the founding members of AKP are members of MÜSİAD and the important names of the founding members of the association are also active in the local organizations of AKP in many cities including Konya, Kayseri, Sakarya and Antalya (Bakan and Çimen, 2018: 47). According to Öniş (2006: 3), the rise of small and medium sized Anatolian bourgeoisie was key actor in the rise of the Welfare Party in the mid-1990s. Then, this group under the MÜSİAD became also an important factor in the rise of the AKP.

discharge workers collectively in times of crisis” (Ercan and Oğuz, 2014: 129). In the new labor regime, flexibility and subcontracting formed a basis; whereas, safe and unionized work made an exception (Akçay, 2018: 8). With this law, flexible and insecure employment was allowed¹⁰³ as the AWC initiated. This meant the reduction of labor rights. With this law, it was easier to make a fixed-term and part-time employment contract and the application of subcontractors became widespread (Akça and Özden, 2015: 14). The number of workers working under the subcontractors increased nearly five times over the years with the AKP. Furthermore, informal employment was increasing¹⁰⁴ while implementing sub-contracting conditions.

In addition to these arrangements, the labor market gained a more fragmented nature when the young immigrant migrated from the Middle East and Africa in addition to the Kurdish migration (Akça and Özden, 2015: 14). These new immigrants were employed in large industrial cities such as İstanbul as well as in the newly developing industrial basis of Anatolia with very low wages in construction and generally in the small, in different industries. The profound differences between workers in terms of incomes, working conditions, and social rights greatly increased the ability of the AKP to manage the working class compared to previous governments. Laborers could not struggle for their interests because there were alternative workers who already accepted those conditions, so Turkish laborers had to accept new conditions. Moreover, privatization practices and the flexibility of the labor market quickly pushed organized labor out of the political equation and made it a marginal force in determining the agenda of politics in the 2000s. As a result of comprehensive

¹⁰³ The effort to expand flexible employment continued with the 2008 employment package (Akça and Özden, 2015: 14).

¹⁰⁴ Employment rate reduced from 52,1 percent to 41,3 percent between 1990 and 2010 (World Development Indicators). This rate indirectly shows how informal employment increased throughout the years.

privatization and an increasing number of immigrants, many laborers lost either their jobs or social benefits. During the AKP rule, several labor rights were eliminated. Laborers became the least protected by the AKP government (Çelik, 2015: 628).

In addition to neoliberal economic policies, the AWC provided social benefit policies in order to eliminate criticisms from laborers and maintain the capitalist system. The AKP government also concentrated on social policies and poverty reduction as the AWC prompted. Although the AKP government reduced labor wages considering the benefits of the bourgeoisie and cut public service and public spending due to fiscal discipline and privatization policies, many social assistance programs were provided to sustain the capitalist system and continue to take support of laborers. The main aim was not resolved the poverty and inequality problem; undoubtedly, those policies are in line with the neoliberal style “which emphasizes private compassion and informal networks at the expense of formal, state-based forms of redistribution as the primary mechanism for helping the poor and the underprivileged segments of society” (Öniş, 2012: 10). Those policies were first implemented under the CCT programs; a project initiated by the World Bank after the 2001 crisis (Bahçe and Köse, 2017: 577).

The World Bank provided funds for the CCT programs by preparing two projects: Social Risk Mitigation Project (SRMP) and Agricultural Reform Implementation Project (ARIP). SRMP was aimed “to mitigate the impact of the economic crisis on the poor households and to increase their capacity to deal with a similar crisis in the future” (Şener, 2016: 168). ARIP was designed agriculture to move market-oriented style, “by the abolition of administered prices and of input and credit subsidies, a restructuring of agricultural state-owned enterprises and agricultural sales cooperatives... and gradual reduction of tariffs and the restructuring of agricultural

production” (Köse, 2012: 80). Although these two projects were prepared by the previous coalition government, the AKP government expanded them and showed up these projects as its works. In this way, the party image was strengthened especially among the poor. Moreover, the AKP government transformed the Social Solidarity Fund, which was established in 1986 to give social assistance to the poor, into a directorate, the General Directorate of Social Assistance on Solidarity (SYDGM), in 2004 (Şener, 2016: 170). So by using the fund which was taken by the World Bank through SRMP and the Social Solidarity Fund, different kinds of social assistance were provided.

Social assistance programs in Turkey were applied in two areas (Metin, 2011: 189). The first area was health. Regular cash was transferred to poor families on the condition that medical examinations were carried out. Another arrangement manifested itself in the field of education. According to this, families in the poorest part of the population who could not send their children to school due to financial difficulties received payments in cash every month on the condition that their children attend primary and secondary education regularly as Brazil implemented. Between 2003 and 2010, the rate of households received social assistance rose from 4 percent to 9,1 percent (Özdemir, 2020: 16).

The critical aspect of the Turkish CCT system is the lack of a systematic criterion when granting cash subsidies (Aytaç, 2014: 1223). In other words, social assistance was distributed in a clientelistic and patrimonial manner. This system has been designed by the AKP to gain electoral support from the poorest sections of the society (Aytaç, 2014: 1224; Bahçe and Köse, 2017: 581; Özdemir, 2020: 3). The CCT system helped to consolidate the link between the AKP and the poor classes and deepen the marketization by maintaining the basic mechanisms of neoliberalism. By

the 1990s, especially upon municipalities controlled by the Welfare Party, municipalities began to take an important role in helping the poor. The AKP government expanded the role of municipalities. The Law of Local Administration gave more roles to municipalities in this sense. Aid coming from municipalities, which was food, coal, and clothing, was permanent. Yet, providing social aid through municipalities, changed the relationship between beneficiaries and municipalities. Granting aid through municipalities made the beneficiaries felt closer to the political party that administered the municipality. The AKP government benefited from this positively via the AKP municipalities. In this way, a close relationship was formed between the AKP and the low-income groups. Although the AKP government implemented policies that gave damage the interests of these people, the main support came from those people (Özdemir, 2017: 194).

Furthermore, in the late 1990s and 2000s, the number of religiously motivated civil society associations (RMAs)¹⁰⁵ rose significantly. It can be said that they were one of the key contributors to the social aids. They work voluntarily to collect food, clothing, or cash assistance from donators. In 2004, the Law of Associations was introduced by the AKP government to organize joint programs with civil society associations and the state (Göçmen, 2014: 98). With this law, tax exemptions were given to the private people and businesses if they donated to civil society associations. The RMAs used this as a chance and expanded their influence. As a result, RMAs turned to social actors. In this sense, it is important to emphasize the relationship between the RMAs and the AKP. This relationship helped the AKP to strengthen its influence on the poor and made them dependent on the AKP.

¹⁰⁵ Several RMAs was founded by Erdoğan's family members (Somer, 2016: 11).

Social assistance programs were used well by the AKP government for electoral success, not for preventing poverty. The government used those programs as an important policy tool. Instead of securing labor rights, public resources were used by the AKP rule for social assistance programs which were shown as a personal gift from President Erdoğan and the AKP. Expansion of these social assistance programs gave further power to the AKP. On the other hand, it weakened the power of trade unions more while reducing criticism against neoliberal reforms. The AKP government could legitimize their policies in the public eye, eliminate opposition ideas and sustain the capitalist system, which the AWC aimed to initiate with social policy and poverty reduction policy. These aid networks, which were expanding year by year, indexing to the ballot box and aiming to create a sense of loyalty and gratitude, were functional in order to consent to the new hegemony project of the AKP (Akça and Özden, 2015: 16). Moreover, all these new social policy practices dealt with workers as individuals rather than as a collective whole, unlike the old practices. While all these practices increased the political support behind AKP, they corroded class-based collective consciousness and identity. These aids, which were not provided before, influenced people to support the AKP, due to high rates of informal employment and poverty in Turkey. It is right to say that housewives, farmers, private sector laborers, and unemployed people were the main supporters of the AKP (Özdemir, 2020: 7). The working-class people mostly voted for the AKP, instead of the CHP, the so-called social democratic party.

The AKP government prepared a health reform – the Health Transformation Program – which was implemented from 2004 and 2008. Before this reform, the health system was corporatist and public in Turkey. Three professional groups under *Emekli*

*Sandıđı*¹⁰⁶, *Sosyal Sigortalar Kurumu*¹⁰⁷, and *Bađ-Kur*¹⁰⁸ were given the right to benefit from more or less comprehensive health services (Dorlach, 2015: 527). In addition to these groups, there was a Green Card system¹⁰⁹ for the poor who did not have contributory. However, all these four programs only involved 67,2 percent of the population, the rest was excluded from public health care. With the health reform, the AKP government established a single health system with General Health Insurance (*Genel Sađlık Sigortası*, GSS). With this new system, all citizens could apply to either public or private hospitals. In the previous system, if citizens were not a member of any social security institutions, then they did not have health insurance. The government's decision on coverage excluded people influenced especially the informal workers, so this decision helped the AKP to increase its popularity immediately among this group. That is why in the following years, the main supports of the AKP came from the informal employed and unemployed people. With this new system, public expenditure on health increased. It increased from 4,9 percent to 5,5 percent of GDP between 2001 and 2009 (Please see Figure 28 on page 250).

¹⁰⁶ "Civil servants were covered by the government budget and the social security fund *Emekli Sandıđı*" (Dorlach, 2015: 527).

¹⁰⁷ "The formally employed registered with the social security fund *Sosyal Sigortalar Kurumu*" (Dorlach, 2015: 527).

¹⁰⁸ "The self-employed could register with the social security fund *Bađ-Kur*" (Dorlach, 2015: 527).

¹⁰⁹ Green card program was initiated in the 1990s.

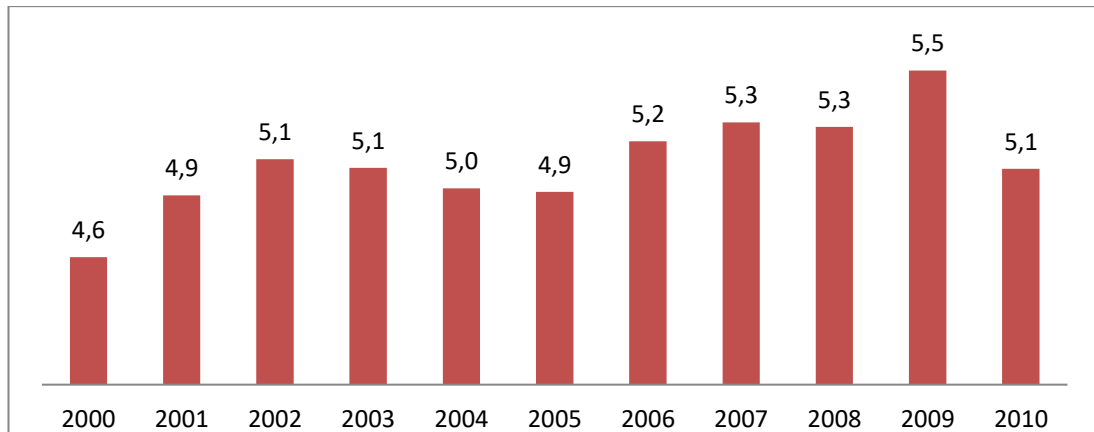


Figure 28: Health expenditure of Turkey (% of GDP), 2000-2010
Source: World Development Indicators

Despite many social policies, the living standards of laborers did not develop (Buğra and Keyder, 2006: 226). Yet, the AKP government successfully eliminated attacks of laborers against neoliberal policies and the AKP itself as well. In this way, the AKP continued taking support of laborers due to those social assistance policies. It was the first time in Turkish history that a ruling government has brought a social policy agenda covering not only the formal sector employees but also all citizens; including the unemployed (Buğra, 2008: 48). This played an important role in the popularity of AKP.

The neoliberal reforms of the AKP administration accelerated the dispersal of small-scale peasant agriculture. According to statistics from TURKSTAT, the share of agricultural employment decreased from 50 percent to 30 percent between 1988 and 2005. And in 2010, the rate fell to 25 percent. Since the 2000s, the Turkish state has encouraged the dissolution of the peasantry to expand capital potential by making the labor force low-paid and abundant. In fact, for this reason, state institutions stopped supporting purchases of agricultural products (Ercan and Oğuz, 2014: 123; Özdemir, 2017: 186). As a result, migration from rural to urban places accelerated. With the migrants from the rural places, the new labor class became less organized and

exceedingly ineffective. This caused a proletarianization in Turkey which changed the social structure of the country. With deepening neoliberal economic policies, the market and society are disembedded from each other. Especially farmers, artisans, small tradesmen, and laborers were affected by this process negatively.

In addition to economic reforms, the AKP government also concentrated on political reforms, especially between 2002 and 2007 which were required by the EU. In the political arena, the AKP's pursuit of civic policies against the army-centered bloc, democratization, and the promise of a solution to the Kurdish problem and policies towards EU membership made big bourgeoisie want the continuation of the AKP rule, so for the stability, big bourgeoisie supported the AKP. On the other hand, some contradictions in the political and cultural-ideological sphere were increasing the tension between the big bourgeoisie and the AKP about secularism/anti-secularism in issues such as the Higher Education Law of 2002-2003, the headscarf issue, practices in the field of education, and the election of the presidency (Akça and Özden, 2015: 6). Therefore, it is necessary to add that the AKP frequently tried to neutralize the big bourgeoisie through blackmail or threat. On the one hand, the AKP government implemented policies compatible with the economic policy preferences of big capital and on the other hand, it tried to prevent any attacks from this group related to the opposition cultural and political objection.

The rise of the Islamist perspective gave acceleration to entrepreneurialism and several new Anatolian entrepreneurs emerged. "For the first time in several centuries, large numbers of Muslims, who had previously shied away from capitalist endeavors, engaged in entrepreneurship" (Özcan and Turunç, 2011: 71). Conservative groups became allies with the AKP and established their power elite. As a result, newly emerged conservative business groups and middle classes began to take economic

privileges (Özcan and Turunç, 2011: 75). MÜSİAD gained the greatest benefit during the AKP government. It tripled its number of members, opened a representative office in almost every city in the country, and developed its overseas networks. MÜSİAD elites began to take responsibility in political institutions and economic institutions such as chambers of commerce and Foreign Economic Relations Board (*Dış Ekonomik İlişkiler Kurulu*, DEİK) (Akça and Özden, 2015: 8). The government's support for the activities of MUSIAD was always full.

It can be right to say that the AKP government became successful to create an alliance between the Western-oriented big capitalists and Anatolian capitalists in its first term. This alliance helped to strengthen neoliberalism in Turkey (Özden et al., 2017: 193). For instance, MÜSİAD was against the financial sector regulations and the increased power of independent regulatory agencies. Compared to the TÜSİAD members, they were supporting flexible budget discipline. The AKP government found a way to serve the interests of both bourgeoisie by using the advantage of the privatization boom (Özden et. al, 2017: 194). Despite a strong tie between the AKP government and the MÜSİAD, this does not mean that the AKP did not provide beneficial policies to TÜSİAD (Karatepe, 2013: 59-60). It can be seen that the Istanbul bourgeoisie, such as OYAK (Turkish Armed Forces Assistance and Pension Fund, Ordu Yardımlaşma Kurumu) and Koç, benefited from the privatization policies of the AKP (Karatepe, 2013: 58). Many state-owned enterprises were acquired by the Istanbul bourgeoisie. In addition, the AKP prepared successful economic policies in favor of the Istanbul bourgeoisie. For instance, the AKP government decreased consumption tax and value-added tax for specific goods, including motor vehicles and white goods. As a result, the automotive and white goods industry, which is dominated by Koç, Zorlu, OYAK, benefited from these policies (Karatepe, 2013: 59).

It is right to say that the expectations or recommendations of TÜSİAD were important for the early years of the AKP government (Doğan, 2010: 96). For instance, the current social security system, which was prepared in 2004, resembled the TÜSİAD's reports on unemployment and the pension system. The relations between the government and the TÜSİAD were carried out moderately until the first months of 2006, but the IMF's warnings about public spending¹¹⁰ and the disagreement over the prospective head of the Central Bank increased the tensions. Although the relations did not come to a breaking point, the fact that the AKP appointed Durmuş Yılmaz as the head of the Central Bank in 2006 was in contrast to the demand of TÜSİAD and this caused worries in the business world (Hürriyet, 23rd May 2006).

It is also important to emphasize that the center-left parties were not successful to create interclass alliances; whereas, the AKP used the religion and social assistance programs as an effective mechanism to unite the majority of the society. The performance of the local governments was the other important factor in the success of the AKP¹¹¹. Furthermore, Turkey was shown as a successful example of neoliberal transformation (Yeldan, 2007: 5; Özdemir, 2020: 7). Although there was a fear that the AKP might attack the secular constitutional order and create political instability, the performance of the ruling party was quite satisfying for business. There was no political and economic struggle during this period. All these increased the popularity of the AKP among both bourgeoisie and labor class. Yet, it is important to remember that this period was a successful period for many developing countries due to the economic boom in the global economy (Subaşat, 2014: 148).

¹¹⁰ Public spending increased from 9,6 percent to 14,1 percent between 2002 and 2009 (Dorlach, 2015: 522).

¹¹¹ Municipalities under the Islamist parties were active and less corrupt compared to the previous administrations during the 1990s (Öniş, 2006: 3-4).

Turkey experienced one of the best stages of economic growth in the early years of the AKP. There was a high growth rate, averaging 7,5 percent in the first five years (Please see Figure 17 on page 182). The inflation declined to the single-digit levels after the two decades¹¹² (Please see Figure 15 on page 173). Between 2002 and 2010, the GDP per capita increased from \$3,660 to \$10,672, and by considering the per capita growth percentage, it was closer to the EU average (Please see Figure 22 on page 197). Moreover, the poverty rate declined from 35 percent to 17 percent in the years between 2002 and 2009 (Please see Figure 29). Although the economic reform policies were prepared by Kemal Derviş to stabilize the economy after the 2001 crisis, the AKP government used and served those policies as their economic package. As a result, the AKP government made use of the success of the economic package to increase its popularity in Turkey. Prime Minister Erdoğan used the 2001 economic crisis and high inflation rate to manipulate people to claim that the AKP was the only way for growth, wealth, and stability.

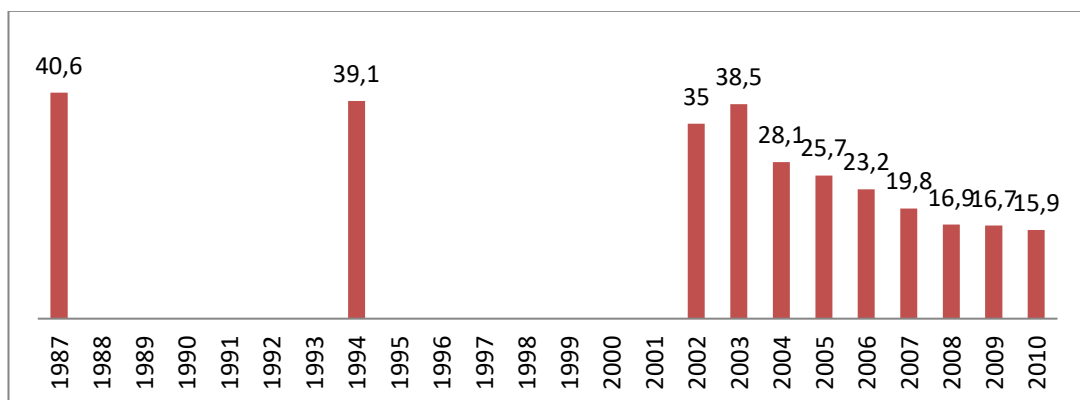


Figure 29: Poverty headcount ratio at \$5.50 a day of Turkey (2011 PPP) (% of population), 1987-2010

Source: World Development Indicators

¹¹² It can be right to state that the AKP became successful to keep inflation low, compared to the two major parties in the center-right tradition. During the DP and the ANAP administration, the growth boom could not be sustained due to high inflation, unstable balance of payments and uncontrolled fiscal expenditures.

It is also important to state that during the first period of the AKP administration, consumption increased rapidly (Özdemir, 2017: 189). This increase was related to the availability of credit. During the 1990s, banks were used to finance the public sector deficit and give loans to enterprises. With the AKP rule, this was changed and banks began to provide loans to households as well. By giving loans with low interest rates and increasing advertising, it was aimed to add the lower incomers into the domestic market more (Özden et al., 2017: 196). By extending credit maturities, it became easy to borrow from banks. The AKP government provided opportunities to access credits. Even people, who did not have income, had credit to consume. The rise of consumption directly increased the popularity of the AKP. Both lower-income people and the bourgeoisie were welcomed. Lower-income groups were satisfied in enabling to buy what they needed throughout credits and the bourgeoisie group was welcomed to have higher consumer groups for selling their products. This was shown to laborers as a good way of neoliberal policies for getting what they want. However, this meant that economic growth throughout the 2000s was related to consumption, rather than production¹¹³. In time, household debt increased because of the gap between their expenditure and income (Özdemir, 2017, 194). The ratio of household debt to disposable income increased from 7 percent to 55 percent between 2003 and 2013 (Erol, 2018: 8). Moreover, “42 percent of the borrowers of consumer loans were people earning less than TL1.000 per month” (Erol, 2018: 8).

The popularity of the AKP was related to the economic stability, consumption boom, and social policies (Özdemir, 2017: 194). On the other hand, if the other economic indicators were considered, problems can be seen in the Turkish economy such as low savings and low fixed capital investment which are essential for long-term

¹¹³ Efficient growth can be achieved through production (Özdemir, 2017: 194).

growth (Özdemir, 2017: 193). Moreover, the AKP government could not solve the unemployment problem (Please see Figure 23 on page 197). Even in the high growth years, there was no improvement in the unemployment rate. In other words, growth did not create employment. Yeldan (2007: 16) called this “jobless growth”. Although exports increased in the years between 2002 and 2007, especially in medium-low and medium-high technology products (Please see Figure 16 on page 177), this was related to the euro-dollar parity in that period. Imports increased faster than exports because of the overvalued TL (Please see Figure 16 on page 177). According to statistics, “Turkish exports contain 80-85 percent imported materials and imported goods” (Özdemir, 2017: 189).

The general election was held on July 22, 2007 and the AKP came to power again as one party by taking 46,6 percent of the vote¹¹⁴. The Anatolian bourgeoisie and MÜSİAD played important role in the reelection of the AKP and Erdoğan (Beriş, 2008: 42). Big capitalists under the TÜSİAD were glad of the political and economic stability of the AKP government. Actually, the AKP government implemented IMF policies with the harmonization of the EU policies which were very beneficial for TÜSİAD members. Laborers were also happy with the AKP government due to social assistance programs. They also benefited from economic and political stability, so they wanted the continuation of the AKP rule (Özdemir, 2017: 194).

It is important to state that although the AKP government did not block big capitalists from the state initiatives, privileges went to MÜSİAD members (Bakan and Çimen, 2018: 53). TÜSİAD members no longer needed state initiatives, yet they were not happy that all state support went to MÜSİAD members. TÜSİAD began to lose its political and social power in the country; while MÜSİAD’s power was rising (Bakan

¹¹⁴ After the election, Erdoğan became again the prime minister.

and Çimen, 2018: 42-43). Many MÜSİAD members grew successfully as a result of those initiatives. Some of them now are among the biggest companies of Turkey; such as Çalık Holding, Kalyon Holding, Kamer Holding, Ethem Sancak, Kuzu Family (Bozkurt, 2021: 12-13). This was basically an alliance shift of the state, so TÜSİAD became worried about this. Furthermore, the AKP's political and economic choices in its second term increased the worries of the TÜSİAD members. So in this new term, TÜSİAD began to criticize the AKP's policies and tried to show the negative effects of the AKP on the economy and politics (Ayan, 2019: 93).

In their second term, the AKP and Erdoğan, compared to the first term administration, began to use more aggressive and divisive language which caused a further polarization in the society. When the AKP consolidated its power in Turkey with the 2007 elections, the AKP government began to act unilaterally. The EU integration lost its importance for them. Shortly, this new period diverged from the first period of the AKP rule because of political and economic turmoil. 2007 is undoubtedly the most critical turning point for the AKP. At the beginning of 2007, the Supreme Court of Appeals Prosecutor Abdurrahman Yalçınkaya sent the indictment to the Constitutional Court that, due to their anti-secular activities, the AKP should be closed and 71 political names including the Prime Minister Recep Tayyip Erdoğan and President Abdullah Gül should be removed from politics for five years (Buğra and Savaşkan, 2014: 83). TÜSİAD identified the closure case as an undemocratic movement and worried about the possible negative effects of this in the economic field. It is argued that political instability would lead to worsen economic indicators, return foreign investors and increase the current account deficit. Although TÜSİAD's intense criticisms of the government's economic policies are described as attempts to weaken

the AKP, the decision of the Constitutional Court not to close the party was welcomed by TÜSİAD (Buğra and Savaşkan, 2014: 87).

Then, the military vetoed the candidacy of Abdullah Gül for the presidency in 2007. The General Staff published an e-memorandum to accuse Gül of disloyalty in the principles of the Republic. Furthermore, protests were organized in big cities to break down the popular power of the AKP. The AKP, which increased its vote from 34 percent in 2002 to almost 47 percent in 2007, reached the majority required for the election of Abdullah Gül as President. As a result, Gül was elected as the President, by taking 339 votes out of 550 from the Parliament which equals 61,6 percent of the votes.

While the AKP increasing its votes and its popularity among the people, it also tried to suppress opposing views to be able to prevent them from any negativity. In time, the AKP government began to force big capitalists to reshape their policies. For instance, the government imposed a fine on Doğan Media for tax evasion, for supporting and publishing the opposition news (Akça and Özden, 2015: 6). Although TÜSİAD members did not support policies of the AKP government, they no longer criticized them. This was related to the threat factor. Big capitalists understood the capacity of the AKP and what it could do. However, there was not a huge clash between the state and the big capitalists. TÜSİAD tried to protect its relations with the government for their material interests.

There was a serious decline in the tendency to strike under the AKP rule. Strike bans also played an important role in reducing the tendency in organizing a strike. The AKP government banned many strikes on the grounds of national security. “Growth does not create much employment in Turkey, because the economic policies followed by the government make the currency appreciate and the overvalued currency

decreases the chances of labor-intensive sectors to compete in international markets” (Özdemir, 2017: 190). In those years, labor conditions were very bad in Turkey, both legally and in practice. Despite TÜRK-İŞ had close relations with the AKP government, the government did not give functional support to worker organizations. However, the main support of the AKP continued to come from laborers.

After the elections, TÜSİAD, the Union of Chambers and Commodity Exchanges of Turkey (*Türkiye Odalar ve Borsalar Birliği*, TOBB) and Turkish Exporters Assembly (*Türkiye İhracatçılar Meclisi*, TİM) expressed their serious concerns in 2008 due to the global fluctuations in the world economy¹¹⁵. An economic crisis in the world would affect the production, export and import figures of an economy integrated into the global economy. TÜSİAD, which constituted Turkey's foreign trade volume of 80 percent and industrial production of 65 percent, was worried about the precaution policies (Buğra and Savaşkan, 2014: 95). TÜSİAD, which frequently warned the government about the crisis, demanded the necessary reforms in all areas that were likely to be affected, especially in the industry. These warnings made by the business world, especially TÜSİAD, caused tension between them and the government. According to TÜSİAD, a new stand-by agreement with the IMF was needed to arrange economic policies and ensure good economic relations with the US and Europe (Buğra and Savaşkan, 2014: 97). It was believed that IMF's financial resources could ease the financial position of Turkey (Oğuz, 2013: 205).

On the other hand, small and medium-sized capital groups were against the agreement with the IMF because IMF was against the tax amnesty and some other policies of the AKP which benefited them. Instead, they required government support through “public expenditures and measures such as reductions in corporate tax and

¹¹⁵ The 2008 global crisis firstly started in the US and extended to Europe and other parts of the world.

exemption from the payment of social security interest premiums” (Oğuz, 2013: 206). According to this group of capitalists, a new stand-by agreement with the IMF meant tight fiscal policy such as an autonomous tax administration which would deprive the government support. Under these conditions, the AKP government tried to please both capital groups by keeping the IMF agreement on the agenda, but delaying it after the local elections on March 29, 2009 (Oğuz, 2013: 206-207). In this way, Erdoğan tried to give confidence to the big bourgeoisie about the continuation of the IMF deals and provide government support as demanded by the small and medium bourgeoisie.

While the discussions about the economy continued between the government and the business world, the effects of the crisis started to emerge with the changes in the economic indicators. The economic activities decreased and the balance of public finances worsened. The FDI inflows and export revenues declined dramatically (Please see Figure 27 on page 242 and Figure 16 on page 177). This was a result of the low demand of the EU for Turkish goods due to the crisis. Yet, there was no balance of payment crisis. Erdoğan stated that the 2008 crisis “would touch Turkey only tangentially” (Oğuz, 2013: 205). Turkey had completed its banking reform after the 2000-2001 crisis, so the Turkish financial sector was safer in the 2008 crisis compared to the previous crisis. However, this does not mean that the Turkish economy was not affected by this crisis. Compared to the advanced capitalist countries, the crisis created a long-term recession in the real sector in Turkey (Oğuz, 2013: 206). On the other hand, it is important to state that Erdoğan’s discourse on the passing crisis tangentially put Turkey in a strong position. This discourse gave confidence to international capital owners to continue their investments in Turkey.

In 2009, Turkey experienced an economic recession once again because of the global financial crisis. The Turkish economy was vulnerable before the crisis due to

low savings, low fixed capital investment, and high private-sector debt. Although the banking sector was strengthened with reforms, it could not hinder the negative effects of the crisis. Turkey experienced a negative growth rate in 2009 which was considered as one of the sharpest declines in the rate of economic growth by considering other emerging countries. Economic growth first reduced to 0,8 percent in 2008 and then to -4,7 percent in 2009 (Please see Figure 17 on page 182). Yet, in 2010, Turkey continued to grow again. In this process, the total debt ratio increased from 7,4 percent of gross national income (GNI) to 9,9 percent between 2007 and 2009 (Please see Figure 30 on page 262). Actually, public debt was under control due to the tight fiscal policies, but the private sector became much more indebted (Yörükoğlu and Kılınç, 2012: 340).

Turkey recovered its economy in a short time, thanks to foreign capital flows. Unlike the 2001 crisis, the 2008 crisis hit the manufacturing sector, which was over-borrowed when the liquidity was plentiful and inexpensive and lost its export capacity to the European and partially US markets with the global contraction (Akça and Özden, 2015: 6). In the face of the consequences such as shrinkage in export markets, stopping foreign sources, weakening domestic demand, the first response of the capital to the crisis was layoffs. As a result, there was a serious increase in unemployment rates (Please see Figure 23 on page 197). It should not be forgotten that the only election in which the AKP lost votes was the 2009 local elections¹¹⁶, where the impact of the crisis was very fresh (Önder, 2015: 12).

¹¹⁶ The AKP lost serious votes in the 2009 local elections. Its votes reduced from 47 to 38.8 between 2007 and 2009.

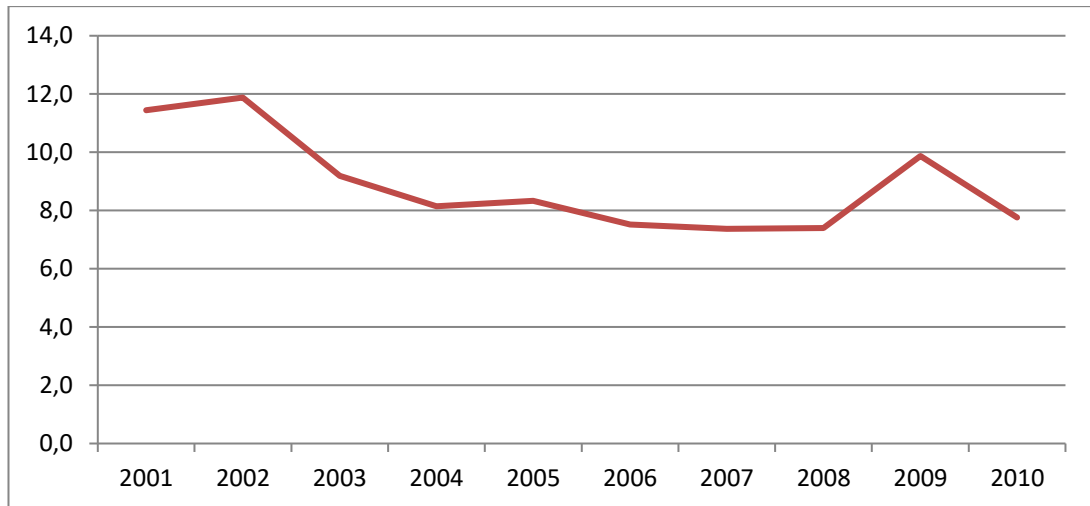


Figure 30: Total debt service of Turkey (% of GNI), 2001-2010
Source: World Development Indicators

The crisis of 2008-2009 was not a conventional crisis for Turkey. The previous crises were domestically generated crises due to high inflation, unsustainable balance of payments, large fiscal deficits, so external actors were needed to restore the economy. Yet, the context of the 2008-2009 crisis was different from the previous crises. In the 2008-2009 crisis, there was a controlled fiscal discipline, single-digit inflation, high international investments/capital, and a robust banking system. That is why the AKP successfully demonstrated the crisis as an influence of external factors. Thus, the 2008-2009 crisis did not cause a significant fall in the popularity of the AKP, due to its populist policies. After the 2008-9 crisis, the demand for Turkish products fell in Europe and the US, so the AKP government turned to the Middle East market (Oğuz, 2016: 98). In this way, they transformed the crisis in their favor. Turkey established close relations with the Middle East and Africa as the MÜSİAD members requested. The idea of neo-Ottomanism played important role in this orientation (Akça and Özden, 2015: 8). Furthermore, the AKP government decided to use expansionary fiscal policies. Like other countries, Turkey preferred to change its fiscal contraction policy through a stimulus package in order to revive the declining demand. On the

other hand, Turkey did not give financial support to the domestic financial sector. Instead, Turkey supported the real sector which allowed implementing balanced fiscal policy to prevent any increase in public debt (Öniş and Güven, 2011: 15). It can be said that during this crisis process, Turkey preferred to depend on public forces, rather than market forces.

Although Erdoğan gave confidence to TÜSİAD about the continuation of the IMF deals, he began to challenge the IMF. He argued that “Turkey should adopt strict tax auditing measures requiring a comparison of individuals’ wealth and their spending” (Oğuz, 2013: 207). Finally, Erdoğan declared that Turkey did not need to make a new agreement with the IMF. It was believed that Turkey had economic strength and she could sustain itself without the IMF. It is important to state that the 2008-9 economic crises reshaped the relations between the state and each bourgeoisie blocs. Although in the early years of the AKP government, there was a strong convergence with TÜSİAD, after the 2008-2009 crisis, the positions of the AKP and TÜSİAD differentiated. TÜSİAD continued to support the IMF programs and the process of the EU membership; whereas, the AKP government was no longer enthusiastic about neither of these issues. Instead, the AKP government strengthened its relations with MÜSİAD that it had an organic relationship (Karacan, 2018: 86). Thus, MÜSİAD accelerated its activities and increased its effectiveness in Turkish politics. The economic relations with Middle Eastern or African countries became important, rather than the European countries (Bakan and Çimen, 2018: 52). Yet these do not mean that TÜSİAD members could not benefit from the AKP’s policies. The AKP government continued to consider the interests of the big bourgeoisie on the neoliberal agenda.

Despite Erdoğan's discourse on passing the 2008 crisis tangentially, the negative results of the crisis were perceived in 2009, while challenging the IMF deals. So in the end, the AKP government accepted the significance of the crisis and decided to promote investment and employment for productive capital accumulation. On 4 June 2009, a new incentive package for investment and employment was adopted (Oğuz, 2013: 207). By this package, the AKP government aimed to promote investment policies and establish new mechanisms for employment. As a result of the monetary policy implemented in the central economies, the capital, seeking high returns, preferred the late capitalist countries again, and outsourcing began in the Turkish economy (Akçay and Güngen, 2014: 190-191). AKP tried to overcome the stagnation with financial incentives, subsidies, and institutional changes in industrialization policies.

The investors would receive some incentives such as interest expenditure support, reduced corporate/income tax, and exemption from customs and duties (Oğuz, 2013: 207). Incentives would be determined through scales and regions of the investors. So this meant that certain regions and a certain group of investors could benefit from those incentives. Of course, investors which were close to the AKP and conservative perspective benefited from those incentives more. Furthermore, the government concentrated on domestic demand and construction-oriented growth which was the interest of MÜSİAD members (Akçay, 2013: 2). The cooperation tightened between TOKİ and the government after 2009 (Akça and Özden, 2015: 5). They undoubtedly had more shares in public tenders and privatizations.

After the 2008-2009 crisis, economic decision-making mechanisms got centralized in Turkey in favor of the executive and prime minister (Akça and Özden, 2015: 9). In short, it can be said that interventions began. For example, the autonomy

level of the supreme boards was taken under control, and the autonomy of the Central Bank was questioned. The AKP government began to use decree-laws and bag laws intensively. Even the restructuring of the ministries was done by bypassing the Parliament. Moreover, the constitutional amendment¹¹⁷, which passed 58 percent of votes as a result of the referendum in September 2010 (Bahçe and Köse, 2017: 577-578), gave power to the executive to dominate the judiciary. In this way, the AKP government achieved incontestable authority and power. All these show that the AKP government began to move away from the AWC policies and Erdoğan began to act as a populist autocrat. Despite his authoritarian attitude, Erdoğan did not lose his popularity among the population. In this sense, they were successful in influencing the people with their populist attitudes (Özdemir, 2017: 196). Erdoğan successfully shows himself as a man of the people and explains his stories as the story of the public (Aytaç and Öniş, 2014: 8). Thus, he could get support and gain the trust of a majority of the Turkish people in this way.

The relations between the TÜSİAD and the state were strained at times because TÜSİAD attacked the government for its policies such as weakening the autonomy of regulatory agencies, increasing allocations for local administrations, and reducing the primary surplus (Özden et al., 2017: 200-201). On the other hand, MÜSİAD still had strong relations with the AKP government. This gave a huge chance to MÜSİAD to show their interests and coordinate policies in this direction. The international economic and financial institutions began to visit MÜSİAD, in addition to the TÜSİAD, while visiting Turkey (Bakan and Çimen, 2018: 47-48). This shows the increased legitimacy of MÜSİAD. The Anatolian bourgeoisie has made a significant contribution to the implementation of the multi-dimensional active foreign policy

¹¹⁷ The structure of the Supreme Council of Judges and Prosecutors changed and the Supreme Court and the high judiciary were no longer the privileged centers of the old regime (Akçay, 2018: 16).

which has been realized under the AKP period (Bakan and Çimen, 2018: 48). This kind of relationship between the AKP and the Anatolian bourgeoisie showed that the elites of politics and economics were changed. In addition to MÜSİAD, TUSKON (Turkish Confederation of Businessmen and Industrialists, *Türkiye İşadamları ve Sanayiciler Konfederasyonu*), developing international business network through Gülen schools, gained profitable functionality¹¹⁸ (Bakan and Çimen, 2018: 49). Yet, this does not mean that the AKP government considered only the interests of the Anatolian bourgeoisie (Bozkurt, 2021: 23).

While there was a power struggle between TÜSİAD and MÜSİAD to influence state policies according to their interests, the power of the working class was significantly undermined in this period. To the extent that the state and political powers made arrangements in line with the interests of capital, the unions in Turkey mobilized their members in order to benefit from the rights acquired through the struggle within the European Union, rather than struggling within the country (Ercan and Oğuz, 2010: 16). The most important challenge was to force the state to adopt the adjustment laws with the European Union in cooperation with the employers' unions. Nevertheless, the weakened labor unions have been cooperating with the capital representatives on employment and efficiency, while they blame the state rather than the capital in the suspension of the right to association of the working class (Ercan and Oğuz, 2010: 17). TÜRK-İŞ, HAK-İŞ, and DİSK did not develop a political position on the issues directly related to the working class (Ercan and Oğuz, 2010: 17). These tendencies of labor unions, which have become more evident, led to a further increase in the distance between the labor unionists and the workers.

¹¹⁸ In 2009, during the visit of the Russian President Dmitri Medvedev, the privilege of signing the cooperation agreement with the Russian Industrialists and Businessmen Union was given to TUSKON (Akça and Özden, 2015: 4). TUSKON gained strong image in the government.

From the beginning, the AKP government took an authoritarian orientation on labor unions (Yalman, 2009: 325). “AKP’s policies caused the dissolution of the peasantry, extreme marginalization of labor and commodification of all kinds of natural and human resources” (Özdemir, 2017: 193). In terms of the collective labor legislation, the AKP government from 2002 to 2012 did not change “the anti-democratic and authoritarian 1980 military coup legislation, Laws No. 2821 and 2822, introduced in 1983”¹¹⁹ (Erol, 2018: 5).

In addition, the AKP government mainly aimed to weaken the collective bargaining power. Turkey can be considered as “one of the ten worst countries for workers”, in terms of the work accident, the share of labor income as a percentage of GDP, and trade union density (Uzgören, 2021: 211). According to statistics, 12.686 workers lost their lives as a result of work accidents from 2000 to 2012 (Ercan and Oğuz, 2014: 118). This result made Turkey as the third worst country in terms of workers death in the world.

Turkey experienced the lowest unionization rate since the 1950s with the AKP government. The unionization rate declined from 10 percent to 5,7 percent between 2000 and 2010 (Özdemir, 2017: 193), which means approximately 50 percent fall in unionization (Erol, 2018: 6). This was the lowest rate in Turkey in the last 60 years. The number of unionized workers decreased importantly from 775.478 to 504.796 between 2001 and 2009; yet there was a dramatic decrease if we consider 1980, by 1.049.250 unionized workers (Gürçan and Mete, 2019: 7, 13). Union density was 5,4 percent in 2011 which made Turkey the least unionized country in the OECD (Erol, 2018: 6).

¹¹⁹ The AKP introduced a new Trade Union and Collective Bargaining Law in 2012 (Erol, 2018: 6).

Concerning the low rate of and ineffective unionization, the number of strikes fell dramatically in Turkey. Laborers organized 120 strikes in 1995, but this number decreased to 9 in 2011 (Çelik, 2015: 630). “The period 2000–2015, which recorded a total of 3.877.208 days lost to strikes, did not even draw near the 1980s’ levels, when the working-class movement was severely paralyzed in the military coup environment” (Gürcan and Mete, 2018: 13). The AKP government postponed several large strikes by providing different reasons. Furthermore, the Labor Ministry statistics show that there is a sharp decrease in the number of workers who signed a collective agreement between the 1990s and 2010s.

The protests of Tekel¹²⁰ workers, which started in the last month of 2009 in Ankara and continued for 78 days, were the biggest protests carried out by the working class in Turkey during the AKP period. The discussions that started with the government's privatization process of Tekel enterprises and the situation of the employees there turned into workers' actions (Man, 2011: 64). Although the protests initiated by Tekel workers with the demand of transferring them to other public institutions without loss of rights ended before these demands were realized, it resulted in the improvements made by the government for 4-C¹²¹ work and the gaining of the union right (Koç, 2012: 213; Yeldan, 2010: 1). “TEKEL workers showed their indignation at the consequences of AKP’s privatization policy which lasted nearly three months and was hailed as the awakening of the Turkish working class after more than three decades in hibernation” (Yalman and Topal, 2017: 2). However, such a protest lost its initial impetus after “raising the prospects for challenging the neoliberal

¹²⁰ Tekel “employs 12,000 workers in 43 factories and workplaces in 21 cities across Turkey” (Özügürü, 2011: 180).

¹²¹ The ‘4-C’ status means for Tekel workers a decrease in their average monthly wages from 1,200 TL to 800 TL, and job contracts of 10 months, with no guarantee of renewal (Özügürü, 2011: 180; Yeldan, 2010: 1).

strategy of putting an end to class-based politics (Yalman and Topal, 2017: 2). Due to this result, the protests of Tekel workers could not motivate labor to organize further actions against the government.

Although AKP did not act in the economic interest of the lower and middle-income groups, they continued to support the AKP and Erdoğan, due to several reasons. It is true to say that the AKP government successfully silenced workers by providing social assistance programs (Sezal and Sezal, 2017: 17; Aytaç and Öniş, 2014: 50). As Fischer (2000: 374) insisted, social assistance and poverty reduction principles of AWC have been used as a political tool spearheading or challenging reactions. Beneficiaries of social assistance programs were worried to lose their benefits if the AKP lost the elections. In addition to this, big construction projects give a hard-working government image to the people, so that is why the AKP government paid attention to construction. Especially with the establishment of TOKİ, the state became a housing provider and facilitator (Özdemir, 2015: 13) which increased directly the popularity of the party and Erdoğan. Lower and middle-income groups highly supported housing projects of the AKP. Furthermore, the AKP used some tools such as Islamism and nationalism successfully to influence people in Turkey (Bozkurt, 2013: 382). Moreover, the expansion of the social security regime was the other important factor in support of the AKP, especially by the labor class. All these were important and effective mechanisms that enabled the AKP to gain the support of the lower and middle-income groups in Turkey.

8.2 Conclusion

After the 2001 economic crisis, AWC principles began to be implemented in Turkey with the TSEP. The AKP, which took the office in 2002, became successful in implementing those principles. The AKP government made both political and

economic reforms in many areas. In addition to previous neoliberal policies, the AKP government began to implement policies on corporate governance, flexible labor markets, WTO agreements, financial codes and standards, prudent capital account opening, non-intermediate exchange rate regimes, independent central banks/inflation targeting, social safety nets, and targeted poverty reduction. A large group of people both the bourgeoisie and labor class benefited from the economic success of the AKP, including high growth and low inflation. There was a radical development in health, education, transport, and communications and the provision of public services as well. Although there was not an impressive growth in the later years of the AKP rule as in the early years, as long as the growth continued, people continued to benefit from the economic expansion. Economic growth, the EU process, and partial reforms in this context were reflected in the consciousness of the masses as development and change. Thus, the popularity of the party did not decrease significantly. The AKP succeeded to attract large segments of the society's votes and support, with conservative values and expansion of economic benefits. The rising Anatolian bourgeoisie saw AKP as their major vehicle for social and economic mobility, overcoming their underdog status in the society, and achieved the same status with the Istanbul bourgeoisie. Istanbul bourgeoisie was also satisfied with the neoliberal policies of the AKP government.

Table 8: Strength of classes in Turkey between the late-1990s and 2010

	Late-1990s	2000-2007	2007-2010
Turkey	<ul style="list-style-type: none"> • Strong bourgeoisie class; TÜSİAD – İstanbul bourgeoisie • Weak labor class 	<ul style="list-style-type: none"> • Struggle between İstanbul bourgeoisie – TÜSİAD and Anatolian bourgeoisie – MÜSİAD • Weak labor class 	<ul style="list-style-type: none"> • Closer relationship between MÜSİAD and the AKP government • Weak labor class

It is right to state that different classes have different needs and interests. Each class tries to influence the government to maintain its interests. Table 8 summarizes the strength of classes in Turkey from the late-1990s to 2010 as explained in this chapter. Throughout the years, under the AKP rule, TÜSİAD and MÜSİAD represented the main groups of the bourgeoisie in Turkey. Until 2007, the AKP government successfully balanced the interests of TÜSİAD and MÜSİAD. Their interests and benefits were similar in those years, yet then their interests diverged. The growth and strengthening of MÜSİAD played a major role in this and the struggle between TÜSİAD and MÜSİAD began. The AKP government became closer to MÜSİAD at the end of the 2000s. Yet, this does not mean that the İstanbul bourgeoisie could not benefit from the policies of the AKP government.

The labor class was passive due to a lack of organization and power. Although laborers organized well in the late 1980s and the beginning of the 1990s, this did not happen during the AKP government. With the subsequent neoliberal reforms by 2000s, further problems were created for labor class such as limitation to wage growth,

unemployment and informality. While these problems weakened the labor's already weak position during the 2000s, many social assistance programs were provided in order to ensure labor obedience. Through using such mechanism, the AKP government aimed to coopt to the labor. While the AKP government implemented the AWC policies, it did not encounter any resistance from workers in an organized manner. AKP managed to get the support of the organized and the marginal sections of the working class. Social assistance programs legitimized policies of the AKP in the eyes of the low-income people and prevented opposition of those groups (Özdemir, 2015: 23).

Thus, the AKP has not experienced a significant challenged by labor while implementing neoliberal economic policies. Although the number of strikes and days off from work in strike decreased rapidly during the AKP administration, this does not mean that everything was fine for labor class. Low level of strike activity in Turkey means ineffectiveness of labor organization. "The rule of the AKP coincides with the weakest period for collective labor rights and the unions in the last 50 years" (Çelik, 2015: 618). In addition, the AKP government banned several strikes on the grounds of national security for 60 days (Çelik, 2016: 3).

After the 2008-2009 crisis, re-politicization began in Turkey. Economic decision mechanisms were centralized in favor of the executive and prime minister. IRAs were attached to the relevant ministries and positioned within the executive (Çarıkçı, 2019: 165). With the inclusion of IRAs in the executive body, their administrative and financial autonomy has come to an end. Furthermore, the AKP began to monopolize power and restricted the opposition groups to express their views. It can be said that the AKP government became more authoritarian and Erdoğan began to act as a populist autocrat. There was a radical decline in freedom of speech and

freedom of the press. In addition, there was a strong control over the organized protests by using physical force by police. The principles of the AWC such as the independence of the Central Bank began to be questioned. It can be said that the 2008-2009 economic crisis was the reason for developing countries to question AWC policies, so Turkey began to diverge from the AWC agenda.

Chapter 9

CONCLUSION

In the light of all the above-mentioned studies, it can be said that Washington Consensus and the AWC principles are implemented differently in Brazil and Turkey. While Brazil followed a heterodox example of the implementation of Washington Consensus and AWC, Turkey followed a more orthodox path. This dissertation aims to examine the implementation of Washington Consensus and AWC principles in these countries and analyze why those principles were implemented differently in these countries. To understand this difference, the dissertation seeks to answer the following research question: “why did Brazil follow heterodox model of neoliberal reforms whereas Turkey followed a more orthodox path?”

Although there are some other reasons such as bureaucracy of Brazil; in this dissertation, the differentiation of the implementation of the Washington Consensus and AWC is examined with the strength of labor organizations in Brazil. Due to the strength of Brazilian labor organizations, these principles were implemented in a more labor-friendly manner in Brazil. Marxist conceptualization enables us to reach a class-based understanding of the state which guided the analysis on the implementation of Washington Consensus and Augmented Washington Consensus principles in Brazil and Turkey in this study. I drew on the Open Marxist account in this dissertation.

The starting point of Open Marxists is the class antagonism between capital and labor (Bonefeld et al., 1992: xi). In a capitalist state, there are two classes; the bourgeoisie class and the labor class. The capitalist society becomes the scene of a

class struggle between these two classes and the state plays an important role to sustain this system. According to Open Marxists, the forms and functions of the state are determined as a result of class struggle (Clarke, 1991: 190). The state functions in the best interests of capital (Bonefeld et al., 1992: 161). However, each class does not have equal capacity to influence the state. Thus, the state is an arena where unequal power relations between actors or classes are reproduced (Clarke, 1991: 45). From the Open Marxist perspective, it can be said that the capitalist state needs to respond to the interests of the working class in order to maintain its apparent neutral image. Yet, there is a limit to the state's autonomy from the bourgeoisie class interests because it has to guarantee capital accumulation (Holloway and Picciotto, 1978: 29-30). All these mean that for Open Marxism, the state caves into the interests of capital for the spinning of economic wheels, yet it is not an instrument of a single fraction of capital. It may sometimes have to respond to the demands of the working class to sustain capital accumulation. So, for the Open Marxist perspective, the state-capital relationship and the state-labor relationship are determinative in the state policies.

With the changing world capitalist conjuncture and in line with the demands of the bourgeoisie, both Brazil and Turkey began to implement neoliberal reforms in the 1980s. Washington Consensus principles in Brazil began to be implemented by the Collor administration in the late 1980s and continued with Franco and Cardoso's government. The adventure of the Washington Consensus in Turkey began with the Özal government by the beginning of the 1980s. However, like other developing countries, both countries faced economic and social problems at the beginning of the 1990s. As a result of changing global capitalist trends and the bourgeoisie's requests, Brazil has been implementing policies of the AWC by the mid-1990s and Turkey began to implement this new consensus in the early-2000s.

Throughout the years, the bourgeoisie class in Brazil and Turkey benefited from the implementation of the Washington Consensus and AWC principles. On the one hand, the big bourgeoisie group was internationalized and on the other hand, some of the small and medium-size enterprises strengthened and formed an important part of the domestic-oriented bourgeoisie group in both countries. Although both bourgeoisie groups had almost the same requests when neoliberal policies began to be implemented in Brazil and Turkey, as time passed, the interests of these two groups began to change. Despite occasionally paying more attention to the wishes of one group of bourgeoisie class, governments in Brazil and Turkey generally tried to please both groups.

Yet, while the domestic-oriented bourgeoisie group strengthened and became strong at least as the internationalized bourgeoisie, struggle between these two bourgeoisie groups gained importance both in Brazil and Turkey. In this point, the relationship between the government and the group would be a determinant in the implementation of policies. Despite having close links with the big Istanbul bourgeoisie and Anatolian bourgeoisie in the first term, the focused moved on the interests of the Anatolian bourgeoisie, regarding its organic relationship, and began to provide policies considering the interests of this group (Karacan, 2018: 86). Especially after 2007, this group of bourgeoisies benefited from Turkey's AWC policies, and many companies in this group were internationalized as well. However, this does not mean that the big bourgeoisie under TÜSİAD could not benefit from the AKP's AWC policies. In other words, the government did not create discrimination between the Istanbul bourgeoisie and the Anatolian bourgeoisie even providing economic policies regarding the interests of the Anatolian bourgeoisie. During the AKP period, the total assets of the Istanbul bourgeoisie increased dramatically (Karatepe, 2013: 58).

Furthermore, “the AKP government provided advantages for the automotive and white-goods monopolies affiliated with the first-generation bourgeoisie by decreasing the special consumption tax and value-added tax for particular goods such as motor vehicles and white goods” (Bozkurt, 2021: 23).

Although internationalized bourgeoisie benefited more from Cardoso’s policies in Brazil, the PT government provided more beneficial policies to the domestic-oriented bourgeoisie. Especially with Lula’s infrastructure and investment policies by the mid-2000s, the PT created closer links with the domestic-oriented bourgeoisie (Boito and Berringer, 2014: 98).

Despite extending neoliberal policies created further problems for laborers such as limitation to wage growth, unemployment, and informality, governments both in Brazil and Turkey responded to the demands of the working class through policies on social safety nets and targeted poverty reduction. In fact, in the 1990s, the increase in poverty was interpreted as market failure and poverty began to be seen as a social risk. Therefore, it was decided to address poverty as an integral part of development efforts. “Like previous World Bank approaches to poverty, the emphasis on risk and vulnerability is both consistent with the principles of liberal governance and yet subject to significant tensions” (Best, 2013: 124). Since poverty is defined by market failure, “efforts to manage it can be seen as an attempt to restructure poverty, such as establishing a more perfect market system” (Best, 2013: 124).

To maintain the neoliberal system and eliminating criticism, the response to this situation was the search for a new financial architecture to ensure global financial stability, rediscovery of poverty in the field of social policy, normalization of flexible working, reorganizing active employment policies, and rebuilding the institutional boundaries of the labor market (Peck and Tickell, 2002: 391). As a result, the

Washington Consensus was augmented, extended, and enlarged with further reforms by the mid-1990s, called AWC. So, with the AWC, the World Bank and development institutions have concentrated on vulnerability and risk of poverty more and provided policies on social safety nets and targeted poverty reduction with the AWC. Furthermore, these social assistance programs helped governments in implementing neoliberal policies without facing any attacks from laborers.

It can be said that social assistance programs strengthened the relationship between the AKP government and poorer sections of the society in Turkey. AKP government also made use of charity organizations to provide social benefits. Furthermore, beneficiaries of those programs worried that they will lose their benefits if the AKP lost the elections. They connected social assistance programs with the AKP administration (Özdemir, 2020: 18). Religiously motivated civil society associations also played an important role in this. It can be said that Erdoğan's populist vision also became an essential factor in this. Erdoğan explains his stories as the story of the public and Turkish people saw him as a man of the people. Thus, that is why lower and lower-middle income groups continued to support the party despite low wages and bad working conditions.

Social assistance programs did not create a close link between the government and beneficiaries in Brazil. Although social assistance programs were implemented by Cardoso in the late 1990s, laborers supported the other candidate, Lula da Silva, in the next elections. Lula's background played an important role in this because Lula was a labor unionist. His background created a connection with laborers. During his presidency, while implementing AWC principles, several social policies were also provided, yet those policies were implemented in line with the AWC policies. While the bourgeoisie class benefited from the AWC policies, the labor class's possible

reactions to neoliberal policies were met with Lula's social assistance policies. However, as mentioned, in his second term, Lula extended his social policies and implemented more pro-labor policies; in addition, he concentrated more on infrastructure and investment policies. Good economic growth and global economic conditions helped him to implement such kinds of policies.

The difference between Brazil and Turkey is the strength of labor organizations in Brazil. Due to the military rule and their economic failure, right-wing politics created disconnection and pressure in the Brazilian society, so people avoided right-wing politicians and parties. Political parties and politicians were avoiding expressing themselves as the right-wing as well, in order not to be associated with the legacy of the authoritarian military rule. After the military rule, either leftist or center parties won the elections. So this situation paved the way for the working class to remain organized. Furthermore, the PT as a leftist party and Lula as an ex-union leader by being in the government played also an important role in strengthening the labor class. As mentioned, the PT was close to unions and took an important role in social movements. After the victory of the PT in the 2002 elections, unionists were appointed by the PT government in some key public positions.

As mentioned in the chapter five, although during the twenty-one-year military dictatorship of 1964-1985, trade unionism in Brazil was under state control, the military government did not abolish all forms of leftist activities and they allowed laborers to organize. Furthermore, the military government in Brazil kept state-corporatist union structure which inherited from the 1930s. "Corporatism proved to be quite flexible: it served both the authoritarian regime, as a repressive and controlling device against unions, and the emerging democracy, as the sustaining base for the rapid collective organization of union leaders countrywide" (Cardoso, 2002: 285).

Yet, until 1988, there was a restrictive labor code on union organization in Brazil (Menezes-Filho et al., 2008: 56). The current Brazilian Constitution was written in 1988 after the military regime which guaranteed social, economic and political rights for all Brazilians equally. Furthermore, it reduced the control over strikes and interference in the unions' internal affairs (Menezes-Filho et al., 2008: 56). In the process of compiling the new Constitution, the leftist and nationalist groups mobilized well and effectively influenced the character of the constitution (Kingstone, 2009: 109). In addition, when the PT as a leftist party increased its votes and took 16 seats in the parliament (out of 487) in 1986, this became a significant gain in favor of trade unionism in the new constitutional and legal arrangements.

On the other hand, as mentioned in chapter six, the current Turkish Constitution was written under the military government in 1982 when labor class in Turkey was ineffective and weak. The 1982 Constitution centralized the power in the executive and diminished social and political rights (Özbudun, 2002: 61-63). With the new constitution, individual freedoms and freedom of the press were restricted seriously (Kırçak, 1993: 312). Labor unions and associations were also restricted and labor rights were interrupted. The new constitution "required to abstain from all political activity prohibited them from supporting or receiving any support from political parties" (Bayar, 1996: 781). All these affected workers in a negative way and pushed them into further weaknesses. Furthermore, "in contrast to its centralized union structure, Turkey has a decentralized collective bargaining system... only trade unions are eligible to make collective agreements, not confederations. This weakens the influence of labor over collective bargaining" (Çelik, 2016: 4).

After the 1980 coup, the labor class in Turkey could not be organized for a long time. Except in the late 1980s and very early 1990s, there were a set of short-term

organized labor class protests. Since then, the labor class could not be organized for protesting unlike the Brazilian labor class. Having a stronger labor class pushed the Brazilian government to consider the interests of laborers. In fact, labor class in Turkey did not have a close dependent relationship with the state. Compared to bourgeoisie, labor was always in the disadvantaged position in Turkey. Only during the ISI period, the state favored labor by expanding social and economic rights and increasing wages in order to expand the domestic market with the democratic 1962 Constitution. Since the ISI got into the crisis and the 1980 happened, labor lost these positive practices.

Table 9: Organization activities of labor class in Brazil and Turkey throught the years

	Brazil	Turkey
1980s	<ul style="list-style-type: none"> • Approxiamently 200 strikes were organized in 1980 whereas in 1989, this number reached to 4.000. • 2.200 strikes were organized in the second half of the 1980s. 	<ul style="list-style-type: none"> • In 1985, only 21 strikes were organized and this number increased to 458 in 1990.
1990s	<ul style="list-style-type: none"> • Average 930 strikes were organized annually in the 1990s. • In 1985, approximately 49 million days were lost in strike; whereas, in 1988, it increased to 64 million days. 	<ul style="list-style-type: none"> • 120 strikes were organized in 1995 and this number decreased to 37 strikes in 1997. • In 1990, 14 million days were lost in strike.
2000s	<ul style="list-style-type: none"> • Unionization rate was 20,6% in 2003, it increased to 22,2% in 2008 and reduced to 19,1% in 2009. • 302 strikes were organized in 2004, 411 in 2008 and 516 in 2009. 	<ul style="list-style-type: none"> • Unionization rate was 10% in 2000 and it declined to 5,7% in 2010. • Only 9 strikes were organized in 2011.

Table 9 shows organization activities of labor class from the 1980s to 2000s in Brazil and Turkey as explained in the relevant chapters. While unionization rate was approximately 20 percent annually in the 2000s in Brazil, this rate was nearly 7 percent in Turkey in the same time period. During the 2000s, there was a huge difference between two countries in terms of the number of strikes as well. As mentioned, although the number of strikes declined in Brazil in the 2000s, these strikes were offensive, which means aiming to improve labor wages and conditions instead of defending what they already had. Yet, strikes of the 1990s were more defensive strikes. On the other hand, the AKP government in Turkey faced very small number of strikes in the 2000s (Birelma, 2018: 7; Erol, 2018: 6; Çelik, 2015: 623). In 2011, only 9 strikes were organized in Turkey and as mentioned before, the AKP government in Turkey banned many strikes on the grounds of national security. This actually shows the control of the AKP government on the labor.

Neoliberalism faced one of its most important crises by 2008. With this crisis, the discussion increased whether it was the end of neoliberalism or not. The principles of the Washington Consensus and the AWC began to be questioned by developing countries. The governments in Brazil and Turkey also began to discuss those principles as well. Compared to many developing countries, Brazil was not initially affected badly by the 2008-2009 crisis due to infrastructure and investment policies (Özdemir, 2019: 2). In his second term, Lula concentrated on those policies more and as a result, those policies helped Brazil in surviving the crisis. Hence, after the crisis, he continued to focus on investment, infrastructure, and social policies by extending them. After Lula, in 2010, Dilma Rousseff was elected as the president of the PT. She continued to implement industrial policies and in 2011 the third industrial policy - the Greater Brazil Plan (*Brasil Maior Plan*—PBM) was established (Santarcangelo, Schteingart

and Porta, 2017: 9). “The plan was designed to meet the demands of both industrialists and workers to guarantee the support of a new political coalition including not only the working classes but also the internal bourgeoisie” (Özdemir, 2019: 17). With this plan, it was aimed to create and strengthen abilities in the domestic economy (Santarcangelo, Schteingart and Porta, 2017: 9). Compared to the previous industrial plan, this new plan included more protectionism “because the Brazilian manufacturing output had slowed down and manufacturing imports had soared by that time” (Özdemir, 2019: 17).

On the other hand, in Turkey economic decision-making mechanisms got centralized in favor of the executive and prime minister (Akça and Özden, 2015: 9). The AKP government and Erdoğan began to dominate political, economic, and social decisions. Although Turkey began to implement a depoliticization strategy with the AWC agenda (Buğra and Savaşkan, 2014: 123), after the 2008-2009 economic crisis, this changed (Ercan and Oğuz, 2020: 105). After the negotiations with the IMF ended in March 2010 without an agreement, the Council of Ministers was authorized to issue a decree for six months before the general elections in 2011. This amendment means the transfer of legislative power to the executive without making a constitutional amendment. In the mentioned six-month period, 35 decrees were issued and arrangements were made regarding the independent regulatory agencies from the previous period; ministries were closed, new ministries were established, merged, or separated (Fedai, 2015: 173). The AKP government began to undermine the autonomy of the IRAs. For instance, the high interest rate was criticized by the government and Erdoğan and put pressure on the Central Bank to reduce it (Özel, 2015: 5; Bozkurt, 2021: 21). The pressure of the AKP to the Central Bank in reducing interest rates demonstrated the interests of Anatolian/Islamic bourgeoisie as they did not have their

own large banks; whereas, from 2002 to 2010, depoliticization policies of the AKP corresponded to the interests of the Istanbul bourgeoisie (Bozkurt, 2021: 21). All these mean divergence from Washington Consensus and the AWC principles.

In fact, even in Europe, after the 2008 crisis, the depoliticization strategy has reached its political limits, eroding the liberal character of the capitalist state and revealing the class character of the state, and social relations have been increasingly depoliticized and tended to question the legitimacy of capital (Burnham, 2014: 190). The background of the depoliticization process lies in the restructuring of the state and state-society relationship as a result of the conflict created by the labor-capital duality (Çarıkçı, 2019: 162-163). With the claim that the state should be neutral, the distinction between economy and politics is entrenched and the view that the economy is a technical field and therefore should be excluded from political processes is embodied in the concepts of regulatory boards and governance in structural adjustment reforms.

The reflection of the 2008 crisis on the late-capitalist economies was partial and short-lived due to the choice of monetary expansion by reducing the interest rates in order to overcome the crisis. After the Eurozone crisis, which constituted the second phase of the crisis, the European Central Bank's choice of monetary expansion through interest rate cuts by resorting to a similar solution delayed the third phase of the crisis until after 2013 (Çarıkçı, 2019: 152). “The US Federal Reserve System’s (Fed’s) policies of low-interest rates enabled peripheral countries to achieve high rates of growth due to capital inflows following the 2008 crisis” (Bozkurt, 2021: 26). Attracting foreign capital in this period helped both Brazil and Turkey sustain economic growth and stability.

However, in May 2013, Fed announced the increase in interest rate (Bozkurt, 2021: 26). The FED's announcement that it would abandon its quantitative easing

policy led to global uncertainty. Therefore, this situation limited foreign capital mobility (Sümer, 2020: 51). After this announcement, “the Turkish economy started experiencing a bottleneck, with a continuing current-account deficit and the economy’s dependence on capital inflows” (Bozkurt, 2021: 26). Brazil also entered the crisis. Although the PT government tried to maintain its neo-developmental policies by implementing industrial policies, they could not achieve this because of economic dependency in terms of open trade and capital flows (Özdemir, 2019: 27).

It is important to remind that both Brazil and Turkey used the global consumption boom as an advantage to recover their economies and grow. This global economic condition also helped both governments to provide social assistance policies. In this way, governments in both countries increased their supporters from lower-income groups. However, the global economic crisis prepared the end of the global consumption boom. As a result, it became difficult for Brazil and Turkey to continue to provide social assistance programs. So increasing public support through social assistance became harder. As a result, both countries began to face protests. In May 2013, mass protests began in Brazil due to the increase in public transport prices (Saad-Filho, 2013: 657). Although protests began against the increase of bus fares, they grew further and the protest agenda expanded (Winters and Weitz-Shapiro, 2014: 139). The 2013 protests constituted an important turning point for Brazil. They prepared the process of removal of Dilma and the PT from power (Özdemir, 2019: 27). At the same time, the Taksim protests in İstanbul – Gezi Movement began in late May 2013. A small environmentalist group organized a protest to criticize the renovation project which aimed “to replace Gezi Park with a shopping center” (Taşpınar, 2014: 50). However, the protests grew further and expanded to other cities when the police began to use force. A small protest turned into huge protests in the country.

After these protests, both Brazil and Turkey were faced with corruption scandals. In late 2013, a large operation was launched in Turkey; accusing bribery, corruption, money laundering, and gold smuggling (Özhan, 2014: 85). Several key names were taken under investigation (Taşpınar, 2014: 51). Although all of the detainees had a close relationship with the AKP and there was a voice recording that belonged to Erdoğan, a decision of non-prosecution was given to corruption investigation.

In March 2014, Brazil faced a similar corruption investigation called “Car Wash Investigation” (Almeida and Zagaris, 2015: 87). According to allegations, some of the Petrobras company directors were accused of taking bribes and transferring company resources to election campaigns of politicians. After the 2014 elections, the new Congress became more fragmented which consisted of twenty-eight parties (Macaulay, 2017: 135), so it became difficult for Rousseff to control the political process. Although Rousseff was not directly under the investigation, key names of the PT were under investigation, so this increased problems over her legitimacy (Onbaşı, 2020: 194). Despite the rejection of all allegations by Rousseff, in May 2016, the Senate agreed to dismiss Rousseff from the presidency (Macaulay, 2017: 137) and the vice president Michel Temer became acting president from the Centrist Brazilian Democratic Party (*Partido do Movimento Democrático Brasileiro*, PMDB). This also means the end of 13 years in power of her left-wing Workers' Party. The impeachment of Dilma could be explained as “an outcome of the political crisis created by the exhaustion of the neo-developmental economic model of the PT and the end of the consensus between the labor and domestic capitalist classes in Brazil” (Özdemir, 2019: 28). According to Braga and Purdy (2018: 11),

Rousseff's government was overthrown not because of what she gave (or did not give) to the lower classes, but for what she was not able to deliver to

entrepreneurs and big business... [T]he Brazilian bourgeoisie was not prepared to accept a government that did not act to its satisfaction.

The global boom between 2002 and 2008 helped Brazil to use policy autonomy and as a result achieved success (Kingstone and Kling 2018: 442). By using this success, the PT could create a coalition with the labor class and domestic bourgeoisie until the global economic crisis occurred. “When the global crisis made social inclusion, promotion of industry, and preservation of macroeconomic stability hard to reconcile, both the economy and government started to collapse” (Özdemir, 2019: 29).

The far-right Jair Bolsonaro won the 2018 elections in Brazil (Chagas-Bastos, 2019: 93). With this victory, authoritarian right-wing populism gained a new momentum, determining the dominant political moment in the world and experiencing a kind of golden age with leaders such as Trump, Erdoğan, Putin, Modi and Orban (Da Silva and Larkins, 2019: 15). Bolsonaro's traditional supporters were essentially conservative large landowners, Evangelicals and the military (Chagas-Bastos, 2019: 98). Furthermore, social media played a significant role in the 2018 elections (Da Silva and Larkins, 2019: 18). It can be said that announcing that he would appoint Paulo Guedes, one of the founders of BTG Pactual, one of the largest investment banks in Latin America, as the Economy Minister, Bolsonaro seemed to have managed to develop a close relationship with the dominant capital fraction in Brazil. After Bolsonaro took office, he continued policies of privatization and austerity at full speed, while he made significant cuts in social assistance programs, especially in Bolsa Familia (Garcia, 2019: 67), so the fifteen-year effort to increase the share of the poorest segments in the income distribution was wasted.

On the other hand, the coup attempt in July 2016 created further economic contradictions in Turkey. As a result of this, capital outflows began from the country. Capital outflows caused the devaluation of the Turkish Lira in 2018 (Akçay and

Güngen, 2019: 16). The crisis of the Turkish economy in 2018 cannot be explained only by the tightening of the global dollar liquidity. The AKP government's policies regarding the Central Bank and interest rates also caused this crisis. As mentioned, after 2010, the autonomy of the Central Bank began to be undermined by the AKP government and the government tried to keep interest rate low in giving cheap credit to the bourgeoisie group which was close to the party. A low interest rate could increase domestic consumption, yet it caused the depreciation of the Turkish Lira as well. As a result, the government had to raise interest rates significantly in 2014, 2017, and 2018 (Bozkurt, 2021: 27).

After 2010, it became difficult to increase public support through credit and social assistance. Hence, the AKP government began to act more authoritarian. As a reflection of the increasing social tensions created by the neoliberal phase of capitalism and its crisis, authoritarianism has increased in Turkey. Until 2008, it was easy for the AKP government to continue and maintain its alliance with the capital and labor due to social policies, consumption boom, and easier credit conditions (Yeldan and Ünüvar, 2015: 17). There was no need for coercive authority to sustain its political dominance. However, with the global economic crisis, economic conditions deteriorated so in order to maintain its power, the AKP used social policies but soon after it was not enough and authoritarian measures began to be used. The authoritarian structure in Turkey became even stronger after the coup attempt in July 2016 (Yılmaz and Turner, 2019: 691). Following the coup attempt, a nationwide state of emergency was declared until July 2018. The AKP government used the coup as an advantage to silence opposition and consolidate its authority. A similar authoritarian trend could be also seen in Brazil. After Dilma's impeachment, Temer established an authoritarian

government and implemented wide-ranging neoliberal policies by cutting social rights (Özdemir, 2019: 28).

Although Washington Consensus and AWC principles were recommended to developing countries for maintaining economic stability and economic growth, it was influenced by the peculiar conditions of each country. Each state has its internal dynamics which directly influenced the policy implementation. From the Open Marxist perspective, it can be said that while the state secures social reproduction and surplus value production by ensuring exploitation, it also shows itself as representing the general interests of the society, as the neutral arbiter. Open Marxists stated that although the capitalist state tries to ensure accumulation, it may sometimes have to respond to the demands of the working class. Maintaining capital accumulation does not mean that it represents the interests of particular capital groups. By drawing on the Open Marxist framework, I argued that Washington Consensus and AWC policies are transformed by class struggle within the country. Nevertheless, Open Marxist framework does not exclude the so-called ‘external factors’ such as global economic conditions and global markets. Class factors cannot be seen as internal factors only. Without a doubt, global market and global capital have a great influence on capital. For example, can we categorize TÜSİAD that represents internationalized big bourgeoisie as an “internal”, “domestic” factor? Rather than the so-called internal and external factors being in an exclusive relationship, there seems to be an overlap between the domestic and external factors. The demands of the classes are not formed in a vacuum but rather they take shape within the framework of the global market.

By considering comparative cases of Brazil and Turkey in this dissertation, it could be right to emphasize that both countries implemented Washington Consensus and AWC principles differently due to the different relations between the state-capital

and the state-labor. Due to the strength of labor organizations in Brazil; these principles were implemented in a more labor-friendly manner in this country. Labor class in Turkey could not be organized well since the 1980 coup except in the late 1980s and very early 1990s. Having a stronger labor class pushed the Brazilian government to consider the interests of laborers and implement neoliberal agenda in a more labor-friendly manner.

Compared to the expectations, policies of the Washington Consensus and AWC did not bring uneventful economic growth to Brazil and Turkey. Both countries had high growth rates from 2002 to 2008 due to the global economic boom. Yet, since then both countries began to face economic problems. In addition, corruption, populism, and authoritarian perspective emerged in both Brazil and Turkey. By 2010, the AKP government in Turkey took a more authoritarian vision while corrupt activities were increasing. Yet, Erdoğan used populism to eliminate negative attacks against him and his party. On the other hand, even in Brazil where the labor class was organized better, after Rousseff, authoritarian and corrupt activities of the government increased as well with president Temer and then with president Bolsonaro. The result of the Washington Consensus and AWC policies was disappointment for developing countries. Instead of creating stable economic growth, it caused corruption, populism, and authoritarian vision. Chacko (2018: 560), Weyland (2003: 1112) and Roberts (1995: 116) also found a similar correlation between neoliberalism, populism, and autocratic rule.

By making the economic-political distinction on this basis, Marxist approaches, unlike liberal and institutionalist approaches, reveal the nature and social determination of the capitalist state and the capitalist market, which are constantly redefined by class struggles. From the Marxist perspective, state is not autonomous

from the classes within the society. However, according to liberal perspective, state should have a limited role in economy. On the other hand, institutionalists consider the state as an autonomous actor.

Marxist conceptualization enables me to reach a class-based understanding of the state which guided my analysis on the implementation of Washington Consensus and Augmented Washington Consensus principles in Brazil and Turkey. Marxist approach reveals, which are not revealed by other approaches, the influence of class struggles on the implementation of state policies. Marxism explains all issues with relations of production and concentrates on a class struggle. Instead of perceiving society as the sum of individuals, Marxism considers it in its historical and structural conditions, in the context of relations of production and thus class and class struggle.

As mentioned before, it is not only Open Marxism but many other versions of Marxist state theory also emphasize the role of class struggle in shaping state policies. Hence, I chose Open Marxist theory to analyze the implementation of the Washington Consensus and AWC principles in Brazil and Turkey. In the context of this distinction, Open Marxists isolate the capitalist state as the state that reproduces itself within capitalist relations of production. It also embodies the capitalist relations of production as the expanding reproduction of capital. In the context of this embodiment, the capitalist market, which is experienced as separate from politics and class relations, but it is in fact constantly and historically redefined by these relations, emerges as an area where the state both intervenes and is limited as the area of expanding reproduction of capital.

Current political economy of Brazil and Turkey were analyzed by considering Marini's perspective which mentioned in the chapter two. In order to understand the capitalist nature of the state, it is necessary to concentrate on the accumulation process

of capital and the expanding reproduction of capital. Capital accumulation is a result of the struggles of capital to overcome all kinds of obstacles in order to grow itself. Therefore, global capital accumulation should be considered as a political, cultural and social relationship as well as an economic one. The capitalist character of the state emerges within the framework of the question of how the state reproduces itself in this global accumulation process. Open Marxism tells that the demands of classes and other groups in each society affect the conditions, of course with the external conditions such as global capital, IMF, and World Bank.

Brazil's foreign policy understanding based on the principles of "central country" and "interdependence", which has continued since the military regime period, was strengthened with elements such as "reliability", "development", "principle of not being indifferent" during the PT rule (Özden, 2015: 122). The capital fraction that consolidated its hegemonic role during the Collor, Franco and finally Cardoso governments throughout the 1990s was financial capital, which articulated the interests of global investors and national banks to the detriment of other segments of the bourgeoisie. Under the leadership of the big industrial capital, the "new domestic bourgeoisie", which includes small and medium-sized enterprises that demanded the resources to be disciplined and directed to production by the state, and the agricultural bourgeoisie whose export potential was narrowed due to the imposed free trade agreements, started to increase political activity starting from the second Cardoso government. The PT came to power in 2003 thanks to it uniting this class faction with the lower classes on a common front, that is, succeeding in forming a "coalition of losers", as mentioned in the chapter seven. The PT paved the way for the reshaping of the power bloc and broadening its base without undermining the economic power of finance capital. However, the struggle within the ruling bloc continued under Lula and

then Dilma Rousseff, who took over the presidency because the PT was breaking the hegemony of financial capital in the country with its policies. However, with all these struggles, the domestic bourgeoisie was able to organize important parts of the capital around itself and to reach a hegemonic position within the power bloc by describing an accumulation strategy that could be described as "new developmentalism".

The fact that the Brazilian left lost the squares to the right in the mass protests that broke out in Brazil in June 2013 was the most important breaking point that paved the way for the rise of an extreme right-wing leader like Bolsonaro in Brazil today. Perceiving the PT's policies based on income redistribution as a threat, the right-wing opposition succeeded in mobilizing a significant segment of the middle and upper-middle classes. The 2013 crisis revealed the anti-social side of the bourgeoisie in Brazil. Modest gains in social rights of the poor during PT governments (annual increases in the minimum wage, income transfer programs, etc.) were rejected by the upper classes and the big bourgeoisie (Garcia, 2019: 62). It was the first time since the 1960s that the right-wing group took to the streets in such a massive way. Protests against the PT in the country created an atmosphere of deep polarization. Moreover, the PT's policy towards the domestic-oriented bourgeoisie and workers' interests was incompatible with the wishes of the big bourgeoisie. They demanded policies that adhered closely to the neoliberal agenda.

The struggles that started between the two capital segments, TÜSİAD and MÜSİAD, since 2008 and emerged with the debates on whether to renew the stand-by agreement with the IMF, the interest policy and autonomy of the Central Bank, and even the "4+4+4 system" for the education system, are important in terms of understanding the current policies of AKP in Turkey. All of these are necessarily related to the existence of capital fractions that have different interests in relation to

the articulation of global capitalism and these differences of interest have become increasingly sharper in the conjuncture after the 2008 economic crisis. As mentioned, although Turkey followed more orthodox path in the implementation of Washington Consensus and the AWC principles since the 1980s, things started changing after 2010 in Turkey and a process started whereby the AKP was criticized for carrying out an extra-economic intervention in the sphere of accumulation.

The authoritarianization process and the direction of heterodox policy which has gained a new dimension in Turkey in recent years could not be explained only with the AKP's relations with different segments of capital or the increase in the relative autonomy of the state against the capital. One of the reasons that Turkey and Erdoğan were able to move in the direction of heterodox policy was due to the end of IMF oversight. Moreover, the state's greater domination of capital through financialization was the other reason for these new and drastic transformations. After the FED's announcement in May 2013 that it would raise interest rates, the close relations between AKP and MUSIAD, which were established within the country in a low interest environment, which was also the material basis of AKP hegemony, began to tense. In other words, the intersecting paths of neoliberalism and AKP Islamism in the 2000s became increasingly corrosive for the AKP government. This does not mean that the AKP will easily move away from the neoliberal line, because the capital domination established by the state through financialization has deepened and become structural. As the AKP tries to exceed these limits in a way that does not comply with the expectations of financial capital, the country is plunged into deep economic and political crises.

This dissertation restricted itself to concentrate on the strength of labor organizations in Brazil while explaining the differentiation of the implementation of

the Washington Consensus and AWC in Brazil and Turkey. It can be said that the strength of labor organizations and PT as a labor party in Brazil created a sufficient condition in the different implementation of Washington Consensus and AWC. However, under worsening global economic conditions not only Turkey but also Brazil started to implement anti-labor policies. Hence, the capitalist interests prevail. Eventually, Brazil and Turkey converged in their policies and politics. As mentioned, there are some other reasons such as the Brazilian bureaucracy and the strength of dependency theory in Brazil. Hence, in future research, it can be effective to analyze other mentioned reasons and contribute to the literature.

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