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**Exogenous Pressures and Social Policy:
Greece and Turkey in Comparative Perspective**

Dimitris Tsarouhas and H. Tolga Bolukbasi

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Mediterranean Programme
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Via delle Fontanelle, 19
50016 San Domenico di Fiesole (FI), Italy
Fax: + 39 055 4685 770
E-mail: MedProgSecretary@eui.eu
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Abstract

This paper looks at contemporary social policy developments in Greece and Turkey in light of exogenous economic pressures in the period 1980s-2000s. Three sources of exogenous pressures, which allegedly lead to a reduction in social expenditure budgets, are identified: globalization, the process of European integration in its EMU phase and IMF conditionality. Our case studies show that both countries were exposed to impending pressures of economic liberalization, but these exogenous pressures have not resulted in anticipated social policy outcomes. First, social expenditure levels in both countries have not declined; instead, we report rising trends in expenditure. Secondly, and especially in the case of Greece, the 20-year period analyzed shows an expansion in social welfare programmes. Thirdly, those outcomes are mediated by salient domestic political factors, such as democratization and liberalization of the political space. Finally, the positive association between an expanding welfare state and the presence of social democratic/socialist governments, reported in the literature, seems vindicated in our research.

Keywords

European integration, Globalization, Greece, social policy, Turkey

1. Introduction*

Over the last two decades or so, Mediterranean states have become increasingly embedded in a network of relations with international actors. Globalization and economic transformation allegedly have a wide-ranging impact on states' capacities. While a lot of attention has been paid to processes of economic transformation as a result of such pressures, significantly less light has been shed on the implications of such for social policy.

This paper looks at the contemporary social policy structures of Greece and Turkey in light of exogenous economic pressures. Due to the overwhelming reliance on old age pensions and healthcare expenditure as constitutive of the Greek and Turkish welfare states, social policy is herewith defined and analyzed in terms of old age and healthcare programmes and expenditure levels. Three sources of exogenous pressures that allegedly lead to a reduction in social expenditure budgets are identified: globalization, the process of European integration in its EMU phase and the IMF.

Greece and Turkey provide fertile ground for such analytical comparisons. To start with, the two countries have featured prominently in comparative studies with regard to foreign and security policy, mostly (but not always) in relation to the Cyprus dispute. An attempt is hereby made to enlarge the scope of comparative analysis by including vital features of public policy. Secondly, Turkey's domestic transformation over the last few years, not least due to its EU vocation, has increased the scope of analysis pertaining to the country's ability to cope with competitive pressures whilst seeking to safeguard social cohesion. In that, the historically similar trajectory followed by Greece, a neighbouring country that was also dependent on a state-centric path to development, adds value to the debate on Southern Europe's political economy and its transformation. Thirdly, and more concretely, the paper sheds light to a set of similarities that facilitate cross-country research, namely 1) the existence of institutionalized/structural pressures for change in the economic field stemming from the EU and the IMF respectively and 2) the policy line adopted in response to change by the political leadership of the two countries.

With regard to welfare politics in particular, the inclusion of Turkey in the Southern European welfare regime (Ferrera 1996) is a subject open to interpretation (Guillén and Alvarez 2000). The present paper seeks to contribute to this fruitful debate and open up new space for Greek-Turkish comparisons that will be useful to students of social policy in the two countries and beyond. In fact, as section 4 suggests, aggregate levels of spending on social policy in Turkey now resemble the equivalents in Southern Europe with a time lag of 10-15 years. In itself this does not say much. Nonetheless, it signals the fruitfulness of attempting to delineate the commonalities and differences between the Turkish and South European welfare regime regimes, a debate to which this paper seeks to contribute by providing direct comparisons with a representative case of that model, Greece.

In the first part of the paper, we outline the three sources of exogenous pressure and discuss their relevance to the contemporary debate on welfare retrenchment. The next section deals with the particular path followed by the Greek case and places it in its historical and political context by following a periodization structure roughly corresponding to the period from the 1980s to the early 2000s. Following on from that, the Turkish case study is presented and a comparable set of pressures for reform, albeit from a different starting point and contextualized in a different political environment, is analyzed. The paper's fourth part brings the two parallel-level analyses together and explores the ground for a direct comparison between the two cases.

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2. Exogenous Pressures on Social Expenditure

2.1 Globalization

Beginning from the 1980s, exogenous pressures for welfare state curtailment and social policy cutbacks have increased. Although their salience varies, and although some have become more obvious in different periods, what united all three is their association with welfare retrenchment and social expenditure cutbacks in parts of the relevant literature.

The first source of such pressure is globalization. Though ambiguity clouded a precise definition of the term for much of the past decades (Biersteker, 2000: 147; Jessop, 2002: 113) a distinction between the economic and sociological effects of globalization is helpful in understanding its effects (Sørensen, 2004:25). Over the last few decades, the world economy has been confronted with vast increases in FDI, trade and financial flows (Lee, 1996: 484). Globalization, manifested most clearly in time-space compression (Giddens 1994) has transformed the operation of national business but also led to an intensification of trade and capital movement throughout the developed world, mainly concentrated on the Triad. Indeed, and although sceptics have disputed the extent to which absolute levels of trade volumes have surpassed those of the pre-1914 era (Hirst and Thompson, 1996), the level of interconnectedness of trade has increased dramatically after the 1960s and the world export-GDP ratio increased from less than 10 percent in the 1960s to about 15 to 20 percent in 1997 (Perraton, 1997: 261). Furthermore, trans-national firms have become more capable of dealing with floating exchange rates (Gill & Law, 1988: 186). In addition, financial markets have changed in character and there has been a strong expansion of financial interconnection, while manufacturing patterns shifted from the subsidiaries model to international business divisions with production, marketing and distribution all potentially based in disparate geographical territories and coordinated through computerized information systems (Marginson et al., 1996: 188).

Most importantly, what all of this means is, according to some, severely restricted national policy autonomy regarding welfare state expenditure. “Globalizers” think that national policy-making is powerless in the face of cross-border capital flows that neutralize regulatory techniques of domestic policy adjustment, such as the use of interest rates to direct capital flows. Governments can effectively manipulate real interest rate differentials only if they can regulate the flow of capital to and from their economy. When this option is no longer available, the movement of capital and not interest rates become the determinants of monetary policy (Genschel, 2004: 618). Ever-growing demands by business for a favourable investment climate, a precondition to avoid capital flight, means a “race to the bottom” favouring lower taxes and thus lower welfare expenditure (Svensson, 2002: 198). Simply put, tax competition reduces tax intakes and thus less public money spent on welfare.

The debate as to the cause-effect relationship between globalization and the welfare state is by no means over, but a powerful school of thought has already proclaimed its *causal* effects on state-financed welfare. The only available road to salvation is convergence around residual welfare arrangements (Cerny 1995). Intensified economic integration spurred on by technological advancement makes the “race to the bottom” inevitable, because more exit options for capital make the increase of, or maintenance of, competitiveness subject to reduced welfare outlays.

2.2 IFI Conditionality

The second major source of exogenous pressure is the set of conditions imposed upon medium- and low-income countries by international financial institutions (IFIs), mainly the World Bank and the IMF. Loans are granted and macroeconomic policy plans to “rescue” ailing economies agreed upon subject to policy reform. Parallel to the globalization of firms, international organizations have gradually altered their traditional orientation stemming from the Bretton Woods settlement and assumed a much more intrusive role on economic and social issues long seen as national prerogatives

(Biersteker, 2000: 155). Such interventionism is alleged to, *inter alia*, lead to a decline of social budgets as a result of pressures on state finances to reduce budget deficits (Chossudovsky 1997).

Two main periods of IFI activism can be discerned. During the 1980s, the IMF policy orientation was preoccupied with macroeconomic stabilization and market reforms. The belief in the benevolent nature of unfettered markets seemed unshakable, and the Washington Consensus prioritized trade and finance liberalization, market deregulation and fiscal discipline (Williamson 1990). The latter entailed the curtailment of social policy programmes, and the outsourcing of social services to private operators. In the 1990s the second phase of conditionality was ushered in, as the post-Washington consensus sought to correct previous market fundamentalist excesses. A renewed emphasis on poverty alleviation was put at the top of IFI agenda, and the role of institutions as crucial in securing good governance was underlined. Nonetheless, fiscal conservatism was retained and the IFIs continued to emphasize the need for fiscal discipline so as to retain or enhance global competitiveness. Social expenditure thus remained subject to external scrutiny.

2.3 The European Union

The final source of external pressure is EU membership. The relationship between globalization and the EU can be read in different ways. For some, European integration is the regional manifestation of globalization pressures, and there is little that differentiates its impact from that of globalization. Yet for others, European integration provides a bulwark against globalization and an attempt to put in place policy arrangements allowing them a higher degree of regulatory capacity than would otherwise be the case. Moreover, the EU factor needs to be problematized by addressing the issue of whether it can credibly be seen as constituting an external fiscal pressure on social welfare. After all, the Union's cohesion policy and successive financial packages aimed primarily at the periphery of the EU, including Greece, are responsible for a large part of the country's economic development (Ioakimidis 2000).

Thus, the EU factor constitutes a further exogenous pressure to the extent that the EMU project constrained the policy space available to policy-makers on social policy. The design and implementation of the Maastricht Criteria put pressure on fiscally lax states to cut public expenditure to enter EMU. What is more, the Stability and Growth Pact (SGP) of 1997 further limited state discretion over fiscal policy (Martin and Ross, 2004). The adoption of EMU was allegedly the result of Europe's neoliberal turn that threatened the viability of the European Social Model and endangered both mature and rudimentary welfare states. Greece, like other countries that had been prone to deficit spending in earlier decades, would now be put under additional pressure to install fiscal discipline (Pagoulatos 2003). This could mean that social expenditure would have to be curtailed in an attempt to enhance the competitiveness of the Greek economy and remain within the limits set in Maastricht and according to the SGP.

3. Case Study I: Greece

3.1 Exogenous Pressures for Change 1980s - 2000s

Following the destructive consequences of WWII as well as the three-year civil war (1946-49), Greek post-war policy was primarily oriented towards rapid economic development in the context of a monetarist macroeconomic regime and the attempt to guarantee monetary stability. In the early post-war decades and in tune with the prevailing "state-heavy" assumptions about the best way of enhancing growth, new state institutions were developed to coordinate economic planning and implement a series of policies, notably housing, to include the working class in the process. The two most representative of these institutions are the Centre for Planning and Economic Research (KEPE) and the Workers' Housing Organization (OEK) respectively (Petmesidou, 2006: 36). On the economic front, the 1953 currency devaluation in combination with measures promoting trade liberalization and

a relatively stable international economic environment (Pagoulatos, 2003: 22-23) assisted Greek policy-makers in their quest for rapid growth. The Greek economy grew on average by 6.5% between 1950 and 1961, while the period between 1961 and 1979 was even more impressive, as Greece recorded growth amounting to 7.4% p.a. on average (Gravaris, 2006: 58). However, this period is also the one in which high rates of economic growth were for the first time accompanied by structural economic problems. Firstly, the 1970s stagflation led to high inflationary pressures averaging 16% between the two oil crises, thus offsetting (already falling) growth rates. Secondly, worsening balance of payments difficulties resulted from the slowing down of foreign currency inflows. Thirdly, the commitment to monetary and fiscal stability that had underpinned the Greek post-war economic paradigm (Pagoulatos 2003) came to an end in the immediate post-dictatorship period, as democratic transition and consolidation made expansionism the preferred pathway for legitimizing the new regime.

The 1980s is in many respects the defining decade of modern Greece. The civilianization of the regime and democratic consolidation (Duman and Tsarouhas 2006) went hand in hand with rising aspirations by the middle classes that emerged following the economic upturn of the 1950s and 1960s. On the political level, new actors make a powerful entry through the 1981 electoral victory of the Socialist Party (PASOK). The latter's call for a politics to benefit the "non-privileged" in society resonated strongly with the vast strata of self-employed craftsmen, tradesmen, agricultural labourers and low- and middle-ranking state officials (Spourdalakis 1988). At the same time, the economy entered a period of stagflation, low growth rates and high inflationary pressures averaging 19.5% (Gravaris, 2006: 59). Loss of competitiveness in the international market was accompanied by the emergence of "ailing industries" that were bailed out by the state for electoral purposes. The politics of expansionism as adopted by the New Democracy (ND) governments of the 1970s (1974-81), accompanied by nationalizations of certain industries and firms continued unabated under PASOK (1981-89, 1993-96). While the EU sought to encourage liberalization reforms in line with its professed plans for a Single Market, PASOK avoided electorally painful economic restructuring, save for a brief period after its 1985 re-election. Particularly in its first term, the Socialist government emphasized democratic planning and socialization instead (Tsakalotos 1991).

If the onslaught of globalization in the 1980s did little to affect an economy with only a small degree of integration in the international economic architecture, the launch of the EMU project brought the EU factor firmly in the focus of Greek public policy. Greece met with political instability in the late 1980s amidst corruption allegations and successive electoral contests did little to reinstall stability. This had a clear effect on social policy, as spending was reduced in the late 1980s (Table 1). In April 1990 the ND government of Konstantinos Mitsotakis emerged victorious from the last electoral round. Meanwhile, the EC had already warned Greece that its deteriorating economic situation worried Europe: the EMU project could be derailed if Greece's economic performance did not improve. (Featherstone, 2003: 925). In 1990 Greece had an inflation rate of 20.4%, public deficit of 15.9% and an unemployment rate on the increase standing at 7.0% (OECD 2002). At the same time, interest payments by the end of the 1980s had quadrupled compared to 1981 (see Table 2).

Still, the PASOK government in the middle of the 1980s and following the fresh electoral mandate it received in 1985 earlier experimented with a programme of fiscal consolidation to control public deficit and stabilize the economy. The ND government that came to power in 1990 sought to go further. It had promised to reform the pension system that was absorbing half the cost of public deficit and 15% of the country's GDP (Triantafyllou 2005; Matsaganis, 2006: 164;) as part of a wider programme of "rolling back the state" and privatizing a large part of publicly-owned companies (Gravaris, 2006: 65). Pressure from the EU played into the hands of leading government functionaries and could act as a source of empowerment in their attempt to entrench a new political economy agenda (Featherstone 2003). In fact, the establishment of the Maastricht criteria led to a cross-party consensus on the need for EMU entry. Greece should seek to become part of EMU at the earliest time possible to converge with "Europe" and be welcomed as a partner of equal footing to other EU members (Ioakimidis 2000). The need to converge with "Europe" became a matter of cross-party

consensus by the mid-1990s, opposed solely by the communist left (KKE). By Greek standards, such a consensual approach to a major public policy goal was surprising, particularly as it encompassed not only political parties but also major stakeholders such as the trade unions. The re-election of PASOK in 1996 under a new Prime Minister, Konstantinos Simitis, meant that “modernization” became synonymous with the need to Europeanize in all levels of public life. From a political economy perspective, Simitis’ preference for technocratic solutions to problems that his predecessors may have deemed rather political led to the staffing of his Cabinets (1996-2000, 2000-2004) with technocrats aiming a high growth rates, reductions in real interest rates, inflation rate, public debt and deficit. Economic stability through the reinstallation of a stable macroeconomic environment after years of turbulence became the government’s top priority and judging by Greece’s entry to EMU as early as 2001 it proved successful.

3.2 Greek Social Policy Responses, 1980-2001

To what extent have Greek policy makers felt constrained by exogenous pressures? How did they seek to respond to the challenges posed by the external environment and the European Union’s Maastricht criteria and SGP in particular? Furthermore, what role should one assign to the domestic power struggles and related intervening variables to account for this response? The section below offers some suggestions as to the qualitative reform in social policy implemented in the two policy areas absorbing most social policy expenditure: pensions and healthcare.

Retirement policy in Greece has traditionally been the major axis of the welfare state. In 2001, more than 90% of state benefits fell under the “retirement” category, with family allowance and unemployment insurance absorbing a meagre 2.8% (Matsaganis, 2006: 148, Fig. 7.1). In the same year, more than 50% of social expenditure went to old age and survivors’ pensions, a figure only second to Italy’s in the old EU-15 (Petmesidou, 2006: 34, Table 2.1). Sicknes and health care expenditure absorbed almost one third of social expenditure in the same year and along with old age expenditure constituted more than 82% of all money spent on social policy programmes. Finally, 8.2% of total social expenditure was subject to means testing and 62% of all such expenditure was contribution-financed (Hemerijck et al., 2006: 262, Table 14.1).

3.2.1 Trends in aggregate social expenditure

Looking at the aggregate data leaves little doubt as Greek social spending patterns. Greek social expenditure as a percentage of GDP has increased substantially over the period 1980-2001 (Table 1). In 1980, Greece spent little more than a tenth of its GDP on social expenditure, defined as public expenditure on social protection. By 2001, the equivalent figure had climbed close to one-quarter of GDP. Reductions in social expenditure are few and far between, while the year-to-year increases from 1989 to 1990 and 1981 to 1982 are the highest on record. Importantly, in the period between the late 1980s and today, social expenditure rises in real terms although general government outlays do not rise as fast, and get significantly reduced from a high of 51% in the middle of the 1990s (Table 3). What is more, GDP growth rates have fluctuated considerably during this period, only acquiring a stable and increasing character after 1994 (Table 2).

Table 1: Greek Social Expenditure, 1980-2001 (Public Social Expenditure as a % of GDP)

1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
11.5	13.8	16.2	16.9	17.2	17.9	17.7	17.7	16.4	17.5	20.9	20.1	20.2	21.1	21.2	21.4	22.1	22.1	22.8	23.6	23.6	24.3

Source: OECD 2004 Social Expenditure Database.

Note: from 1990 onwards, figures are based on the ESPROS database. For differences in definitions of measuring social expenditure between the two see Matsaganis, M. (2006) "Muddling Through: The Trials and Tribulations of Social Security", pp. 147-73, in *Social Policy Developments in Greece* Petmesidou, M. and Mossialos, E. (eds) Aldershot: Ashgate

Table 2: GDP annual growth in %, 1980-2006 (GDP growth Year base 1980)

1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
-	0.1	0.4	0.4	2.8	3.1	1.6	-0.5	4.5	3.8	0.0	3.1	0.7	-1.6	2.0	2.1	2.4	3.6	3.4	3.4	4.5	5.1	3.8	4.8	4.7	3.7	4.0

Source: Years 1981-92 from Tsakalotos, E. (1998) "The political economy of social democratic policies: The PASOK Experiment in Greece", *Oxford Review of Economic Policy*, 14 (1): 114-38. Years 1993-2006 from OECD Economic Outlook No.80

Table 3: General Government outlays, 1989-2006 (GDP growth Year base 1980)

1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
-	-	-	-	-	-	-	-	-	44.5	49.2	45.8	48.5	51.0	49.0	50.1	48.3	49.3	48.6	48.6	51.2	49.8	49.2	49.2	49.8	46.7	45.6

Source: OECD Economic Outlook No.80

3.2.2.1 Changes in Pension Politics, 1980s

Retirement benefits comprise old age pensions, farmers' pensions, invalidity and widowhood pensions, national resistance and war pensions. Social insurance is organized along the lines of IKA, the national Social Insurance Organization, OGA, the rural workers' fund, and OAEE, the fund for the self-employed. Next to these 3 main funds, however, stand the funds for civil servants, some prestigious occupational groups (lawyers, doctors and engineers) and hundreds of others (see Matsaganis, 2006: 155, table 7.6). The politics of retirement are complicated and messy. Pensions are based on the PAYG principle and are earnings-related. They are subject to a series of complicated rules and it is extremely difficult to clearly determine vital aspects of the system such as replacement and contribution rates (Matsaganis, 2006: 154). In fact, contribution and replacement rates in Greece can differ enormously from fund to fund, but also within the same fund and from employee to employee (Ibid, Fig. 7.6). This, in turn, results from the highly fragmented nature of the pension system (Featherstone, 2003: 3). The multiplicity of pension providers goes back to the early years of the modern Greek state, when heteronymous forms of coverage overlapping with other programmemes were established on an occupational basis lacking priorities and direction (Petmesidou, 2006: 38). Their number has been reduced to about 230 today compared to around 370 in the early 1980s; but these figures are still higher than the 153 public pensions providers that operated in the late 1950s (Tinios, 2005: 403). Retirement in Greece is a publicly financed affair. Private occupational funded pensions, "the second pillar", are rare and absorb less than 0.3% of GDP. Private coverage is to

be found on the third pillar where private arrangements are made, usually through the life insurance industry (O'Donnell and Tinios, 2003: 264).

PASOK won the elections on a ticket of radical reform and redistribution to the benefit of the low and middle-income class. Through its policies, the fragmented and asymmetric nature of social insurance was reinforced. Following decades of exclusion from socio-political life, the centre-left societal coalition demanded an increase in expenditure and coverage. The minimum pension levels rose by more than 50% in the early 1980s and were extended to both the rural and urban social insurance coverage. IKA was ordered by the government to cover social groups that had never made contributions towards the Fund (Venieris, 2006: 74), a pattern that became all too common in subsequent years. In addition, a social assistance income-tested benefit for old-age uninsured people was introduced. However, the government followed a policy of *ad-hoc* relaxation of eligibility rules for retirement depending on groups' access to corridors of power (Gravaris, 2006: 60). To illustrate, in 1984 the IKA minimum pension was paid out to those turning 65, even if they could only show 9 full years of work and contributions. Retirement policy in the 1980s became part and parcel of the new phase of clientelism characterized by bureaucratic clientelism (Lyrintzis 1984) and the replacement of personal patronage networks with party patronage. Social expenditure became even more "pension-heavy" during this period and the deficit of social insurance funds reached 3% of GDP.

3.2.2.2 *Changes in healthcare politics, 1980s*

The picture of healthcare in the Greek social policy map has a lot in common with old age provision structures: a fragmented administrative system, unequal coverage across different occupational groups, overlapping of the private and public sector and inadequate hospital and primary care services. Still, Greece spent in 2000 9.4% of its GDP on healthcare, one of the highest in the EU. Funding provisions are both public (through ESY, financed by general taxation, and through social insurance, i.e. IKA and OGA members using ESY services) and private (through IKA, OGA and other social insurance funds permitting access to private medical doctors based on different schemes). Private funding is on the increase and manifested through private health insurance and out-of-pocket payments. This form of payment constitutes 41.4% of all private health expenditure, the highest percentage in the EU-15 in 2000, and only 2.3% stems from private health insurance (Davaki and Mossialos, 2006: 289).

The most radical change in the 1980s was the establishment, in 1983, of a universal National Health Service (ESY) free at the point of use and based on the principle of equity in coverage (Davaki and Mossialos, 2006: 286). Similar to developments elsewhere in Southern Europe, the Greek law on NHS aimed universalizing healthcare and link access to health services to citizenship. Part of the plan was the absorption of the private sector into ESY by halting the expansion of private hospitals and banning the employment of ESY physicians in the private sector. Finally, a decentralization of health services was envisaged through the creation of Regional Health Councils (Mossialos and Allin 2005: 424). Nonetheless, the reform proved less radical than originally envisaged and its implementation was patchy. Two main factors account for this.

Firstly, the government faced a strong wave of opposition from bureaucrats (unwilling to surrender authority to the periphery), trade unions and some insurance funds (who saw the amalgamation plans as undermining their privileged access to superior health insurance protection) as well as private doctors (who feared their exclusion from the new healthcare system). Secondly, the politics of clientelism that PASOK cultivated soon split the party's upper echelons and undermined the reform. The parliament Speaker threatened to resign if the amalgamation went ahead, staunchly supporting the inequity inherent in the functioning of the social insurance funds. Meanwhile, personal posts were created in the ESY for PASOK sympathizers, further aggravating problems of inefficiency (Mossialos and Allin, 2005: 425). The law was significantly watered down when the new Minister for Health, George Gennimatas, took over in 1984 and the focus shifted away from primary healthcare to the expansion of the hospital sector. The law on exclusive practice in ESY by university doctors was never passed, private health care expenditure continued to rise and decentralization was never put to

practice. The fact that the original law was passed by Presidential Decree meant that, according to the Greek legal code, the relevant Ministry has to take the initiative of clarifying ambiguous wording at a later stage. This is an often-used window of opportunity for the watering-down of controversial legislative initiatives.

3.2.2.3 Changes in Pension Politics, 1990s and 2000s

The 1990 and 1992 reforms by ND attempted to reform the pension system facing strong exogenous pressure from the Union (Tinios, 2005: 409; Petmesidou, 2006: 41). In both cases (Laws 1902/90 and 2084/92), the government reduced replacement rates, increased contribution rates and set the retirement age at 65 for both men and women – a measure only applicable to those that would enter the labour market from 1 January 1993 (Matsaganis, 2006: 165). The previous indexation of pensions to wages was discontinued, while seniority pension levels would be dramatically cut for those entering the labour market after 1993 (Petmesidou, 2006: 41). However, the government failed in the more ambitious aspects of its agenda. The “1993 provisions” revealed its inability to overcome societal pressure resisting the reforms. Massive pressure exerted by GSEE, the Confederation of Greek Labour led to the withdrawal of the original comprehensive reform package following protracted strike action. Opposition to the government’s plans went beyond the unions, however, and included broader social strata that effectively paralyzed the government’s reformist zeal (Pagoulatos 2001). Having failed to address the issue of the privileged funds, the government made IKA its target instead. Social expenditure stagnated in its comparatively low levels during the 1990-93 ND government, but there is no evidence of welfare retrenchment. The social responsibility of the state had by that time become entrenched in the political and societal discourse, at a time when EU-led economic adjustment was becoming a matter of cross-party consensus.

PASOK returned to power in 1993 and after three years of inactivity marked by Premier Papandreou’s ill-health, the modernization of the country was placed at the heart of the new PASOK government headed by Konstantinos Simitis. The twin goals of the new administration were quickly formulated: the modernization and Europeanization of the country (Featherstone 1998). The challenge of a changing economic environment meant that the country had to adjust by reforming its structures in all policy fields. By 1996 Greece was lagging behind its EU partners so the project assumed a sense of urgency. One of its priorities had to be the archaic social security system. Commitment to EMU (and after 1997 the Stability and Growth Plan) was to be combined with measures to alleviate social misery. PASOK sought to dispel left-wing fears related to its fiscal conservatism by implementing social policies enhancing solidarity. One way of going about this was by targeting resources more effectively.

In 1996 the government introduced the Social Solidarity Benefit (EKAS) as a means-tested pension supplement to top up income from other sources. However, the overt reliance of the Greek welfare state on contributory benefits meant that selectivity should run out of steam (Matsaganis, 2006: 165). In 1997, PASOK also reformed the OGA converting it into a contributory social insurance fund replacing the previous flat rate minimum pension. The government sought to proceed carefully with its plans for a viable pension reform. It sought to work through social dialogue structures, counting on the moderate stance of the unions and their acceptance of the EMU goal as an overarching public policy priority. In the 1996 legislative period no major reform was introduced, although the government received expert advice on the need for reform (Spraos Committee 1997). The multiplicity of veto points that characterize the Greek public policy sphere and the high costs associated with structural reform in conditions of low societal trust and an overflow of cheap populism at the political level provide powerful explanations for inactivity. The 1999 “mini-reform” (Law 2676/99) merely led to further amalgamation of some insurance funds and the creation of OAEE as an umbrella fund for the self-employed. Nonetheless, stagnation was no longer an option following PASOK’s narrow re-election in 2000. Its manifesto called for pension reform and the Bank of Greece characterized the pension ticking bomb as the No.1 threat for the country’s performance in EMU (Featherstone and

Tinios, 2006: 186). The launching of the Open Method of Coordination (OMC) in the year 2000 and operating on the basis of benchmarking and peer pressure (Regent 2003) placed additional pressure on the Simitis government to proceed with reforms. The combination of a fiscally oriented domestic stimulus for reform was complemented with exogenous, EU-stemming pressures for change.

In April 2001 the government published its proposals for reform. The Giannitsis proposals were immediately attacked by the public sector-dominated union confederation of GSEE and strikes followed. Opinion polls took a turn for the worse and Giannitsis' colleagues refused to defend him in public, leading to his replacement. Such was the force of opposition to the proposals that Simitis felt obliged to renew party trust in his leadership by calling for an extraordinary party Congress later that year. The proposals were bold by Greek standards, but did not depart from the system's underlying philosophy of PAYG and defined benefit (Matsaganis, 2006: 167). The package's main points were the reduction of the replacement rate to 60% of reference earnings defined as the best 10 of the last 15 years, the rise in retirement age to 65 for both men and women and an increase in the minimum pension that would become means-tested (Ibid.). At the end, the only major piece of reform that made it to the statute book until the end of PASOK's political dominance was Law 3029/02. This was a significantly "softened" version of what had been proposed a year later, aiming to avoid confrontation with the unions. It entailed the restoring of the replacement rate to 70%, on par with IKA, reference earnings extended to the best 5 out of the last 10 years for IKA (and the last 5 years for the privileged funds), the fixing of the minimum pension to 70% of the minimum wage for those working after January 1 1993 and guaranteed state funding to IKA of 1% of GDP per year with the aim of making IKA the supreme fund for wage earners by absorbing the others. The piecemeal character of the currently enacted arrangements is revealed by the fact that no projections as to the pension deficit were made and no change in the retirement age was proposed.

3.2.2.4 Changes in healthcare politics, 1990s and 2000s

In the healthcare sector, the ND government introduced limited change but sought to enhance the role of the private sector. Part-time practice in ESY hospitals by private doctors was reinstated and new private hospitals were allowed to operate and be established after 1992. When PASOK regained power it commissioned a report by international and Greek experts who called for the introduction of a GP system. It was not until after the 2000 election, however, and the appointment of Alekos Papadopoulos as Health Minister that the government sought to implement a radical reform. The Minister proposed the coordination of funds through ODIPY, the Organization for the Management of Health Resources. He also outlined plans for the organization of a primary healthcare system, the creation of 17 Regional Health Systems (PESY) and the introduction of an evaluation system for ESY doctors. According to the planned reform, ODIPY would manage resources of all funds without abolishing each individual fund. PESY would mean that hospitals would now become accountable to the regions and regional directors would plan healthcare delivery for the region as a whole, bypassing individual hospitals. It was a plan aimed at circumventing the entrenched interests of party members and trade unions fending off reforms (Mossialos and Allin, 2005: 428). The primary care reform sought to establish a gate-keeping system, whereby access to specialist doctors would have to go through the personal doctor first. ESY doctors were offered important financial incentives to remain in the ESY and be allowed to work privately in the afternoon. Refusing the package (equalling €1,000 per month in 2000) meant that the doctor would not become director of an ESY clinic (Ibid, p.429).

Similarly to the 1980s, this reform package met with severe opposition. The Minister's determination was tempered by the "silent criticism" of many of his Cabinet colleagues. The political support of civil servants' associations, who were wary of the PESY reforms for obvious reasons, was too precious a commodity. Evaluation of personnel and the PESY meant that the locus of power would move away from hospitals and Ministry civil servants. They therefore staged a fight. In that fight, they were supported by almost all categories of doctors: IKA doctors opposed the primary healthcare system because it entailed competition, hospital doctors would be subject to evaluation and loss of

influence, while private doctors would lose out through ODIPY due to the increased monitoring that the system foresaw. In addition, Papadopoulos was attacked by the opposition and found out that healthcare funding was reduced between 2000 and 2001 (see Mossialos and Allin, 2005: 432, Table 1). Though the law on PESY was passed in 2001 and afternoon private clinics in ESY hospitals established, the reform soon stagnated as opposition mounted and PESY financial allocations limited. In 2002, the Minister was replaced when he expressed his disillusion with the political system.

3.3 Evaluating exogenous pressures and Greek social policy

The impact of exogenous pressures on Greek welfare has not had a discernible impact on aggregate levels of spending. Two of the three exogenous pressures for reform identified at the beginning are of direct relevance to the Greek case and especially after the late 1980s: globalization and European integration.

Globalization has entered the Greek public policy discourse with a certain delay and its policy impact has been negligible. Arguments about welfare retrenchment resulting from the liberalization of capital movement seem weakly related to Greek social policy developments. We argue that globalization has not worked according to globalizers' predictions in Greece for two main reasons. Firstly, democratization rather than globalization dominated economic and social policy. Secondly, Greece's small economic size and simultaneous catching-up process regarding EU integration shielded the country from a thorough reorientation towards a competitiveness- and export-driven economic strategy similar to that of other small states in Northern Europe (Katzenstein 1985).

The second exogenous source of pressure¹, however, acquired much more leverage over social policy in general and social expenditure in particular. EMU and SGP conditionality framed policy choices and played a decisive role in the cross-party consensus for fiscal austerity. The fact that this has not translated in aggregate social expenditure cuts may be related to the country's laggard position compared to the EU-15, as well as the need to generate social tolerance for painful economic reforms. Be that as it may, the interplay between exogenous pressures and domestic mediating factors cushioning off reform pressures have been critical both for the consolidation of high social spending levels and the difficulty in introducing structural reforms in the social security system. As Sotiropoulos (2004) has shown, the EU impact on the Greek welfare state has been asymmetrical depending on the policy sector and more visible regarding policy style than policy substance.

What the above suggest is that, in the Greek case, higher aggregate levels of social expenditure need to be linked to the domestic intervening variables and thus explain the overall outcome. Firstly, as alluded to above, the creation of a viable democratic regime was the post-1974 priority of political leadership, and with it came attempts to legitimize the new democratic structures by satisfying societal demands for the improvement of living conditions. Democratic structures allowed interest groups to articulate their demands in a coherent and institutionalized manner, exerting pressures for more social spending on the political leadership (Guillen and Alvarez, 2000). The maturation of the political system combined with financial internationalization redistributing power away from labour and in favour of capital meant that forms of neo-corporatist intermediation made an appearance towards the late 1990s. Their limited success relates, however, to governmental attempts to introduce structural reforms. The fact that gross value added going to wages and salaries was on the decline between the mid-1980s and mid-1990s (Pagoulatos, 2003: 181) meant that the unions retracted their support of those reforms.

Secondly, the longevity of the centre-left in power is positively correlated both to the expansion of aggregate spending but also the introduction of universal policy programmes that tended to define social rights in citizenship terms. The best example of such a programme is ESY in the 1980s.

1 It should be remembered, however, that a distinction between globalization and European integration as separate exogenous pressures is largely an analytical construct. In reality, the boundaries between the two are more flimsy.

PASOK's original "democratization" drive sought to reward ardent followers but also rebalance the country's political economy to encompass broad societal strata who had been excluded from access to power over the preceding decades. After the mid-1990s, the goal of combining EMU entry with social protection was illustrated through the creation of programmes such as the Social Solidarity Fund (EKAS), which, though much criticized at the time of initial implementation are now established parts of Greek social policy patterns. In addition, the Greek case reinforces the argument made in the literature regarding the willingness of EU member states to invest in social dialogue procedures to push through reforms whilst placating the unions and voters by retaining high social expenditure levels.

4. Case Study II: Turkey

4.1. Exogenous Pressures for Change 1980s - 2000s: Turkey

The 1970s economic crisis was a true watershed as it marked the end of the era of an inward-looking, protectionist development model based on import substitution industrialization. In the early 1980s Turkey experienced neo-liberal restructuring and the economy embarked on a new developmental model with the military *coup* of 1980. The new era started with an outward-looking adjustment programme ("24 January 1980 decisions") under the auspices of the IMF and the World Bank. The first phase of opening up relied on macroeconomic austerity and export promotion. The strategy proved largely successful in a relatively short period of time and the economy sustained respectable rates of economic growth. Major reforms were introduced in a relatively smooth manner as economic policy was largely insulated from political and distributional pressures. By dissolving the parliament, outlawing the established political parties and radical unions, arresting political leaders, and suspending many fundamental political and human rights the *coup* helped remove the constellation of veto players which could jeopardize reforms. Reform efforts were supported by the international financial community through structural adjustment loans, debt relief, and technical aid (Boratav, Yeldan and Kose, 2003). With the resumption of parliamentary democracy in 1983, the new government under Turgut Ozal continued with the liberalization programme.

After freely competitive politics resumed, however, the elections in 1987 dimmed the future of the programme. The complete opening up of the political system led to the re-emergence of distributional pressures, especially from wage earners and the agricultural sector (Onis and Webb, 1992). In the face of austerity the popularity Ozal's Motherland Party nose-dived. The 'spring demonstrations' which was a wave of labour unrest, protests and strikes organized under the leadership of labour unions took public life hostage in 1989. The government also received a serious blow in the local elections of 1989. These events forced the government into an involuntary populist cycle (Boratav, 2006: 176).

In the same year, the government announced the complete deregulation of foreign capital transactions and declared the full convertibility of the lira. Integrated with world financial markets, the Turkish economy fully completed the opening up circle characterizing Turkey an open market economy. Increasing macroeconomic instability in an environment of liberalized trade and finance yet with only a weakly regulated financial system, foreshadowed a 'fragile and lop-sided development' (Onis, 2006). Despite the government's populist stance, Motherland Party lost the next general elections in October 1991 and with successive governments under Demirel and Ciller, Turkish politics reverted back to fragmented coalitions with the new era of populism. These coalitions had neither the political will nor the capacity to impose macroeconomic discipline and the economy had been shaken by a costly war against terrorism. Added on to these domestic problems, premature exposure to world markets with a weakly regulated financial structure and a high dependence on short-term capital inflows led to Turkey's 'first crisis of the neo-liberal era' (Onis, 2006).

In response, the government announced an emergency stabilization package in April 1994 and signed a new stand-by agreement (sixteenth since 1961) with the IMF. The economy picked up

through a rapid recovery despite the dramatic consequences of the crisis with the causes of instability continuing to destabilize the economy. In the meantime, Turkey completed a customs union with the EU in 1996 signifying the completion of the trade liberalization process which had begun in the early 1980s.

The 1994 crisis undermined the government and the new programme was blown off-course. The elections of December 1995 confirmed the rising popularity of alternative parties in the face of severe disillusionment with mainstream parties and in the wake of a severe economic downturn. Following a weak coalition by Yilmaz's Motherland Party and Ciller's True Path Party, Erbakan's coalition, too, was marred by dissent between coalition partners and economic policy lost its direction. Turkey had its fifth centre-right coalition government under Yilmaz in just six years after the fall of Erbakan's coalition. In an effort at stabilization, the new government asked the IMF to periodically review progress through the Staff Monitoring Programme.

After increasing tensions within the government, the elections led to a new coalition under Ecevit's centre-left Democratic Left Party with ultra-nationalist Nationalist Movement Party and centre-right Motherland Party in 1999. The government managed to introduce a new three-year stabilization programme under IMF supervision and technical support. This was the first time that Turkey accepted external discipline imposed by the IMF in the absence of a crisis. The government also succeeded in reforming the social security system which made possible IMF's approval of a stand-by credit. In the same year, due in part to the *rapprochement* between Greece and Turkey, the Helsinki European Council of December 1999 declared the candidacy of Turkey for EU accession.

While the IMF programme was being implemented, the economy underwent a series of financial crises in late 2000 and early 2001. Facing the deepest economic crisis in Turkey's post-war history, the government drew up a revised programme of financial and economic reforms backed by a three-year stand-by accord with the IMF. With this last agreement, Turkey became IMF's largest debtor.

Even though the 2000-2001 crisis took place under IMF supervision, there was a general feeling that it was the result of the inherent failings of the domestic economic and political order without implicating the IMF (Onis, 2003). The crisis made possible the speeding up of the reform process under the auspices of the IMF and the EU acting as a dual *vincolo esterno* (Dyson and Featherstone, 1999). While the IMF gained upper hand in implementing macroeconomic austerity the EU became the political anchor in Turkey's democratization. This continued with the election of Justice and Development Party in 2002 which signed a new stand-by agreement with the IMF. Thus the Turkish economy had effectively been steered by the Fund for a decade since 1998. At the same time, the government was forcefully pursuing the EU membership agenda and the launching of accession negotiations in 2005 bolstered EU's credibility as a political anchor.

4.2. Social Policy Responses: 1980s - 2000s

How did exogenous pressures stemming from IMF conditionality translate into social policies in the 1980s and 1990s? The section below offers some suggestions as to the quantitative trends and qualitative reform processes in Turkish social policies. All of the major social protection fields targeted by the ILO (old age, invalidity, health, sickness, maternity, work injury and occupational diseases, family assistance, unemployment, and death) were incorporated into the Turkish social welfare regime with varying degrees from its inception, except for the unemployment and family assistance schemes. Historically, however, and in line with its western neighbour and typical of the South European Social Model, the Turkish welfare state is a pension- and healthcare-heavy social protection system. Retirement pensions have traditionally been the single largest welfare state programme, which was followed by the healthcare programme reflected in their respective shares of total social expenditures. Therefore, and in line with our Greek discussion, this section will trace reform processes mainly in these two programmes.

4.2.1. Trends in Aggregate Social Expenditures

The Turkish social protection system, as reflected in social expenditures, seems to have followed diverse trends that characterize different phases of neo-liberalization in the post-1980 period. Spending as a share of GDP started at a very low level, at about 5 percent, and had remained largely stable with a mild decline towards the mid-1980s. As the decade of macroeconomic austerity was coming to an end towards the late 1980s, however, there have been spurs of expansion in spending. In contrast to the period whereby economic policies were largely insulated from populist demands under the authoritarian rule followed by a strong single party government, the period starting with the late 1980s and early 1990s was largely marked by populist policies as the reform fatigue was coupled with a backlash against incessant austerity. This was made possible especially under the opening up of the political system in the second half of the 1980s where Turkish parliamentary democracy was beginning to return to normalcy. As the political system opened up, populist demands were raised once again increasingly claiming larger shares of the public budget.

Table 4: Turkish Social Expenditure, 1980-2001 (Public Social Expenditure as a % of GDP)

1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
4.3	4.5	4.9	5.2	4.5	4.2	4.4	4.6	5.3	6.4	7.6	8.2	8.5	8.3	7.9	7.5	9.7	10.8	11.1	13.2	14.1	14.4

Source: OECD 2004 Social Expenditure Database (for 1980-1999) and Yilmaz (2006) (for 2000 and 2001)

The coalition governments of the 1990s resulted in further expansion of the clientelistic system, whereby organized labour and interest groups have found opportunity structures, albeit rather limited, to articulate their demands. Therefore, it was rather natural that social spending seems to have expanded during the second and populist phase of neo-liberalism in the 1990s. Social spending increased towards the end of the decade under the Ecevit social-democratic-led coalition government, which was largely sympathetic to the unions. Such expansion was possible even under a wave of intense austerity imposed by the IMF and the ever-increasing emphasis on cost containment. Therefore, a certain degree of association between rising social spending and the presence of a social democratic party in government can be observed. At the same time, however, and in contrast to developments in Greece, the 1999-2002 Turkish government was a coalition that included right-wing parties which makes it difficult to establish the relationship between social spending and left/labour power. Another observation that attracts attention is the fact that trends in social spending were following the electoral cycle whereby stronger welfare effort seems to have preceded all general elections during this period (1983, 1987, 1991, 1995, 1999, and 2002).

4.2.2.1. Changes in Pensions in the 1980s

The post-war development and expansion of the Keynesian national welfare regime in Europe had significant influences on Turkey. The Turkish social protection system has a history longer than half a century, reflecting an early policy ambition to reach the social protection standards of Western Europe. The social protection system has been constituted of two components: 1) social insurance (compulsory for all salaried workers and self-employed and covers their pensions and health needs as well as those of their dependants), and 2) social assistance (aimed to cover the remaining part of the population which is non-insured and in need). As the principal pillar of the system, social insurance is provided by three employment-based social security organizations: *Sosyal Sigortalar Kurumu* (Social Insurance Institution covering wage earners under a work contract, SSK), *Emekli Sandigi* (Retirement Fund covering civil servants and military personnel, ES) and *Bag-kur* (Social Insurance Agency of Merchants, Artisans and the Self-employed, BK).

The establishment of the Ministry of Labour (which had later been renamed as Ministry of Labour and Social Security in 1983), the institutionalization of Turkish social security system with expanding coverage and the development of social services all constituted central elements of a planned and well-balanced development. Through the 1961 constitution, the Turkish social security and social protection system began to resemble those welfare states in Europe in general featuring especially the characteristics of the Southern European social model in particular. With the reversal of the development model in 1980, however, the Turkish social welfare regime entered a new era. The 1982 Constitution established the right of all citizens to social security, but the exercising of these rights was subject to fiscal constraints. The state would fulfil its economic and social obligations by taking into account the economic stability and sufficiency of financial resources. Although the Constitutional provisions regarding social policy objectives were rather generous, the budgetary and institutional means for attaining these objectives remained limited (Celik, 2006; Koray, 2005). This aberration may be interpreted to be the result of the overwhelming dominance of the new financial orthodoxy of the 1980s over social welfare goals that were built into the constitution. In fact, while the 1982 Constitution retained the 'social' character of the Turkish state, the radical change in the macroeconomic policy regime under the military rule and the Ozal governments emphasized the free play of markets forces in every field. However, despite the attacks on the Turkish welfare state during the Ozal years just like in the countries experiencing a 'conservative revolution' of the 1980s, it proved impossible for the state to renounce its social security objectives altogether.

4.2.2.2. *Changes in Healthcare in the 1980s*

The framework of public healthcare provision dates back to Law 224 of 1961 defining broad goals of full provision in line with the Universal Declaration of Human Rights. The government sought to provide basic healthcare services to the entire population through the Integrated Health Service Scheme (IHSS) until the 1980s. Health services are mainly provided by the Ministry of Health, SSK, and university hospitals. Other ministries (including Defence, Education and Transport), local governments and some state economic enterprises also provide limited services. Provision was possible through the establishment of state hospitals and clinics, although there were gaps due to the inadequacy of funds for equipment and salaries of staff.

Motherland Party governments of the 1980s included restructuring of the healthcare system into their programmes with a view to making larger room for private provision and passed pieces of legislation that would enable them to carry these out. When it came to implementing these, however, they pursued a more cautious strategy. The governments felt that a restructuring in the healthcare sector as such would undermine popular support for the government, especially at a time of neo-liberal opening up (Belek and Soyer, 1995). In fact, in an effort at generalizing healthcare, the Ozal government passed the Basic Law on Health Services (BLHS Law 3359) in 1987, which emphasized equity and access to services. In order to overcome the financing problems that undermined the workings of the IHSS the government increased budgetary allocations to healthcare. Although increases in allocations were possible they remained marginal due to the failure of the government to pass regulations required for the implementation of the new system. Although the system was not premised on a strategy systematically reforming the financing, provision and administration of the services, the BLHS was perhaps the first step in establishing a universal health insurance system. The Constitutional Court, however, repealed the legislation and therefore the BLHS has never been implemented.

Three separate groups started three independent projects towards the end of the decade. First, the Ministry of Health and the Treasury prepared an assessment of the health sector in 1987 and the first World Bank project was implemented in 1989. Second, in 1988, the State Planning Organization (SPO) took the initiative to conduct a major study of the healthcare sector to explore the problems and alternative solutions. The *Health Sector Master Plan Study*, which was completed in 1990 outlined several reform options. The SPO chose the intermediate strategy of reliance on public healthcare

strategy and private provision. Finally, in 1989 the Ministry of Health drafted a report on *National Health Policy for Turkey* with the technical support of WHO experts. In order to capitalize on the common conclusions, the Ministry of Health integrated these projects in 1991 and prepared a consolidated report. When the time came to discuss the findings of the report, the government changed after the 1991 elections (Ergor and Oztek, 2000). Reforming the healthcare system for establishing a general health insurance scheme was to remain on the agenda of the following governments through the 1990s.

4.2.2.3. Changes in Pensions in the 1990s

Only since the mid-1990s did successive governments attempt to launch social security reforms, as the system was not deemed to be undergoing a crisis until then (DPT, 2001: 10 and 2006: 19). Facing fiscal imbalances, governments that came to power intended, at least in rhetoric, to reform social security from the mid-1990s onwards. In domestic public debates social security programmes were typically indicted as the main culprit for the severe financial problems blocking the way out of the crisis. While the discourse on 'rolling back the state' was becoming increasingly popular, privatization was presented as the only solution to the 'crises', 'bankruptcies', 'black holes' and 'unsustainable structures' 'created by welfare state practices'. Endless references were made to the impossibility of publicly financing the social security system (Nadir, et al, 2006: 343-44). In the context of tackling the budgetary imbalances, international organizations such as the OECD, the IMF and the World Bank declared that 'reform of social security had taken on an urgency' and called on successive Turkish governments to overhaul the 'ailing' system (OECD, 1999: 72; OECD, 2006: 134).

There were minor changes to the system, however. These aimed at securing the solvency of the pension funds. In 1995, for example, the government introduced legislation to encourage compliance in payment of social security contributions. In 1997, an amnesty was introduced on penalty charges to encourage workers to pay outstanding contribution debts. Neither of these measures, however, brought significant revenues into the system.

In 1995, the ILO prepared a study of the social security system financed by the World Bank. The report, presented in May 1995, was one of the most systematic and comprehensive studies on the Turkish social security system. The report proposed four different reform options with different mixtures of pay-as-you-go and private funding schemes and other institutional reforms. The government introduced draft laws reforming SSK in 1997 and BK in 1998, which were part of the medium-term fiscal stabilization packages. The main elements of these reforms included an increase in the minimum retirement age to 50 for women and 55 for men for existing workers with a 15 year transition and to 57 for women and 60 for men for new workers who would newly enter the labour market; an increase in the contribution ceiling; a 10% premium contribution to be paid by the state on behalf of all contributors; re-indexing of the flat-rate assistance element; and discretionary pension indexing taking into account both the position of the fund and inflation. Because of the volatility of the political climate, these drafts effectively never saw the light of day (OECD, 1999: 91-4).

The Ecevit government, however, managed to pass the long-awaited social security reform bill (Law No. 4447) in September 1999. The reform had two phases: In the first phase, the reform aimed at re-establishing the actuarial balance in the public pension system through the following parametric measures: imposition of a minimum retirement age of 58 years of age for women and 60 for men for new entrants and 52 for women and 56 for men for current workers with a 10 year transition period; an increase in the minimum contribution period to 20-25 years for new entrants and 17 for current workers with a 10 year transition period; a reduction in benefit accrual rates for private sector schemes; automatic indexing of the pension benefits to the CPI (as opposed to a discretionary formula); an extension of the reference period for calculating pension benefits for the private sector schemes; an increase in the ceiling on premiums; an increase in the health insurance contribution rates for the self-employed and farmers. Interestingly, although the reform bill of 1999 aimed at bringing in savings, it increased the replacement ratio to a level higher than before (OECD, 2006: 137).

In the second phase, which would introduce systematic reforms whose effects would accrue in the medium and long-term, the reform intended to implement an administrative streamlining programme and institutional reforms of the social security system aiming at improving coverage, efficiency and transparency through the integration of the three schemes under a single roof. Yet no detailed action plan was proposed for the second phase reforms, which meant that this second phase would not be implemented until new legislation was passed (OECD, 2001: 121-25). The government, however, attempted to pass the supporting legislation concerning the implementation of the reform bill through statutory decrees. Four decrees on the restructuring of SSK, BK and the Turkish Employment Agency (*Is ve Isci Bulma Kurumu* since 1946 and *Turkiye Is Kurumu* since 2003) and the establishment of the Social Security Institution were passed in October 2000. However, the Constitutional Court had repealed the authorization law for these four decrees and hence the implementation of several parts of the reform bill was delayed to 2003, when four bills were passed on Social Security Institution (Law No. 4947), BK (Law No. 4956), SSK (Law No. 4958) and the Turkish Employment Agency (Law No. 4904). In parallel to the social security reform bill, a new legislation on an unemployment insurance scheme was introduced for the first time in the history of the Turkish social protection system. Covering wage earners insured by SSK, this was a compulsory scheme mandating an additional contribution to the system (OECD, 2001: 125-26).

After rounds of discussions and significant delays, two pieces of social security legislation, which were meant to constitute the second phase of the reform, were introduced during the Erdogan government in 2005. They were passed by parliament in May 2006 and the Social Security Administrative Institution Law became effective immediately, while the Social Insurance and General Health Insurance Law was planned to take effect in 2008. The Social Security Institution Law unifies the three social security institutions under a single roof. This, according to the law, would improve the ability of the administration to monitor the number of beneficiaries and its accounts, and to provide better services. The second piece of legislation, the Social Insurance and General Health Insurance Law unifies the three pension systems by introducing a single, more fiscally sustainable pension formula and introduces a generalized health insurance scheme aimed at covering the entire population. Other elements of the legislation include an increase in the premium base for ES and BK; a change in the indexation of ES pensions from wages to inflation and the gradual phasing in of a higher minimum retirement age after 2036. The implementation of the law, however, was halted by a presidential veto followed by an unfavourable review by the Constitutional Court in 2006.

At the same time, in terms of retirement pensions, between 1986 and 1992 populist policies resulted in the elimination of the minimum retirement age and this meant that retirement was possible in some cases after less than 15 years of contributions (OECD, 2006: 134). Similarly to its Greek counterpart, the Turkish state bailed out those whose contribution years were not enough to sustain a pension claim under existing rules. The reforms have not been successful in restoring the minimum retirement age to the official retirement age. The 1999 reform has introduced a gradually increasing minimum retirement age scale, which largely preserved the early retirement rights of the existing labour force through a long phasing-in period. The 2006 reform, if it would be implemented, would increase the minimum pension eligibility age only after a very long transition phase in 2036.

4.2.2.4. *Changes in Healthcare in the 1990s*

Just like in the case of pensions, successive governments aimed at putting healthcare reform on the political agenda during the 1990s. In fact, an expert group redrafted the previous document on national health policy that was prepared under the last Motherland Party government after deliberations and published it as the *National Health Policy of Turkey* in 1993. The main framework for the reform strategy had been drawn up by the *Health Sector Master Plan Study*, which had been prepared by the State Planning Organization in 1990. These studies proposed universal health insurance coverage, more equal access to healthcare, and improved efficiency. The financing system proposed by these

studies was the General Health Insurance Scheme extending coverage to those who are not covered under any insurance scheme and others who are rationed in their access to services.

The Ministry of Health published a new document *The National Health Policy* in 1993 providing the details of priorities and strategies in the healthcare sector. The strategy relied on setting specific health targets and benchmarks (mainly for maternal and child health, communicable diseases, cardiovascular diseases and cancer) reforming service delivery to achieve equity and full access (through a general social insurance system and providing autonomy to and decentralization of hospitals), and meeting the requirements of support services (through supporting legislation and new health information systems). The proposed measures, however, were not formally supported by the government and the government quietly distanced itself from the reform initiative (Ergor and Oztek, 2000; Savas, et al, 2002). Naturally, these measures were not introduced.

The outgoing Ciller government prepared draft laws on healthcare reform in 1995, which could not be passed by parliament due to the government's fall. Again, when Yilmaz's coalition government with Ciller's True Path Party submitted a draft bill on General Health Insurance Scheme to parliament in July 1998, parliament could not discuss the bill with the elections looming large (OECD, 1999: 105).

Interestingly and in striking contrast to the experiences of most advanced industrialized countries, the reforms proposed in Turkey have not specifically aimed at cutting benefits. This is all the more interesting since healthcare expenditures have been steadily rising throughout the 1990s in a macroeconomic environment that requires 'permanent austerity'. The recent and current reforms have come to emphasize the establishment of a General Health Insurance Scheme that ensures equity and universal access to services, the separation of financing and delivery structures of the health system, and the introduction of family medicine – all of which are far from traditional conceptions of retrenchment.

4.3. Turkish Social Policy in an Environment of Intense Exogenous Pressures

The above analysis suggests that exogenous pressures on the Turkish welfare state were less strong than expected. Clearly, the most direct source of pressure was IMF conditionality for financial support. The IMF (which was followed by the World Bank) stipulated explicit preconditions on social security reform for the release of loans. At each round of negotiations, Turkish governments felt the pressure for containing the costs of what was viewed by the IMF and other international financial institutions as a wasteful social security system with excessively high replacement ratios and overgenerous programs in terms of eligibility rules. Especially during periods following severe economic crises such as in 1994 and 2001, the IMF gained a stronger hand in shaping the economic policies of successive governments. As reliance on short-term capital inflows and the need for external financial support increased over time, the influence of the IMF grew in parallel. At the same time, the economy grew increasingly open after rounds of liberalization of the capital and current accounts. Moreover, the process of integration with world commodity markets was now complete with the completion of the Customs Union with the EU. It was generally expected that competitive pressures stemming from all these developments would severely affect the Turkish social protection system.

The analysis above suggests that the impact of these exogenous pressures has not been as dramatic as the literature on exogenous pressures expected. The trends in social spending do not squarely fit with the ever-increasing degree of liberalization and the ever-strengthening role of external financial actors. In fact, the ever-increasing growth of social expenditures in the 1990s points to a sharp contrast with the OECD averages which have remained stagnant or declined marginally. This may be interpreted as Turkey's efforts at catching up with the developed world.

Several factors underlie the relative powerlessness of the oft-anticipated impact of neo-liberal austerity on welfare state futures. First, what seems to characterize this period is rising spending on social policy goals which is coupled with the democratization process. In fact, the social protection

system seems to start responding to social needs and risks only after a threshold of democratic openness had been reached towards the end of the 1980s. The rising trend continues even after integration with international financial markets through capital account liberalization and the declaration of full convertibility of the currency except for the crisis period of 1994-96.

A second factor that might be responsible for the failure of otherwise-extremely-powerful exogenous pressures in bringing about welfare retrenchment is the high level of populism that characterizes the neo-liberalization period. In fact, the wholesale austerity of the 1980s had to be followed by dramatic clientelistic pressures built into coalition politics and the social protection system resulting in pre-election populist policies. In most cases, these policies translated into expanding coverage and eligibility of social welfare programmes, directly translating into expanding welfare effort.

A third factor that could explain the non-retrenchment of the Turkish social protection regime in the face of tremendous exogenous pressures on macroeconomic policies is the Turkish economy's improved growth record. As economic growth gathers pace, the state seems to be allocating higher levels of resources to social goals translated into expanding social welfare programmes. At the same time, the Turkish welfare regime has had a more incipient character reflected in very low (in fact, lowest among the OECD) social expenditure levels, and such low starting point helps explain the rising responsiveness on the part of the state to social needs.

Following on from the Greek case, what the Turkish case also demonstrates is that domestic political and economic variables need to be taken into account when analyzing the impact of exogenous pressures on social welfare. The democratization of the Turkish political system and the workings of coalition politics in a political system where clientelistic demands can easily be articulated, appear to have significant explanatory power in accounting for the relative absence of across-the-board retrenchment of the Turkish social protection system even in the face of extremely powerful IMF conditionality and exposure to completely opened up commodity and financial markets.

5. Conclusions

In this paper, we sought to link the debate on the impact of exogenous pressures on welfare state trajectories in Greece and Turkey. In order to do so, we have first outlined the macroeconomic environment within which those exogenous pressures took shape. The pressures specified in the literature and specified upon in our paper are a) economic globalization, b) IFI conditionality and c) the European Union. Having identified the sources of pressures in each case, we then went on to evaluate their impact on the evolution of social expenditure levels and programmatic changes in the two largest social policy areas, health and pension. The main purpose of this exercise was not only to outline changes in public policy in our two cases, but also to point to the salience of domestic institutional and political variables mediating the impact of those pressures on national welfare policies.

Our case studies show that both Greece and Turkey were exposed to pressures of economic liberalization on the basis of the set of pressures identified above. Greece faced pressures with regard to the EU Single Market and EMU-SGP project, Turkey regarding EU Customs Union, IMF stabilization and structural adjustment programmes, while both countries were exposed to world markets. The two cases display an interesting set of similarities with regard to the anticipated impact of exogenous pressures on social policy outcomes, both quantitative and qualitative. First, social expenditure levels in both countries have not declined during the 20-year period when exogenous pressures are said to have been at their most pronounced. Instead, we have reported rising trends in expenditure, particularly pronounced during the 1980s in Greece and from the late 1980s onwards in Turkey as well. At the same time, it is important to underline that the rise in social expenditure levels in both countries begins from a very low starting point. It is therefore possible to speculate on the link between economic development and rising social policy efforts. In fact, the Turkish example of the

early 2000s indicates that consistently high GDP growth rates are accompanied by rising levels of social expenditures, suggesting a readjustment of social policy expenditures in line with earlier experiences of “catching-up” by South European countries in general and Greece in particular.

Secondly, and especially in the case of Greece, the 20-year period analyzed shows an expansion in social welfare programmes, designed to respond to a set of needs and risks arising from the opening-up of the economy. The Greek analysis provides ample evidence of the above, not least through the establishment of a universal health service during the 1980s. As for the Turkish case, successive Turkish governments have resorted to compensatory measures from the late 1980s onwards, this trend appears more pronounced since the early 2000s. The introduction of an unemployment scheme in 1999 is an indication of this. Additionally and significantly, at a time of intense exposure to external economic pressures, social policy programmes in Greece and Turkey have not been rolled back.

Thirdly, what seems clear is that those outcomes are mediated by salient domestic political factors in both cases. Democratization and liberalization of the political space seem to have two sets of repercussions. On the one hand, domestic political actors and interest groups capitalize on democratization to exert pressure on the political elite to satisfy social policy demands. On the other hand, increased social policy outlays are used by democratic elites to enhance the appeal of the new democratic regime and legitimize it in the eyes of the population. Such an exercise has often acquired a populist tone in both Greece and Turkey, underpinned by dense networks of clientelism and patronage. This is especially pronounced in the case of Greece after 1974 and clearly discernible in the hotly politicized years of the 1980s and early 1990s. In the Turkish case, similar phenomena occur towards the late 1980s and early 1990s, starting with the late Motherland Party government and continuing under coalition governments.

Fourthly, the positive association between an expanding welfare state and the presence of social democratic/socialist governments, reported in the literature, seems plausible. The longevity of PASOK in power in Greece played a decisive role in the expansion of social protection, in the sense of cultivating a set of rising expectations on the part of its large electoral clientele. Such expectations were met, albeit only to a certain extent and subject to Greece’s malfunctioning public administration structures. Turkey’s different political development over the last 20 years, characterized by either centre-right majority or coalition governments, means that the equivalent set of expectations was met in a qualitatively different way. A future research piece could therefore do worse than focus on whether there is an explicit link between party politics and social policy in Greece and Turkey.

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Dimitris Tsarouhas
Department of International Relations
Middle East Technical University
Turkey
dimitri@metu.edu.tr

H. Tolga Bolukbasi
Center for European Studies
Middle East Technical University
Turkey
bolukbasi@ces.metu.edu.tr