THE POLITICS OF UNEVEN WELFARE STATE DEVELOPMENT: THE CASES OF TURKEY AND CHILE

by

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ABSTRACT

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Tim Dorlach

This dissertation examines the politics of welfare state development in the global South, in particular in Turkey and Chile, two major “emerging welfare states”. The dissertation traces developments in various welfare policy areas, including health policy, pension policy, social assistance policy, labor market policy, tax policy, agricultural policy, and housing policy, all with a focus on policy developments in the 2000s.

By describing, conceptualizing, and explaining recent patterns of welfare state development in Turkey and Chile, this dissertation makes at least two contributions to the political economy literature on welfare state development in the global South. First, it demonstrates the distinctly uneven nature of the recent development of welfare states in developing and emerging economies. I demonstrate that, across welfare state institutions, processes of welfare state expansion, maintenance, and even retrenchment have simultaneously occurred. This observation qualifies current accounts of emerging welfare states, which have tended to focus more narrowly on describing and explaining the expansion of non-contributory social policy programs, such conditional cash transfers and non-contributory pensions. Second, this dissertation also contributes to the literature by providing detailed, new evidence on the causes of welfare state expansion in the global South. The analysis confirms and expands on accounts that emphasize the causal centrality of macroeconomic context, electoral competition, government ideology, and policy networks. Most importantly, the dissertation systematically introduces business interests to the analysis of welfare state development in the global South, and argues that organized business interests are key to explaining the development of emerging welfare states over the past decades. More specifically, I argue that employer and provider interests are not necessarily opposed to welfare state expansion as such, but they limit governments’ flexibility in introducing generous, efficient, and equitable social reforms.

This dissertation is based on a variety of data sources, including official documents, personal interviews, and news reports. Data was collected during fieldwork in Turkey and Chile conducted between 2016 and 2019. Interviewees included former ministers, members of parliament, bureaucrats, business representatives, private-sector consultants, labor union representatives, academics, and other key informants. The analysis is based on different qualitative and comparative-historical methods, including multiple comparisons across countries and policy areas, and within-case methods of analysis, such as content analysis and process tracing.

Keywords: Welfare State Development, Emerging Welfare States, Turkey, Chile

ÖZET

Eşitsiz Refah Devleti Gelişiminin Politikası: Türkiye ve Şili Örnekleri

Tim Dorlach

Bu doktora tezi, Küresel Güney ülkelerindeki refah devleti gelişiminin politikasını, özellikle başlıca iki oluşmakta olan refah devleti olan Türkiye ve Şili'ye odaklanarak ele alır. Tez, sağlık, emeklilik, sosyal yardım, emek piyasası, vergi, tarım ve konut gibi çeşitli sosyal politika alanlarındaki gelişmelerin izini, 2000'li yıllarda bütün bu alanlardaki siyasi süreçlere odaklanarak sürer.

Bu tez, Türkiye ve Şili'de refah devleti gelişiminin son zamanlarda aldığı biçimi tanımlayarak, kavramsallaştırarak ve açıklayarak, Küresel Güney ülkelerindeki refah devleti gelişimi üzerine olan politik ekonomi literatürüne en az iki katkı yapar. İlk olarak, gelişmekte ve yükselmekte olan ekonomilerdeki refah devletlerinin günümüz gelişiminin belirgin biçimde eşitsiz olan doğasını gösterir. Bu tezde, farklı refah devleti kurumları üzerinden refah devletinin genişleme, sürdürülme ve hatta daralma süreçlerinin eş zamanlı olarak meydana geldiğini açıklıyorum. Bu gözlem, sınırlı bir şekilde şartlı nakit transferi ve primsiz emeklilik gibi prim ödemesiz sosyal politika programlarının genişlemesini tanımlama ve açıklamaya odaklanma eğilimindeki son dönemde oluşmakta olan refah devletleriyle ilgili değerlendirmeleri nitelendirir. İkinci olarak, bu tez, Küresel Güney ülkelerindeki refah devleti genişlemesinin nedenleri üzerine yeni ve detaylı kanıtlar sunarak literatüre katkıda bulunur. Analizim; makroekonomik bağlam, seçim rekabeti, yönetim ideolojisi ve politika ağlarının nedensel merkezliğine vurgu yapan değerlendirmeleri onaylar ve genişletir. Daha da önemlisi, bu tez, Küresel Güney ülkelerindeki refah devleti gelişimi analizine iş dünyasının çıkarlarını sistematik bir şekilde dahil eder ve organize iş dünyasının çıkarlarının son on yıllarda ortaya çıkmakta olan refah devletlerinin gelişimini açıklamak için anahtar olduğunu ileri sürer. Daha belirgin olarak ise, işveren ve tedarikçi çıkarlarının ille de refah devleti genişlemesine kendiliğinden karşıt olmayacağını, ancak hükümetlerin cömert, etkili ve adil sosyal reformlar ortaya çıkarmadaki esnekliklerini sınırlayabileceklerini iddia ediyorum.

Bu tez, resmi dokümanları, mülakatları ve gazete ve dergi taramalarını kapsayan çeşitli veri kaynaklarına dayanır. Veriler, 2016-2019 yılları arasında Türkiye ve Şili'de yürütülen saha araştırmasında toplandı. Mülakat veren kişiler, eski bakanları, parlamento üyelerini, bürokratları, girişimci dernek temsilcilerini, özel sektör danışmanlarını, sendika temsilcilerini, akademisyenleri ve diğer önemli bilgi kaynaklarını kapsamaktadır. Analiz ise farklı ülkeler ve politika alanları üzerinden çoklu karşılaştırmalar, içerik analizi ve süreç takibi gibi farklı nitel ve karşılaştırmalı-tarihsel metotlara dayanır.

Anahtar kelimeler: Refah Devletinin Gelişimi, Yükselen Refah Devletleri, Türkiye, Şili

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ABBREVIATIONS

AAFP: Association of Pension Fund Administrators (*Asociación Gremial de Administradoras de Fondos de Pensiones*)

AFP: Pension Fund Administrators (*Administradoras de Fondos de Pensiones*)

AKP: Justice and Development Party (*Adalet ve Kalkınma Partisi*)

ALMP: Active Labor Market Policy

APS: Solidaristic Pension Support (*Aporte Previsional Solidaria*)

ARIP: Agricultural Reform Implementation Project

Bağ-Kur: Social Insurance Institution for Tradesmen and Craftsmen and Other Self-employed (*Esnaf ve Sanatkârlar ve Diğer Bağımsız Çalışanlar Sosyal Sigortalar Kurumu*)

BBVA: Spain-based multinational bank (*Banco Bilbao Vizcaya Argentaria*)

BCN: Library of Congress, Chile (*Biblioteca del Congreso Nacional de Chile*)

BUMKO: General Directorate of Budget and Fiscal Control (*Bütçe ve Mali Kontrol Genel Müdürlüğü*)

CAPRP: Presidential Advisory Council for Pension Reform (*Consejo Asesor Presidencial para la Reforma Previsional*)

CChC: Chilean Chamber of Construction (*Cámara Chilena de la Construcción*)

CCP: Pension Advisory Committee (*Comision Consultativo de Pensiones*)

CCT: Conditional cash transfer

CEP: Center of Public Studies (*Centro de Estudios Públicos*)

CIEDESS: Corporation for Research, Study and Development of Social Security (*Corporación de Investigación, Estudio y Desarrollo de la Seguridad Social*)

CLP: Chilean Peso

CPC: Confederation of Production and Trade, Chile (*Confederación de la Producción y del Comercio*)

DIPRES: Budget Office, Chile (*Dirección de Presupuestos*)

EU: European Union

FCS: Solidaristic Compensation Fund (*Fondo de Compensación Solidario*)

FIAP: International Federation of Pension Fund Administrators (*Federación Internacional de Administradoras de Fondos de Pensiones*)

FONASA: National Health Fund (*Fondo Nacional de Salud*)

GDP: Gross Domestic Product

GSS: General Health Insurance (*Genel Sağlık Sigortası*)

İEİS: Pharmaceutical Manufacturers Association (*İlaç Endüstrisi İşverenler Sendikası*)

ILO: International Labour Organization

IMF: International Monetary Fund

ISAPRE: Health Insurance Institutions (*Instituciones de Salud Previsional*)

LMIC: Low- and Middle-Income Country

LyD: Liberty and Development (*Libertad y Desarrollo*)

MoH: Ministry of Health

MoLSS: Ministry of Labor and Social Security

NCP: Non-Contributory Pension

ODEPLAN: National Planning Office (*Oficina de Planificación Nacional*)

OECD: Organisation of Economic Co-operation and Development

OHSAD: Association of Private Hospitals and Health Institutions (*Özel Hastaneler ve Sağlık Kuruluşları Derneği*)

PASIS: Assistance Pension (*Pension Asistencial*)

PAYG: Pay As You Go

PBS: Solidaristic Basic Pension (*Pensión Básica Solidaria*)

PDC: Christian Democratic Party (*Partido Demócrata Cristiano*)

Plan AUGE: Universal Access Plan of Explicit Guarantees (*Plan de Acceso Universal de Garantías Explícitas*)

PMG: Guaranteed Minimum Pension (*Pensión Mínima Garantizada*)

PPD: Party for Democracy (*Partido por la Democracia*)

PPP: Public-Private Partnerships

PR: Proportional Representation

PS: Socialist Party of Chile (*Partido Socialista de Chile*)

RN: National Renewal (*Renovación Nacional*)

SDG: Sustainable Development Goal

SGK: Social Security Institution (*Sosyal Güvenlik Kurumu*)

SOFOFA: Society for Manufacturing Promotion (*Sociedad de Fomento Fabril*)

SSK: Social Insurance Institution (*Sosyal Sigortalar Kurumu*)

TCCB: Presidency of the Republic of Turkey (*Türkiye Cumhuriyet Cumhurbaşkanlığı*)

TBMM: Grand National Assembly of Turkey (*Türkiye Büyük Millet Meclisi*)

TL: Turkish Lira

TMO: Turkish Grain Board (*Toprak Mahsulleri Ofisi*)

TOKİ: Mass Housing Administration (*Toplu Konut İdaresi Başkanlığı*)

TTB: Turkish Medical Association (*Türk Tabipleri Birliği*)

TSRSB: Association of Insurance, Re-insurance and Pension Corporations (*Türkiye Sigorta Reasürans ve Emeklilik Şirketleri Birliği*)

TSS: Supplementary Health Insurance (*Tamamlayıcı Sağlık Sigortası*)

TÜSİAD: Turkish Industrialists and Businessmen Association (*Türk Sanayicileri ve İşadamları Derneği*)

UHC: Universal Health Coverage

UHI: Universal Health Insurance

UDI: Independent Democratic Union (*Unión Demócrata Independiente*)

UN: United Nations

UNRISD: United Nations Research Institute for Social Development

VAT: Value-Added Tax

WHA: World Health Assembly

WHO: World Health Organization

WTO: World Trade Organization

CHAPTER 1:

INTRODUCTION: THE RISE OF EMERGING WELFARE STATES

Over the past two to three decades, there has been a transformation in the political economy of development. Until the 1980s, states and international organizations often narrowly focused on promoting economic growth and liberalization, but since then the "policy orientation of numerous emerging/developing countries" has taken a "social turn" (UNRISD, 2013, p. 1). According to Armando Barrientos and David Hulme, "the progress of social protection [in developing countries] can be viewed as a *quiet revolution*" (Barrientos & Hulme, 2009, p. 44). They emphasize that this increased focus on social policy is an expression of a more comprehensive understanding of the process of development, as policy-makers increasingly think that "economic growth, human capital development and social protection are […] three elements of national development strategies" (Barrientos & Hulme, 2009, p. 44). Interestingly, this increased political attention to strengthening the welfare state in the global South has occurred at a time when many countries in the global North faced fiscal austerity and welfare state retrenchment (see van Kersbergen, Vis, & Hemerijck, 2014).

One important dimension of this "social turn" in the global South, according to comparative welfare state research, has been the rise of "emerging welfare states" (Huber & Niedzwiecki, 2015), that is, following an authoritative definition of the welfare state, the emergence of a group of states in the global South that devotes an increasingly large share of its "fiscal and bureaucratic efforts […] to reduce income insecurity and to provide minimum standards of income and services" (Amenta, 2003, p. 92). Arguably, this rise of emerging welfare states initially took off in the East Asian "tiger economies" of South Korea and Taiwan in the 1990s (see Wong, 2004) and subsequently in other emerging economies throughout the world during the 2000s (see Garay, 2016). Welfare state scholars have convincingly documented general trends toward the creation of more redistributive (Huber & Stephens, 2012) and more universalist welfare state institutions (Martínez Franzoni & Sánchez-Ancochea, 2016), as well as toward the rapid inclusion of previous "outsiders" into the welfare state

(Garay, 2016). The majority of studies in this field has focused on the areas of social cash transfers, including conditional cash transfers and non-contributory pensions (e.g. Leisering, 2019), healthcare (e.g. Harris, 2017), and education (e.g. Kosack, 2012).

Beyond the confines of welfare state research, different strands of the comparative political economy literature have also begun to theorize this "social turn" in the global South. For instance, scholars have diagnosed the emergence of "developing-world social democracies", in countries such as Chile, Costa Rica, Kerala (an Indian state), and Mauritius, contending that "opportunities exist to achieve significant social progress in the periphery, despite a global economic order that favors the core industrial countries" (Sandbrook et al., 2007, p. 3). Beyond these Southern social democracies, a group of "social neoliberal" (or "social liberal") economies, including Brazil, South Africa, and Turkey, also has put more emphasis on social protection and human capital development, while continuing to pursue a relatively orthodox economic policy agenda (Öniş, 2012; Sandbrook, 2014). Other political economy scholars have sought to "update" the influential "developmental state" framework, in order to elucidate the kind of state structures that are central to promoting human and social development, rather than just economic-industrial development, which was the primary concern of most developmental states until the 1980s (Evans, 2010, 2014; Evans and Heller, 2015).

1.1. Research Questions and Theoretical Contributions

To contribute to a better understanding of the political economy of welfare state development in the global South, this dissertation answers two broad research questions on the *nature* and *causes* of *emerging welfare states*.

The first broad research question of this dissertation is about the nature of welfare state development in emerging economies. Have all emerging welfare states expanded social programs in similar ways or have they followed different paths of social development? Has expansion occurred across social policy areas or have some social programs been expanded more than others? Indeed, have some social programs perhaps even experienced retrenchment during this phase of overall expansion? In short: *What has been the nature of welfare state development in so-called emerging welfare states?*

The second broad research question of this dissertation is about the causes of welfare state development in emerging economies. How can we explain the recent phase of welfare state expansion? Why has there been a general trend of expansion, with countries as diverse as Argentina, Chile, South Africa, South Korea, Thailand, and Turkey substantially expanding social protection programs? Beyond this general trend, why have some emerging economies expanded their welfare states more rapidly and perhaps also in a more universalistic manner than others? In short: *What have been the causes of welfare state development (and especially expansion) in emerging welfare states?*

In exploring different dimensions of these two research questions, this dissertation makes two broad theoretical contributions about the nature and causes of emerging welfare states. First, regarding the nature of emerging welfare states, I demonstrate the distinctly *uneven* welfare state development that has occurred in some emerging economies. This observation qualifies and complements current understandings of emerging welfare states, largely focused on describing and explaining the expansion of non-contributory social policy in the global South, described as "the recent rise in non-contributory social insurance" (Carnes & Mares, 2014, p. 695) or "a dramatic expansion of social policy for outsiders" (Garay, 2016, p. 2). When broadening the perspective from a narrow focus on non-contributory social programs—especially conditional cash transfers (CCTs), non-contributory pensions (NCPs) and non-contributory health insurance—to a more comprehensive view of welfare state institutions, one realizes that welfare state development in emerging economies has been uneven in the sense that the period of the purported "social turn" has simultaneously witnessed elements of welfare state expansion, maintenance (or stagnation), and even retrenchment.

This unevenness has been most pronounced in social neoliberal regimes, such as Turkey, where governments of different political leanings have expanded the welfare state in some policy areas (e.g. non-contributory health insurance and cash transfers), mostly maintained it in others (e.g. unemployment protection), and even retrenched it in yet other policy areas (e.g. contributory pensions, industrial relations, and agricultural income subsidies). But even in more social democratic regimes, such as Chile,[1] where center-left governments attempted to expand the welfare state across the board, expansion was successful only in some policy areas (e.g. non-contributory health insurance, pensions, and cash transfers) but not in others (e.g. contributory pensions and industrial relations). Welfare state development has therefore been uneven both *across* policy areas (e.g. expansion of healthcare coupled with maintenance/retrenchment of industrial relations) and *within* policy areas (e.g. expansion of non-contributory pensions coupled with maintenance/retrenchment of contributory pensions).

It should be emphasized that I do not challenge the literature's assessment that there has been significant, if not "dramatic", expansion of non-contributory social policy in the global South. But I complicate this assessment, by providing evidence for significant and systematic processes of welfare state maintenance and retrenchment that occurred in parallel to the much more discussed processes of expansion. In this regard, it is useful to briefly compare this recent period of rapid (if uneven) welfare state expansion in the global South with the period of rapid welfare state expansion in the global North, which lasted from the early 1960s to the mid-1970s. In 1985, Peter Flora took stock of the expansion of European welfare states:

> The origins of the Western European welfare states reach back to the nineteenth century, some of their present institutional features predating the First World War. Their present format, however, is mainly a product of the 'golden age of the welfare state' from the early 1960s to the mid-1970s, when the world-wide economic crisis put an end to this historically unprecedented expansion. Today, though with great variations, the Western European welfare states seem to have approached their limits of expansion. Persistent high rates of unemployment and public deficits set economic limits; tax resistance and a neo-liberal mood set political limits; and a new arms race and increased technological competition set external limits. (Flora, 1986, p. xii)

[1] I follow existing scholarship in characterizing post-1990 Chile as a "social democracy" (see Huber, Pribble, and Stephens, 2010; Roberts, 2008; Sandbrook et al., 2006). In my understanding, this refers primarily to the nature and direction of policy reforms under consecutive center-left governments from 1990 to 2010. It should be noted, however, that due to the profound and resilient neoliberal policy legacy of the Pinochet era (see Madariaga, 2017; Maillet, 2015), Chile's social and economic policy regime still has many deeply neoliberal characteristics.

Flora thus argued that welfare state expansion had reached its limits in the mid-1970s: interest-based as well as ideational limits. However, Flora added that this "growth to limits" may not be a huge problem, given that "welfare states have matured to such a degree that a repetition of past growth rates appears unnecessary" (Flora, 1986, p. xii). From this point forward, Flora contended, the primary task of Europe's "mature" welfare states would be stabilization (through reorganization) rather than growth. The subsequent development of welfare states in the global North has largely proven Flora and his colleagues right. Recently, scholars of social policy in the global South have begun to wonder whether emerging welfare states, such as Turkey, may have already grown to their limits ("Social spending in Turkey: 'growth to limits'?"). Adapting Flora's seminal expression, I propose that welfare state growth in the global South may or may not have reached its limits, but it certainly has been *growth within limits*: economic and political limits on the total amounts of tax revenues that could be raised to finance public social expenditure, as well as political and ideational limits on which programs could be expanded and how. This "growth within limits" perspective of recent welfare state development in the global South that I develop in this dissertation is consistent with and contributes to the existing literature on the expansion of non-contributory social policy, but it also permits a more comprehensive and ultimately more realistic understanding of the uneven development of emerging welfare states.[2]

The second theoretical contribution of this dissertation regards the causes of emerging welfare states, both elements of welfare state expansion as well as stagnation/retrenchment. The major insight of this dissertation in this regard is that business interests are key to explaining why and how emerging welfare state have grown over the past two to three decades. Indeed, the analysis in Chapters 5 and 6 presents one of the first systematic examinations of the role of business in the politics of social policy *expansion* in the global South, thus filling an important gap in the welfare state literature. I show that consent (and at times more active support) from organized business interests was a key factor behind the successful approval of expansionary health and pension reforms in Chile and expansionary health reform in Turkey. Organized business interests, both employers and providers, also shaped the content of

[2] A related argument has been made by Alisha Holland and Ben Ross Schneider (2017), who suggest that the next stage of welfare state expansion or "deepening" in the global South will requires politically much "harder" redistributive reforms than those that drove the "easy stage" of welfare state expansion in the 2000s (also see Chapter 7).

these reforms: employers insisted on conservative financing of these reforms, and (some) providers successfully made sure that an expansion of public expenditure would expand private provider markets. This confirms earlier scholarship on welfare state development in the global North that found that organized business may indeed sometimes support welfare state expansion (e.g. Mares, 2003; Swenson, 2018). However, it also confirms scholarship more critical of the role of business in welfare state expansion (e.g. Hacker & Pierson, 2002; Quadagno, 2005) by showing that seeking business support limits governments' flexibility in developing generous, efficient, and equitable welfare state institutions—rather than just bigger welfare states.

While the major causal insight of this dissertation is about the role of organized business interests, I also find substantial evidence for several other causes. First of all, organized business interests were not alone in consenting to relatively conservative expansionary welfare reforms. In Turkey, the International Monetary Fund (IMF) agreed with organized employers in supporting a cost-neutral expansion of health insurance. In Chile, the influential and relatively autonomous Ministry of Finance coincided with organized employer interests in supporting fiscally conservative pension and health insurance reforms. Moreover, pressure from labor unions or social movements was no factor behind the expansion of pensions (in Chile) or healthcare (in Turkey and Chile). Instead, governments were motivated to introduce these expansionary reforms due to electoral considerations. This confirms recent theories of electoral competition (Garay, 2016; Pribble, 2013).

Lastly, speaking to recent contributions on the social policy preferences of right-wing parties in the global South, which has been exclusively based on analyses of Latin American cases (Fairfield & Garay, 2017; Niedzwiecki & Pribble, 2017), I show that some center-right parties, such as the AKP,[3] may sometimes support significant expansion, e.g. in health insurance or social assistance. Yet, the same parties may

[3] While recognizing the AKP's Islamist roots (in form of the Welfare/Virtue Party, from which the AKP split), scholars have tended to view the AKP, at least during the 2000s, as a center-right party in the tradition of the Democratic Party (DP) of the 1950s and the Motherland Party (ANAP) of the 1980s. See Coşar and Özman (2004), Öniş (2012), and Özbudun (2006). More recently, scholars have tended to characterize the AKP as a populist party (e.g. Selçuk, 2016; Yabanci, 2016). However, empirical analysis shows that this is a more recent development. During the 2000s, the focus of analysis in this dissertation, and in particular during the AKP's first term in government (2003-2007), the party was distinctly non-populist (Hawkins & Selway, 2017, p. 388).

concomitantly retrench other welfare programs, such as contributory pensions or traditional instruments of social protection. Hence, one cause of uneven welfare state development in the global South may have been the uneven social policy preferences of right-wing parties.

1.2. The Global South: Defining the Universe of Cases

Before turning to the specific case selection of this dissertation, some discussion of terminology and the relevant universe of cases appears useful (see Munck, 2004, p. 107). Throughout the following chapters, I interchangeably use the terms "low- and middle-income countries", "developing and emerging economies", as well as "global South".[4] Of these three terms, "low- and middle-income countries" (LMICs) is the most technical and is associated with a World Bank classification based on Gross National Income data. Importantly, when speaking of low- and middle-income countries, I also refer to countries that, according to the World Bank, recently made the transition to high-income status, such as Argentina, Chile, Singapore, South Korea, Taiwan, and Uruguay (World Bank, 2019; see Doner & Schneider, 2016), as they were middle-income countries when they began to undergo the kind of welfare state development discussed in this dissertation. The term "developing and emerging economies" comes from a more practical background. The term emerging (market) economies in particular is closely connected to the Goldman Sachs economist Jim O'Neill and his influential discussion of the world's "larger emerging market economies" Brazil, China, India, and Russia (BRICs) (O'Neill, 2001). Third, the term "global South" has become increasingly used by political and social scientists as a more critical alternative. It dates back to the 1980 report of an expert commission on global economic disparities that was chaired by former West German Chancellor Willy Brandt, thus known as the "Brandt Report" (Rigg, 2007, pp. 3-4). Figure 1 graphically depicts the "Brandt line" between the rich North and poor South as of 1980. Of course, today many would consider Singapore or South Korea to be part of the rich North, but Armenia and Moldova to be part of the poor South. Despite the "developmental" origins of the term "global South", it has been pointed out that it "marks a shift from a central focus on

[4] Earlier studies also often used the term "Third World" (e.g. Kurtz, 2002). While it has gone largely out of fashion (and originally was defined in political rather than economic terms), the term is largely synonymous to the three terms I use here.

development or cultural difference toward an emphasis on geopolitical relations of power" (Dados & Connell, 2012). For the purpose of the chapters in this dissertation, I use the terms "global South", "developing and emerging economies", and "low- and middle-income countries" pragmatically and interchangeably to refer to the totality of countries beyond the 21 "core" countries of the Organisation for Economic Co-operation and Development (OECD),[5] fully aware that the remaining "global South" is deeply diverse.

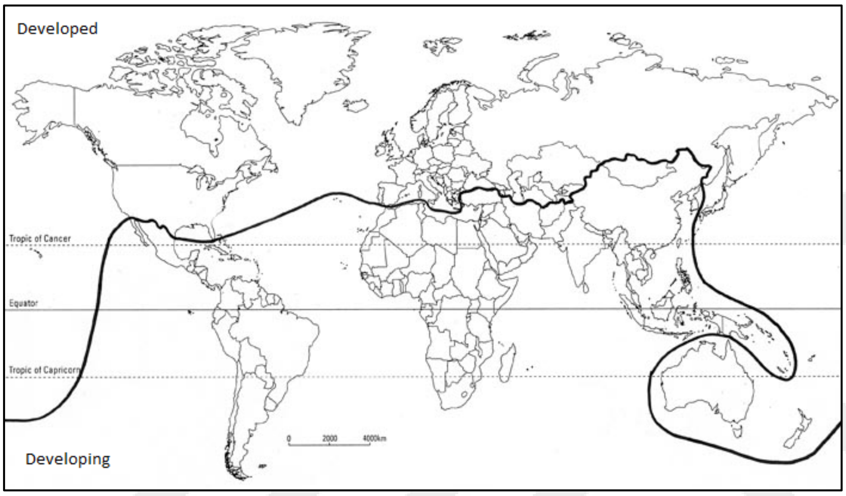

Figure 1: The 1980 Brandt Line, defining "North" and "South"
Source: Wikipedia (2019)

While developments in the broader global South are an important point of reference, the findings of this dissertation speak most directly to the literature on welfare state development in a smaller subset of countries within the global South, variably conceptualized as (upper) middle income countries (Doner & Schneider, 2016), emerging (market) economies (Kapstein & Milanovic, 2003; Yörük, 2012), late industrializers (C. Pierson, 2005), semi-periphery countries (Boschi & Santana, 2012), emerging welfare states (Huber & Niedzwiecki, 2015), or "countries without mature welfare states" (Buğra & Adar, 2008). While categorizations vary, many accounts overlap in including the following twelve countries: Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico, and Uruguay, South Korea, Taiwan, and Thailand, as well as South

[5] The following are generally treated as the 21 core OECD countries by scholars (e.g. Castles, 2003): Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

Africa and Turkey.[6] In fact, the large majority of studies reviewed in Chapter 2 are based on case studies of these twelve countries. And, indeed, the countries in this smaller "universe of cases" (see Gerring, 2007, p. 216) share several characteristics considered to be salient for welfare state development. They have all had significant (if sometimes interrupted) democratic experience and have undergone substantial (if uneven) industrialization. After having pursued a strategy of Import Substitution Industrialization (ISI), most of these countries began processes of economic liberalization in the 1980s. Moreover, all of these countries have developed significant state capacity and are able to raise substantial tax revenues. Lastly, they have all rapidly urbanized and developed large middle classes. This dissertation speaks most directly to the literature on this smaller group of emerging welfare states in the global semi-periphery. Nevertheless, it also maintains a broader perspective on the global South as a whole, given that many of the insights into welfare state development in emerging economies are deeply relevant for the prospects of welfare state development in developing economies.

1.3. Turkey and Chile: A Case for the Cases

In this section, I provide a rationale for the dissertation's focus on the country cases of Turkey and Chile. I outline the broad similarities between the two countries that make comparisons meaningful in the first place, but also identify some of the theoretically salient differences. However, it should be noted from the outset that given the nature of the dissertation as a collection of stand-alone articles, the different chapters vary in the cases they examine and how explicitly they engage in cross-national comparison.

The case selection of this dissertation departs from an understanding that much can be learned from comparing Turkey with Latin American countries. Turkey is geographically situated at the intersection of Europe and the Middle East. Scholars of comparative politics have therefore often compared it to countries in the Middle East

[6] Other countries that are sometimes examined under these rubrics include Bolivia, Botswana, China, Cuba, Ecuador, Ghana, India, Indonesia, Iran, Mauritius, Panama, Singapore, and Vietnam. It should be noted that many of these countries share fewer of the salient characteristics for welfare state development, such as democratization, industrial development, and state capacity. But their trajectories of welfare state development are still highly relevant to this dissertation. Analyses of some of these countries are therefore included in the literature review presented in Chapter 2.

and North Africa, such as Egypt or Tunisia (e.g. Gumuscu, 2010), or to other countries in the European periphery, such as Hungary or Poland (e.g. Öniş & Kutlay, 2017). However, a good case can be made that Turkey's political economy also shares significant commonalities with many Latin American countries. Consequently, research on comparative politics and comparative political economy has produced insightful studies that compare Turkey with Argentina (e.g. Aytaç & Öniş, 2014), Brazil (e.g. Sandal, 2014), Chile (e.g. Yeğen, 2018), Mexico (e.g. Özel, 2015), or Venezuela (e.g. Selçuk, 2016).

The comparison of Turkey and Chile is especially interesting, given that the two countries display important basic commonalities in their political-economic development. During the time period examined in this dissertation, namely the 1990s and especially the 2000s, both countries were competitive electoral democracies (but see Esen & Gumuscu, 2016).[7] Both countries pursued state-led industrialization strategies until the 1970s, but after that experienced comprehensive economic liberalization. In Chile, liberalization occurred relatively suddenly between 1973 and 1990, under the Pinochet dictatorship. In Turkey, economic liberalization occurred more gradually: It started under the Özal government in the 1980s and continued under the Erdoğan government in the 2000s. Both Turkey and Chile have long been among the world's upper middle-income countries, with Chile recently making the transition to high-income status and Turkey (though currently facing an economic crisis) expected to make this transition soon. Both countries belong to the small club of emerging-economy OECD member states (together with Mexico, South Korea, and since recently Colombia). Comparative GDP data reveals that Turkey and Chile have taken remarkably similar growth trajectories since the 1990s (Figure 2). Both countries have shown strong growth, more than doubling real GDP per capita between 1990 and 2015. At the same time, their growth performance has been moderate when compared to that of South Korea. As a result, neither Chile nor Turkey has been able to close the economic development gap with the rest of the OECD.

[7] Chile and Turkey also share a similar history of civil-military relations. While Chile experienced a long authoritarian period from 1973-1990, Turkey experienced four separate military coups since the 1950s. The political institutions of both countries are today still shaped by this authoritarian legacy (see Yeğen, 2018).

Turkey and Chile also share significant commonalities in the field of welfare state development. Most importantly, both countries have long been characterized by "truncated" Bismarckian welfare states. Haggard and Kaufman (2008, p. 4) describe Latin American welfare states, including the Chilean one, as characterized by "occupationally based social insurance and health systems that favored formal-sector workers but typically excluded informal urban workers and the rural sector". In turn, Buğra and Candaş (2011, p. 516) describe the Turkish welfare state of the early 2000s as an "eclectic social security regime" that features "a dual citizenship model with a Bismarckian formal social security system that also incorporates informality and clientelism". Since the beginning of the 21st century, a major challenge of welfare state reform has therefore been the incorporation of informal-sector workers into health and social security systems. To evaluate welfare state development in Turkey and Chile, it is instructive to take a look at the evolution of both countries' public social expenditure, an indicator often used to measure countries' "welfare effort" (Figure 3).

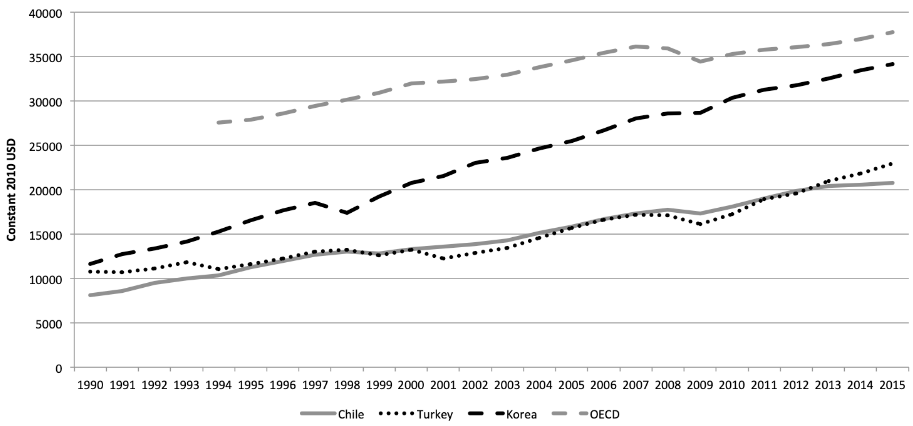

Figure 2: GDP per capita of Chile and Turkey, 1990-2015

Source: OECD (2019a)

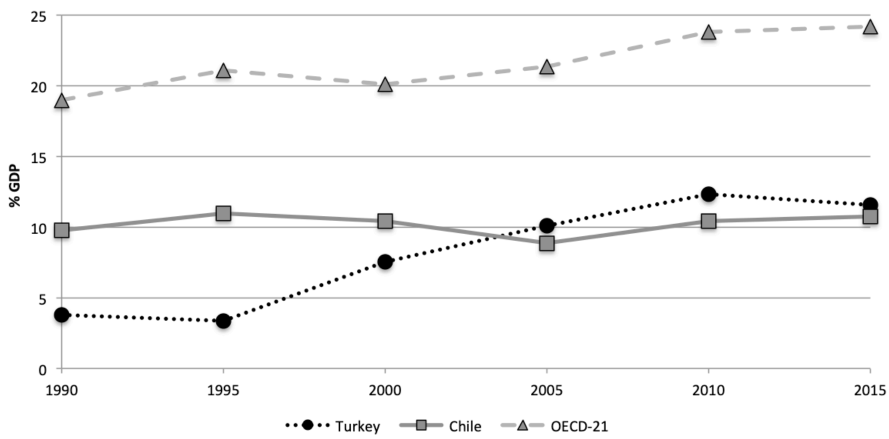

Figure 3: Public social expenditure of Chile and Turkey, 1990-2015

Source: OECD

Two observations can be made based on the data in Figure 3. First, public social expenditure in both Chile and Turkey is still clearly below the average public social expenditure in core OECD countries (see footnote 2 for a list of these countries). Second, and perhaps surprisingly, public social expenditure of “social neoliberal” Turkey grew significantly between 1995 and 2010, while public social expenditure of “social democratic” Chile has largely stagnated at around 10% of GDP since 1990. This unexpected development may be a testament to stronger populist-electoral pressures in Turkey, as well as to stronger veto players in favor of fiscal conservatism in Chile. More importantly, however, this data also masks an important difference between Chile and Turkey: the nature of their pension systems. Chile privatized its pension system in 1981. Since then, pension contributions are mandatory but are now administered by *private* pension funds and therefore do not count toward Chile’s *public* social expenditure. The Chilean state’s transition expenditure on the old Pay-As-You-Go (PAYG) pension system gradually declined beginning in the 1990s. At the same time, Chile’s public healthcare expenditure has substantially increased. I would argue that these inverse developments largely explain the overall stagnation of public social expenditure in Chile and mask substantial expansion of the Chilean welfare state since the 1990s (since pension expenditure did not disappear, but “only” change form, from public to private-mandatory). Turkey, in contrast, maintains a public PAYG pension system, which has often been an instrument of populist policy-making. To this point, Turkey has recently been called a “pension-heavy welfare state” (Bölükbaşı and Öktem, 2019), with about 7% of GDP going to public pension expenditure. Indeed, it is the expansion of public pension expenditure that explains a big part of the expansion of overall public social expenditure in Turkey between 1995 and 2010. Taking this difference in pension systems into account, both countries have expanded their welfare effort since the 1990s, albeit in different policy areas.

Beyond the broad similarities of Chile and Turkey as emerging welfare states, the two countries also display several salient differences that are useful to further theorizing the politics of emerging welfare states. First of all, as mentioned above, they represent different models or paths of social and economic policy change. While Turkey has pursued a social neoliberal model of policy reform in the 2000s, Chile has pursued a more social democratic model of reform. Second, and likely closely related, Turkey was governed by the center-right AKP throughout most of this transformation, while Chilean politics was dominated by the center-left *Concertación* during the 1990s and 2000s. Third, both countries entered the period of welfare state transformation examined in this dissertation with distinct welfare policy legacies. While Turkey's welfare state was still predominantly public, the Chilean welfare state had already been thoroughly liberalized and privatized, not least in the fields of pensions and healthcare, with the resulting presence of new interest groups such as private pension funds and private clinic associations. Lastly, state-business relations are different in both countries, even though both are characterized by the dominance of diversified, often family-owned business groups (Buğra, 1994; Buğra & Savaşkan, 2014; Schneider, 2004, 2013). While Turkish big business has been relatively subordinated to a powerful state and thus more willing to compromise on social and economic policy issues, Chilean big business has been more insisting on maintaining a minimal state. Furthermore, business power over policy-making seems to be generally higher in Chile than it is in Turkey.

This dissertation exploits both the similarities and the salient differences of Turkey's and Chile's political economies to gain new insights into the nature and causes of emerging welfare states. It should be noted, however, that not all empirical chapters are classic "controlled comparisons" (Slater & Ziblatt, 2013) of Turkey and Chile. In fact, only Chapter 5 is an explicit comparison of health insurance expansion in Turkey and Chile, while Chapter 3 conceptualizes Turkey's development model as "social neoliberalism", using two periods of Chile's political-economic history as shadow cases. In contrast, Chapters 4 focuses on Turkey only, while Chapter 6 focuses on Chile only. In any case, all chapters are ultimately comparative, as they are conceptualized with explicit reference to research questions emerging from the comparative welfare state and comparative political economy literatures.

1.4. Research Strategy

This section briefly introduces the research strategy of this dissertation, with special reference to data sources and analysis methods. However, the discussion is kept brief, given that specific data sources and methods are also discussed in each individual chapter.

The chapters in this dissertation are based on a variety of data sources, including interviews, news reports, and official documents (such as laws, reports, and policy documents). A careful collection and analysis of news reports was crucial for tracing policy processes and their sequencing. I also conducted a total of 43 elite and expert interviews (Bogner et al., 2009; Tansey, 2007). Interviewees included (former) ministers, members of parliament, bureaucrats, business representatives, private-sector consultants, labor union representatives, academics, and other key informants. Data was collected during fieldwork in Turkey and Chile. I have enjoyed the advantage of being regularly based in Istanbul, Turkey, which made conducting fieldwork easier. However, arranging and conducting interviews in Turkey became notably more difficult after the failed Turkish coup attempt of July 2016. In particular, active civil servants, members of parliament, and cabinet members became significantly more reluctant to agree to interviews. To collect data in/on Chile, I conducted two separate research visits to Santiago (and Valparaíso, the seat of Chile's parliament): the first from October to December 2016, when I was based at the University Diego Portales and hosted by Cristóbal Rovira Kaltwasser and Rossana Castiglioni; and the second from November to December 2017, when I was based at the Pontifical Catholic University of Chile and hosted by Juan Pablo Luna and Umut Aydın.

The analysis in this dissertation is based on different qualitative and comparative-historical methods (see Brady & Collier, 2010; Mahoney & Rueschemeyer, 2003). First, the dissertation conducts multiple comparisons at different levels. Chapters 3 and 4 conduct comparisons *within* Turkey but *across* different policy areas. Chapter 3 studies the Turkish welfare state by comparing the development of “productive” (e.g. healthcare) and “protective” (e.g. pensions and labor regulation) welfare state institutions. Chapter 4 focuses on the demise of traditional instruments of social protection, or “social policy by other means”, by comparing the trajectories of agricultural and housing policy. Chapter 5 on health reforms conducts a controlled cross-national comparison of health reforms in Turkey and Chile. Chapter 6 zooms in on the case of non-contributory pension reform in Chile, but in the context of an analysis of similar pension reforms across Latin America. Beyond comparisons, this dissertation also makes heavy use of within-case methods. This means that conclusions are not drawn based only on a comparison of variable configurations in the different cases, as is done in Mill’s methods of agreement and difference. Rather, conclusions are drawn based on within-case analysis of sequences and “causal process observations” (Collier, Brady & Seawright, 2010, p. 2), relying primarily on interview- and document-based content analysis, process tracing, and counterfactual analysis.

1.5. Summary of Chapters

In this final section of the introduction, I briefly summarize the individual chapters in this dissertation. To begin with, Chapter 2 reviews the literature on the causes of welfare state expansion in the global South, with a focus on the wave of expansion since the 2000s. After discussing difficulties of measuring welfare state change in the global South (a form of the “dependent variable problem”), the chapter reviews existing scholarship in political science and sociology, focusing on explanations of welfare state expansion that center on economic structure and performance, democratic politics, and the actors behind expansion. The chapter concludes by identifying important gaps in the literature, in particular the widespread academic disregard of the role of organized business in process of welfare state expansion in the global South. A version of this chapter has been conditionally accepted by the journal *Social Policy & Administration*.

Chapters 3 and 4 provide novel insights into the nature of emerging welfare states, by empirically focusing on various traditional and non-traditional social programs in Turkey. Chapter 3 studies the transformation of economic and social policy in Turkey during the 2000s. It argues that the policy mix that has emerged can be conceptualized as “social neoliberalism”, combining relatively orthodox neoliberal economic policies and retrenchment of the protective welfare state (e.g. labor market institutions) with a significant expansion, both in terms of public spending and population coverage, of the productive welfare state (e.g. public healthcare). Social neoliberalism as a development model is therefore distinct both from social democracy and orthodox neoliberalism. It is further argued that the rise of social neoliberalism in Turkey during the 2000s is best understood with reference to the interests of the AKP's support coalition, the salience of inequalities in access to public services, and the disconnect of social policy-making from civil society mobilization. An edited version of this chapter has been published in the journal *Economy and Society* (Dorlach, 2015).

Chapter 4 departs from the observation that, in many low- and middle-income countries, conventional welfare state institutions provide social protection only for the formally employed. In contrast, the rural and urban poor are often protected by "social policy by other means". Based on a comparative analysis of two major unconventional welfare programs in Turkey, agricultural state support and access to squatter housing,[8] the chapter explains retrenchment of social policy by other means. It argues that agricultural retrenchment was the result of coercive policy transfer from international organizations in a post-crisis context, while the retrenchment of squatter housing was driven by domestic political entrepreneurs responding to decreases in the availability of urban land and the number of informal squatters. In both cases, retrenchment became politically sustainable due to functional replacement with more conventional welfare programs. This chapter provides an explanation of retrenchment of social policy by other means and enhances our understanding of Turkey's uneven welfare state development. An edited version of this chapter has been published in the *Journal of Comparative Policy Analysis* (Dorlach, 2019).

Chapters 5 and 6 explore the causes of emerging welfare states, with an empirical focus on the role of organized business interests in health and pension reforms in Turkey and

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[8] Critics may argue that the term "social policy" should not be used for such "informal mechanisms of social protection" (Buğra & Adar, 2008, p. 98). Indeed, there are important differences between formal healthcare and pension insurance systems, on the one hand, and state support for small-scale agricultural production or squatting, on the other hand. However, I will show that the concept of "social policy by other means" opens an important analytical space to empirically measure and theoretically explain if and why "functional equivalents" to formal welfare provisions emerge in some contexts but not in others (see Seelkopf & Starke, 2019).

Chile. Chapter 5 studies the politics of expanding health insurance coverage in Turkey and Chile. In particular, it explores the nature of business interests in expansionary health insurance reforms, and how business actors shape the content of such reforms. Based on case studies of episodes of health insurance expansion in Turkey (2006/2008) and health insurance deepening in Chile (2004), the chapter argues that overall the accommodation of business interests is no major obstacle to the introduction or the deepening of universal health insurance per se, but that seeking business support limits governments' flexibility in introducing universal health insurance that is generous, efficient, and equitable.

Chapter 6 studies the politics of expanding non-contributory pension programs in Chile. The chapter argues that consent from employers and protagonism from private providers was critical for the passing of Chile's 2008 non-contributory pension reform. Business support was facilitated by a conservative-leaning policy network that had designed a policy characterized by moderate, targeted benefits that are financed by the general budget and that further strengthen individual incentives to contribute to the privatized second-pillar pension system. As the previous chapter on health reforms, this chapter demonstrates the need to incorporate business interests in the analysis of welfare state reforms in the global South, in particular by distinguishing the interests of employers and providers, and by focusing on the interaction of organized business with experts in policy networks.

Chapter 7 concludes by providing a summary of the main findings of the dissertation regarding the uneven nature and the causes of welfare state development in the global South. The conclusion chapter also discusses how the contributions of this dissertation relate to existing welfare state research in the global South and the global North, and it outlines some potential future avenues for research.

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CHAPTER 2:

THE CAUSES OF WELFARE STATE EXPANSION IN THE GLOBAL SOUTH: A LITERATURE REVIEW

2.1. Abstract

This article reviews the literature on the causes of welfare state expansion in the global South, with a focus on the wave of expansion since the 2000s. After discussing difficulties of measuring welfare state change in the global South (the "dependent variable problem"), the article reviews existing scholarship in political science and sociology, focusing on explanations of welfare state expansion that center on (*i*) economic structure and performance, (*ii*) democratic politics, and (*iii*) the actors behind expansion.

2.2. Introduction

Over the past two to three decades, many of the world's developing and emerging economies have undergone profound welfare state development. States throughout the global South have expanded public social spending and introduced new social programs to cover larger parts of the population. This "dramatic expansion" (Garay, 2016, p. 2) of social policy in the global South has been described as a "social turn" (UNRISD, 2013, p. 1) and a "quiet revolution" (Barrientos & Hulme, 2009, p. 440).

This process of welfare state expansion has given rise to a group of "proto" (Abu Shark & Gough, 2010) or "emerging" (Huber & Niedzwiecki, 2015) welfare states, that is, a group of states in the global South that is devoting an increasingly large share of its "fiscal and bureaucratic efforts […] to reduce income insecurity and to provide minimum standards of income and services" (Amenta, 2003, p. 92). This group includes countries like Argentina, Brazil, Chile, Costa Rica and Uruguay, South Korea and

Taiwan, Mauritius and South Africa, as well as Turkey.[9] Many lower-middle income countries, such as Bolivia and Indonesia, have moved in the same direction by rapidly expanding social programs. Globally comparable data on welfare state indicators is still relatively scarce. Figure 4 therefore draws on OECD data to illustrate the scope of welfare state expansion in the global South. It suggests that emerging welfare states have indeed experienced substantial expansion since the 1990s, but that they still lag behind the advanced welfare states of the global North.

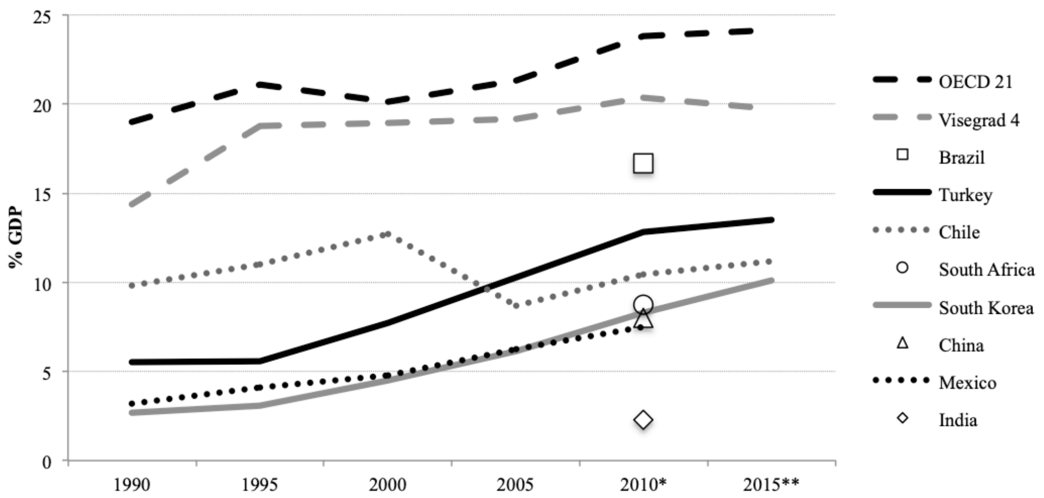

Figure 4: Public social expenditure in selected countries
Source: OECD (2016a; 2016b, p. 109)[10]

Ten years ago, Isabela Mares and Matthew Carnes (2009, p. 94) noted that political scientists are "far from understanding the variation in the character of social protection [in developing economies] and the political factors that have caused these outcomes". Today, there exists a large and vibrant research community that studies welfare state change beyond the core OECD. In recent years, political scientists and sociologists have

[9] Some scholars also consider Eastern European countries as proto-welfare states (Abu Shark & Gough, 2011), but one should note that, due to Socialist policy legacies, many of these countries already in the 1990s had rather advanced welfare states, more comparable to those of core OECD countries than to those of Third World countries (see Figure 4).
[10] Data for "OECD 21" is an unweighted average of public social expenditure in the 21 "core" OECD countries (Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, and the United States) calculated by the author. Likewise, data for "Visegrad 4" is an unweighted average of public social expenditure in 4 Eastern European countries (Czech Republic, Hungary, Poland, Slovakia) calculated by the author. (*) Data for China, India, and South Africa is for 2012. (**) Data for Turkey is for 2014.

increasingly turned to examining the causes of the latest phase of welfare state expansion in the global South. These studies have sought to explain both (*i*) the overall expansion of social programs throughout the global South, and (*ii*) the variation in degree and nature of this expansion across Southern countries. In doing so, researchers have built on theories of post-World War II welfare state expansion in the global North but also developed innovative new approaches. While the resulting literature has produced many large-N quantitative and small-N qualitative analyses, disagreement persists regarding the ultimate cause(s) of the recent "social turn" in the global South. Has expansion been driven primarily by strengthened left parties, more effective democracy, contentious politics, or by a transformed economic context?

This article critically reviews the growing literature on the causes of welfare state expansion in the global South.[11] I use the terms "global South" and "South" interchangeably to refer to the entirety of countries beyond (Western) Europe, Canada, the United States, Australia, New Zealand, and Japan.[12] Most existing studies actually draw more narrowly on the experiences of late-industrializing, semi-periphery countries, many of which have become "emerging welfare states" in the past two decades. But the resulting body of theory seems to travel well across the global South. The next section discusses the difficulty of conceptualizing and measuring welfare state change in the global South. Section 3 reviews existing scholarship on the causes of welfare state expansion in the global South, discussing in turn explanations that center on economic structures and institutions, democratic political institutions, and pro-welfare reform actors. Section 4 concludes by synthesizing the current state of the art and by outlining how the following chapters will build on it.

2.3. The "Dependent Variable Problem" in the Global South

Research on welfare state development in the global North has long struggled with the "dependent variable problem": a lack of a disciplinary consensus on "how to

[11] Several related issues of welfare politics in the global South are beyond the scope of this review, including the initial formation of welfare states, the existence of distinct welfare regimes, the distribution of welfare benefits and its political effects, or recent social security re-nationalizations.
[12] For a brief discussion of the terms "South" and "global South", which go back to the 1980 Brandt Report, see Rigg (2007, pp. 3-4).

conceptualize, operationalize and measure change within welfare states" and consequently disagreement on the nature and scope of welfare state change (Clasen & Siegel, 2007, p. 4). Scholars have disagreed in particular if welfare state change should be measured in terms of social expenditure or the generosity of social rights and benefits, and if the available data for any of these measures is comparable across countries and over time. Dominant definitions and measurements of the welfare state are biased in favor of tax-and-spend and against regulatory approaches to welfare provision (Castles, 1994), and in favor of the policy instruments that formed the core of the welfare state in postwar Western Europe, such as public pensions and unemployment insurance, but that may not be the most important social policy instruments elsewhere.

I contend that this 'dependent variable problem' is considerably larger for scholars of the global South. There is little consensus on the indicators to be used and the policy instruments to be considered when measuring welfare state change in developmental contexts. Initially, scholars focused on total social expenditure (e.g. Brown & Hunter, 1999), while subsequent studies have disaggregated social security, health and education spending (e.g. Haggard & Kaufman, 2008). This matters because social security spending can actually have a regressive distributive effect in the global South, because "truncated" social security programs usually exclude informal workers (de Ferranti et al., 2004, p. 1). More recently, scholars have begun to use data on program coverage to measure the inclusiveness of welfare states in the South (e.g. Garay, 2016; Schmitt, forthcoming). However, since few studies incorporate measures of benefit generosity (but see Böger & Öktem, 2019), they risk overstating the extent of welfare state expansion produced by the increasingly high coverage of "wide but not deep" (Holland and Schneider, 2017, p. 990) social assistance benefits. Meanwhile, many scholars have bypassed explicit measurement of welfare effort and focused instead on explaining the timing of program adoption (e.g. Sugiyama, 2011), specific expansionary social reforms (e.g. Pribble, 2013), or have used outcome variables such as poverty and inequality (Huber & Stephens, 2012, p. 44) or infant mortality (McGuire, 2010) as proxy indicators of welfare state development. This multiplicity of indicators of welfare state change has resulted in some uncertainty on how much welfare state growth there has actually been in the global South.

A second dimension of the "dependent variable problem" is which policies should be considered as welfare policies. Across the global South, conventional welfare state institutions often provide social protection only for the formally employed. The rural and urban poor are instead often protected by "social policy by other means" (Seelkopf & Starke, 2019). This includes policies ranging from the tacit permission of squatter housing or street vending to agricultural subsidies and land reform (Chapter 4; Holland, 2017). Excluding such unconventional social programs from welfare state analysis runs the risk of systematically underestimating the welfare effort of states in the global South (Kim, 2010). Moreover, given that important unconventional social programs, such as agricultural subsidies, have come under pressure by international economic institutions, the recent transformation of welfare states in the global South may have to be conceptualized not only as a period of expansion, but also as a period of "formalization" or "Westernization" (Chapter 4).

Problems related to the selection of policy instruments do not disappear if one focuses more narrowly on conventional social policy, as I do in the remainder of this review. A majority of the recent literature on welfare states in the global South has focused on the expansion of non-contributory social policy (or social assistance) and on three types of tax-financed programs in particular: conditional cash transfers, non-contributory pensions, and non-contributory health insurance. It appears that the scholars who have been most enthusiastic in diagnosing welfare state expansion in the global South—those who have pronounced a "quiet revolution" (Barrientos & Hulme, 2009), a "dramatic expansion" (Garay, 2016), "transformational policies" (Carnes & Mares, 2014), or a "new pathway to universalism" (Böger & Leisering, 2018)—have empirically focused on program adoption and coverage expansion of social assistance programs. A key question is therefore how this welfare state diagnosis would change if one also considers the generosity of and expenditure on this new generation of social programs.

2.4. The Causes of Welfare State Expansion in the Global South

This section reviews existing scholarship on the causes of welfare state expansion in the global South, discussing in turn explanations that center on economic structures, on political institutions, and on pro-welfare reform actors within democracy. This literature is characterized by a disproportionate share of studies on Latin America. This may have several reasons. First, the region has been a hotbed of welfare state development, with the majority of 'emerging welfare states' in Latin America. Second, the region's high linguistic homogeneity enables Latin Americanists to engage in more open-ended case selection with a view to theory development. Third, regional organizations, and in particular the United Nations Economic Commission for Latin America and the Caribbean (ECLAC), provide high-quality regional data for comparative welfare state analysis. Cognizant of this Latin America-centrism, this article casts its net wider and reviews studies of welfare state development across the global South. It should also be noted that many of the theoretical approaches reviewed here clearly have counterparts in the literature on welfare state development in the global North, but referencing that huge parallel literature is beyond the scope of this article.

2.4.1. Economic Structure and Performance

One influential early argument has emphasized the role of *economic growth* in enabling governments to expand social programs. As Haggard and Kaufman (2008, p. 2) put it, "economic performance exerts a crucial influence on social policy, particularly through its effect on the fiscal capacity of the state. High growth is at least a permissive condition for an expansion of entitlements and spending". From this perspective, it is unsurprising that many of the most advanced welfare states in the global South have also been economically successful, e.g. South Korea, Turkey, and Uruguay. Of course, a country's fiscal capacity depends not only on economic performance but also on tax policy (Fairfield, 2015). Argentina, for instance, passed several progressive tax reforms during the 1990s, leading the central government's tax revenues to increase from 12% to 23% of GDP between 1990 and 2004.

Expanding on this line of research that emphasizes fiscal constraints, other scholars have argued that developing countries' fiscal capacity is crucially shaped by the *international economy*. In particular, the global commodities boom of the 2000s has enabled the expansion of social programs, especially in South America, due to a "reduced need for external credit, a corresponding weakening of associated policy constraints, and more generous fiscal space at home" (Murillo et al. 2011, p. 53). And market constraints on redistributive policies in the developing world are not only weakened by high commodities prices, but also by low international interest rates, which lead to an inflow of international capital into developing and emerging economies (Campello, 2015). Indeed, the revenues of Latin American governments were substantially higher during times of high commodity prices and low international interest rates (Campello, 2015, p. 17). Illustrative of this effect of fiscal capacity on welfare state expansion is that Chile, the world's largest copper exporter, passed a landmark non-contributory pension reform in January 2008, on the heels of a historically high fiscal surplus of 8.8% of GDP in 2007.

A more functionalist economic argument is made by scholars who posit that welfare state expansion in the global South has been a response to growing *economic insecurity*. Focusing on the rise of non-contributory social policy, Carnes and Mares (2014, p. 696) argue that deindustrialization has led to increased employment insecurity, as many workers "joined the growing ranks of self-employed workers in the highly heterogeneous tertiary sector, or took up more precarious employment for longer periods of time". In turn, higher employment insecurity has increased workers' relative demand for non-contributory social policy even among formerly secure welfare state insiders. Ultimately, "elected officials, especially those in the recent 'rise of the Left' in Latin America, have proved eager to meet these demands" brought about by "a long-term increase in economic insecurity" (Carnes and Mares, 2014, p. 695). Carnes and Mares argue that their theory explains why non-contributory social policy expanded since the 1990s but not before (the question of timing). Recent work suggests that "low-skilled insiders", a large group in many middle-income countries, are economically especially vulnerable and therefore often in support of non-contributory social polices (Menendez, 2018). While it has been argued that economic insecurity created by globalization has led to *compensation* through welfare state expansion in the global North, this relationship appears to be inexistent (Rudra, 2002) or at least more contingent in the global South (Ulriksen, 2011; Wong, 2004), depending on labor's power to achieve such compensation.

2.4.2. Democratic Politics

Few scholars doubt that economic development and fiscal capacity underpin welfare state development. But economic explanations cannot explain the significant variation in welfare state development between countries with similar economic performance.

Most scholars have therefore paid increasing attention to the political causes of welfare state expansion. One of the most basic questions in this regard concerns the effects of *political regime type*. While the initial adoption of social insurance policies in the global South, in contrast to developments in the global North, occurred predominantly during periods of authoritarian rule (Mares & Carnes, 2009, p. 97), most scholars agree that democratization has the potential to drive welfare state expansion in the global South. Joseph Wong (2004) shows how the introduction of universal health insurance in South Korea and Taiwan was the direct result of these countries' democratic transitions in the second half of the 1980s. He argues that authoritarian incumbents "*preemptively* initiated the universalization of health care during the late 1980s", as they were "anticipating challenges from emerging opposition parties and a revitalized civil society" (Wong, 2004, p. 15). Likewise, Uganda's introduction of universal primary education in 1997, through the abolition of school fees, has been linked to the country's first competitive presidential elections in the previous year (Stasavage, 2005b). These cases indicate the potential that democratic transitions hold for welfare state expansion. But they also raise the question why other outgoing dictators, such as Chile's General Pinochet in 1989, did not engage in similar expansionary social reform. Recent findings suggest that democracy has a positive effect on the coverage of non-contributory social policy, but a negative effect on the coverage of contributory social security (Schmitt, forthcoming), which could be explained by the fact that social security expenditure in the global South is often regressive (de Ferranti et al., 2004). While the effects of democratization therefore appear heterogeneous, research suggests that on average and over the long run democracy has a systematic positive effect on the expansion of social programs and associated outcomes, such as inequality, poverty, and public health (Huber & Stephens, 2012; McGuire, 2010; Stasavage, 2005a).

Going beyond the effects of democracy as such, other scholars have argued that welfare state expansion is driven by the quality of democracy, in particular the competitiveness of elections. According to the logic of electoral competition, "leaders who anticipate strong electoral challenges are likely to attempt to enact policies that will make them popular at election time" (Hecock, 2006, p. 954). Indeed, Hecock finds that public education spending is significantly higher in Mexican states where legislative and gubernatorial elections are more competitive. Other Latin Americanists support this view, arguing that the pressure of electoral competition was key in motivating left-of-center governments to introduce universalistic welfare reforms (Pribble, 2013), and in motivating left and right governments to introduce equity-enhancing health reforms (Ewig, 2016). Candelaria Garay (2016) develops a more context-specific definition of electoral competition to explain the growth of non-contributory social policy. She argues that differences in the expansion of non-contributory social policy coverage are driven by differences in the levels of electoral competition for the votes of welfare state outsiders. If the outsider vote is competitive, left and right parties are motivated to expand the coverage of social programs. Garay (2016, p. 274) argues that Chile's 2008 non-contributory pension reform, for instance, was caused by an increase in the electoral competition for low-income voters between the center-left incumbent and the right-wing opposition in the 2000s.

Another strand of research on the quality of democracy and elections has focused on the impact of *electoral institutions*. Research on core OECD countries shows that electoral systems have a systematic effects on redistribution. Proportional Representation (PR) favors left parties to come to power and thus leads to more redistribution, while majoritarian elections favor right-wing parties and less redistribution (Iversen and Soskice, 2006). Supposedly, PR also encourages more programmatic social policy, while majoritarianism favors particularistic redistribution (Stratmann and Baur, 2002). In short, research on core OECD countries suggests that PR would be more conducive to welfare state expansion. This argument seems to travel to the global South. For instance, Korea's majoritarian electoral rules appear to have contributed to the "underdevelopment" of Korea's welfare state relative to its strong economic development (Yang, 2013, p. 458). Specifically, Korea's single-member-district plurality electoral system incentivizes district-level pork barrel politics, such as construction projects, rather than programmatic, universal welfare policy, and it has also inhibited the emergence of left-wing political parties that would push for welfare state expansion (Yang, 2013, p. 468). Likewise, the relatively unique Latin American combination of majoritarian presidentialism and PR parliaments has arguably a "rightward tendency" and is biased toward the interests of big business and other insider groups (Schneider, 2013, p. 142, 148). So while electoral institutions have so far been primarily used to explain welfare state underdevelopment in the global South, the same variables should be useful to explain differences in welfare state expansion in the global South. Furthermore, changes in electoral institutions can also drive change. For instance, Selway (2011) traces the introduction of universal health insurance in Thailand in the early 2000s (and the concomitant reduction of pork-barrel hospital building) back to a reform of the country's electoral system in 1997, which introduced PR in one part of the Thai parliament.

Closely related to research on democratic political institutions is research on the effect of *ethnic diversity*. In a seminal study, Easterly and Levine (1997) found that the higher levels of ethnic diversity largely explain the underprovision of public goods such as education and infrastructure in many African countries. Applying this insight to welfare state research, others found that "racial fragmentation" and the "disproportionate representation of ethnic minorities among the poor" (Alesina et al., 2001, p. 247) contributed to the United States welfare state being relatively small and less redistributive. Scholars have increasingly looked at the interaction of democratic institutions and ethnic diversity. Some have argued that the positive effect of democratization on social spending, widely acknowledged in the literature, is in fact limited to ethnically homogenous societies (Jensen & Skaaning, 2014). Using data on health policy and health outcomes, Selway (2015) paints a more complex picture by studying the interaction of ethnic diversity, its geographic distribution, and electoral systems: While PR systems lead to more programmatic welfare policy in ethnically homogeneous states (e.g. Thailand), majoritarian electoral system are actually better for heterogeneous societies, as they provide incentives for cooperation among ethnicities (e.g. Mauritius). However, if ethnic groups in heterogeneous societies are also geographically segregated (e.g. Indonesia), then neither electoral system is likely to incentivize programmatic welfare policy. Given the heterogeneity in ethnic diversity among Southern countries, scholars may have to be careful in adopting the Northern theory that proportional representation is always more conducive to welfare state expansion.

Electoral rules are by no means the only democratic political institutions that matter for welfare state development. In particular, *constitutional provisions* on a "right to health" or a "right education" may drive welfare state development in the global South. The effects of such "social rights constitutionalism" can be direct, e.g. when courts legally mandate social reforms. Effects may also be indirect, e.g. by empowering the left or other actors to push for such reforms. Due to the timing of constitutional reforms, social rights constitutionalism appears to be a phenomenon somewhat distinct to the global South (Brinks and Gauri, 2014, p. 376). Scholars have found that a constitutional right to health, as is enshrined for exampled in Brazil's 1988 Constitution, "encourages more and better delivery of health services" (Kavanagh, 2016, p. 356). A right to education may have a similar effect. Indonesia's Constitutional Court ruled in 2004-2006 that the structure of public expenditure was in violation of a new constitutional provision that requires 20 percent of public expenditure to go to education. As a result, the Indonesian government increased the education budget "redirecting about five percent of the entire national budget" (Brinks and Gauri, 2014, p. 386). One particular debate surrounds the question if this social rights constitutionalism in the global South has benefitted the middle class more than (or even at the expense of) the poor.

2.4.3. Advocates of Welfare State Expansion

One of the most influential theory of Latin American welfare state expansion builds on European power resources theory and argues that the *strength of left parties* is a key variable in explaining social policy expansion. Evelyne Huber and John Stephens (2012, p. 3) argue that "left political strength" in the legislative and executive branches has been central to the development of "redistributive social policy" in democratic Latin America. According to this theory, left parties do not only promote welfare state expansion because of immediate electoral considerations, but also for ideological reasons. It should be noted that their statistical analysis (covering the 1970-2005 period) only finds significant effects of "left political strength" on poverty and inequality reduction, but not on social security, health, or education spending. They argue that the left-wing and right-wing governments of the 1970s and 1980s had not been the creators but the heirs of existing social security systems and (during the neoliberal and debt crisis era) had limited fiscal space to introduce new programs, and thus increase overall social expenditure. But Huber and Stephens (2012, p. 151) use qualitative methods to show that left-wing governments did "shift the composition, or the structure of spending, to make it more redistributive"—and thus reduced poverty and inequality. As regards the (early) 2000s, Huber and Stephens (2012, p. 151) verbally report a significant effect of left political strength on health and social security spending.

This “left power theory” of Latin American welfare state development has since been developed further. Scholars have argued that left parties that are programmatic and have strong constituency ties, such as Uruguay’s *Frente Amplio*, are most likely to introduce universalistic social policy (Pribble, 2013). They also argue that even when in opposition, left parties with strong electoral and mobilizational potential limit the ability of right-wing governments to pursue welfare state retrenchment and may even motivate “marginal expansion” by the right (Niedzwiecki and Pribble, 2017). Yet, with programs such as conditional cash transfers this partisan effect may be non-existent, as centrist and center-right governments have been just as eager to implement them (Brooks, 2015; Garay, 2016; Sugiyama, 2011). In fact, research suggests that left-wing parties initially resisted conditional cash transfers and only embraced them once their “effectiveness and political popularity” became apparent (Borges, 2018, p. 149).

Others scholars have argued that the strength of *organized labor* has had an independent positive effect on states’ social security and health spending during the 2000s (Niedzwiecki, 2015), and that the strength and structure of organized labor has shaped the kinds of social policies that governments introduce, e.g. benefits for welfare state insiders or outsiders (Dion, 2010). While strong unions may well support more public social expenditure, they may also oppose the universalization of benefits (Niedzwiecki, 2014; Seekings, 2004). Moreover, powerful professional unions, in health or education, may inhibit reforms that seek to enhance the quality of services (Schneider et al., 2019). Strong organized labor may therefore simultaneously boost public social expenditure and inhibit coverage and quality.

Social movements and protest also seem to be central for welfare state development in the global South. Garay (2016) argues that social mobilization by outsider movements and allied unions has driven the expansion of non-contributory social policy in Latin America, and has led to more inclusive social policy designs than if politicians only pursue electoral considerations. For instance, in Argentina, many of the expansionary social policy reforms of the 2000s, such as the large-scale 2002 ‘Heads of Household’ workfare program, were caused by social mobilization by the unemployed and informal workers after a big economic crisis (Garay, 2016, p. 183). This account emphasizes how political parties, on the left and the right, change their policy platforms in reaction to mobilization and protest. But social movements and (left) parties may also act in concert. This was the case when the Morales government in Bolivia introduced the *Renta Dignidad* in 2007 after allied protesters literally kept members of the opposition from entering the parliament building for the final vote (Anria and Niedzwiecki, 2016, p. 322). Other scholars have posited that the expansion of non-contributory social assistance in the global South has been a political response to social unrest by the poor, regardless of whether protests aim at social reform or not (Yörük, 2012).

Other scholars have emphasized the effects of the welfare state's *institutional legacies* on the formation of *political coalitions* for or against further welfare expansion. Drawing on ideas of historical institutionalism, Martínez Franzoni and Sánchez-Ancochea (2016) argue that the way in which the welfare state is set up at founding (or refounding) moments has significant feedback effects on subsequent welfare state development. These initial welfare state institutions (or "foundational policy architectures") influence if powerful social groups are likely to support future rounds of benefit and coverage expansion. For instance, if the welfare state architecture allows for 'private options' in education or health, then the middle and upper classes are more likely to exit public welfare state institutions and subsequently resist the expansion of these services. Likewise, private providers themselves acquire a strong interest in keeping public welfare provision limited (Ewig & Kay, 2011, p. 72; Pribble, 2013, p. 28). On the other hand, as illustrated by the example of Costa Rican welfare state expansion in the 1960s and 1970s, if welfare state institutions are public, unified and universal, then this creates incentives for the middle and upper classes to join and in turn for the quality of these services to increase (Martínez Franzoni and Sánchez-Ancochea, 2016, pp. 72-75).

A second line of research on *political coalitions* has focused on how the *policy design* of social reforms shapes the political support for these reforms. This research suggests that the recent expansion of non-contributory social policy in the global South has been possible because these policies have had the support of exceptionally broad cross-class coalitions. First of all, non-contributory social policies appear to be among the few welfare state programs that the poor themselves actually support, as they stand to benefit from them, in contrast to welfare programs such as unemployment insurance or housing benefits that largely benefit the middle class (Holland, 2018, pp. 580-582). Even if not the primary beneficiaries, labor market insiders have also supported these programs, as they function as a non-contributory safety net (Carnes & Mares, 2014; Menendez, 2018). This has resulted in a larger "potential political coalition favoring social policies that do not rely on insurance contributions for their financing" (Carnes & Mares, 2014, p. 696). In fact, even the "wealthy, professional middle-class" has supported this recent round of welfare state expansion, even though they were unlikely to ever benefit from these new social programs, because these programs have been relatively inexpensive and were layered on top of existing welfare state institutions, i.e. they did not alter the contributory social insurance systems of the middle class (Holland & Schneider, 2017, p. 993).

Another important actor of welfare state development are *experts*, such as bureaucrats, academics, or professionals in policy networks. In line with a more state-centric perspective on welfare state development, such experts can become advocates of welfare state expansion without expecting any direct material benefits. While experts may have limited influence on the expansion of social expenditure, they play key roles in shaping policy design and hence the logic and quality of welfare state institutions. For instance, when Costa Rica set up the basic principles of its social security system in the 1940s, a small group of "state actors", which enjoyed the support of the president, successfully promoted a "policy architecture" that "created the incentives for pro-universal expansion" (Martínez Franzoni & Sánchez-Ancochea, 2016, p. 121). Today, Costa Rica is considered to be one of the most advanced welfare states in the global South. More recently, technocrats that achieved considerable autonomy in Peru's healthy ministry during the 1990s successfully pursued the introduction of a free health care program for the poor (Dargent, 2015, p. 1379), while the 2001 introduction of universal health care in Thailand was in large part achieved by the Rural Doctors' movement, a "professional movement" that gained influence in the Thai health ministry (J. Harris, 2017, p. 35). During reform initiatives, governments often set up formal expert commissions or consult informally with policy networks of relevant experts, giving these experts substantial influence over reform content and policy design and thus over the quality of welfare state development (Castiglioni, 2018). Of course, if influential social policy experts follow neoliberal or conservative (rather than progressive) ideologies, they may just as well pursue social policy retrenchment or more conservative expansion (Castiglioni, 2005, p. 36). This makes the identity of the social policy experts that wield power in ministries or reform commissions a central variable in explaining welfare state development, in particular because experts' identity cannot be reduced to the political parties in power (Castiglioni, 2018; Dargent, 2015).

2.4.4. International Diffusion

Another driver of welfare state development in the global South has been the *international diffusion* of social policy models, both horizontally (from other countries) and vertically (from international organizations). Regional diffusion has played a key role in driving the global spread of CCT programs during the 2000s (Brooks, 2015; Sugiyama, 2011). The spread of CCTs has been strengthened by the support of international organizations such as the World Bank and the Inter-American Development Bank, which have defined CCTs as a new policy norm in social development and have provided financial support for program implementation (Béland et al., 2018; Sugiyama, 2011; Leisering, 2019). Likewise, regional diffusion and the International Labour Organization have also driven the spread of NCP programs since the 2000s (Leisering, 2019). Experts appear to be the main conduits for this diffusion of international policy ideas (Béland et al., 2018, p. 469; Martínez Franzoni & Sánchez-Ancochea, 2016, p. 111). While international diffusion probably cannot explain cross-national differences in levels of welfare state development, it is key to explaining the apparent convergence toward a "basic universalist" (Molina, 2006) model of welfare state expansion in the global South, based on conditional cash transfers, non-contributory pensions, and non-contributory health insurance.

2.5. Conclusion

From the studies reviewed in this chapter, and at the risk of overdetermination, one can compile the following theory: Welfare state expansion in the global South is likely to advance furthest in countries with sustained economic growth and high fiscal capacity; in countries with growing economic insecurity; in countries with sustained democratic experience, where elections remain competitive across popular sectors and geographical regions; in countries with constitutionally guaranteed social rights and with existing welfare state institutions that are public, unified and universal; in countries with strong programmatic left parties, where all parties are also under sustained non-electoral pressure for welfare expansion, e.g. from social movements, labor unions, professional associations, and/or welfare state bureaucrats and experts. This summary shows that welfare state development clearly is a multicausal phenomenon and existing theoretical approaches seem to be largely complementary. The theoretical disagreements that do exist in the literature seem to be rooted in salient differences across policy areas, in particular between basic, non-contributory and more generous contributory social policies.

The following chapters build on this review of the literature in two ways. First, regarding the nature of welfare state development in the global South and thus the "dependent variable problem" of welfare state research outlined above, I will demonstrate the distinctly uneven welfare state development that has occurred in emerging economies such as Turkey and Chile. This observation qualifies current accounts of emerging welfare states, which have tended to focus more narrowly on describing and explaining the expansion of non-contributory social policy programs, such conditional cash transfers and non-contributory pensions. Second, regarding the causes of welfare state expansion in the global South, my analysis will confirm and expand on accounts that emphasize the causal centrality of macroeconomic context, electoral competition, government ideology, and policy networks. Most importantly, I will systematically introduce business interests to the analysis of welfare state development in the global South, and argue that organized business interests are key to explaining the development of emerging welfare states over the past decades.

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CHAPTER 3:

THE PROSPECTS OF EGALITARIAN CAPITALISM IN THE GLOBAL SOUTH: TURKISH SOCIAL NEOLIBERALISM IN COMPARATIVE PERSPECTIVE

3.1. Abstract

This article studies the transformation of economic and social policy in Turkey during the 2000s. The policy mix that has emerged can be usefully conceptualized as social neoliberalism, combining relatively orthodox neoliberal economic policies and retrenchment of the protective welfare state (e.g. labor market institutions) with a significant expansion, both in terms of public spending and population coverage, of the productive welfare state (e.g. public healthcare). Therefore, social neoliberalism as a development model is distinct both from social democracy and orthodox neoliberalism. Its rise in Turkey during the 2000s is arguably best understood with reference to the interests of the AKP's support coalition, the salience of inequalities in access to public services, and the disconnect of social policy-making from civil society mobilization. Turkey's experience with social neoliberalism provides an important reference point for theorizing the 'social turn' that since the 2000s has occurred in many late-developing countries with now maturing welfare states, including Brazil, South Africa, Mexico and Chile.

3.2. Introduction

The Justice and Development Party (*Adalet ve Kalkınma Partisi*, AKP) has governed Turkey since 2002.[13] While there is little doubt that this has been a period of profound

[13] The AKP was able to form three consecutive majority governments between 2002 and 2015. In the June 2015 national elections, the party lost its absolute majority in parliament and will now be forced to form either a coalition or a minority government or to push for early elections. While this may prove to be a turning point for Turkish development, one should not underestimate the continued dominance of the AKP: it is still by far the largest party and it is very likely to be included in all potential coalition governments in the near future.

change, the nature of this change continues to be the topic of many debates among scholars and laypeople. One of the key questions in these debates is how social – that is, egalitarian, inclusive, or pro-poor – the transformation of the Turkish political economy has been. Most critics on the left hold that the AKP's economic and social policies have been thoroughly neoliberal and highly inegalitarian. Accordingly, the AKP's many poor voters have been 'tricked' (*kandırılmış*) into supporting a party that actually does not act in their economic interest, primarily by drawing on 'symbolic/ideological sources' such as 'conservatism, Islamism and nationalism' (Bozkurt, 2013, pp. 391, 392). In contrast, the World Bank characterizes the AKP era as a period of 'inclusive growth', referring in particular to the high levels of income and consumption growth achieved by the bottom segments of the population (Raiser & Azevedo, 2013), and some scholars characterize the AKP's policies as 'neoliberalism with a human face' (Patton, 2006, p. 515).

This empirical puzzle regarding the nature of economic and social policy change in Turkey during the 2000s gains broader relevance in the context of current debates on capitalism and inequality. Scholars of the advanced capitalist economies in the global North have long tried to make sense of the policies and politics that make some capitalist economies more egalitarian than others (Esping-Andersen, 1990; Kenworthy, 2004; Pontusson, 2005; Thelen, 2014). In contrast, scholars of the developing economies in the global South have for a long time focused on economic development, considered by many as a necessary first step (Chibber, 2003; Evans, 1995; Kohli, 2004; Wade 1990). With an increasing number of emerging economies reaching higher income and growth levels, development scholars are now turning to the prospects of more egalitarian forms of capitalism in the global South (Evans, 2010; Sandbrook et al., 2006; Schneider, 2013).

Large parts of this literature on social development in the global South have focused on the contemporary Latin American experience. One reason for this is that the region is home to several success stories of social development in terms of inequality reduction, as countries such as Brazil have been bucking the global trend of rising income inequality (Lustig et al., 2013). Another reason is that the region seems politically more likely to achieve higher levels of income redistribution, provision of public goods and ultimately social justice, since the Latin American left turn(s) brought to power left-of-centre governments across the continent since the late 1990s. This literature has focused on distinguishing different types of left-wing governments in Latin America (e.g. Levitsky & Roberts, 2011) and on assessing their comparative policy performance (e.g. Weyland et al., 2010).

There is, however, no reason to assume that only left-of-center governments may pursue strategies that aim at more egalitarian forms of capitalist development. In fact, the Latin American left turn has been paralleled by a global turn toward more activist social development. In the 2000s, fuelled by disillusionment with the orthodox neoliberal development strategy that dominated policy agendas in the previous decades, many countries moved beyond the prescriptions of the Washington Consensus (Öniş & Şenses, 2005). States increasingly accepted social and economic inequality as a problem and state intervention as a possible solution. Significantly, this turn also occurred in countries governed by parties that fall outside the traditional left spectrum, including Colombia, Mexico, South Africa and Turkey.

In this article, I propose that the concept of 'social neoliberalism' is useful to make sense of an emerging mix of market-oriented economic policies and some substantial state-interventionist and inclusive social policies. In a way, social neoliberalism is the second-born twin of regulatory neoliberalism, both of which emerged in the context of the Post-Washington Consensus. If regulatory neoliberalism reflects the economic realization that efficient markets require more than minimal regulation, then social neoliberalism reflects the political realization that some social policy is required to win elections or avoid social unrest. While social neoliberalism has been charged with being an oxymoron, the rise of this specific policy mix can neither be empirically ignored, nor is it analytically useful to conflate it with the orthodox neoliberal policy mix that had its heyday in the 1980s.

By using social neoliberalism as a conceptual tool, I build on important earlier contributions. According to Cerny, social neoliberalism is characterized by an "increased political awareness of the need for compensating losers" (Cerny, 2010, p. 160). Studying the Turkish case, Öniş uses the term social neoliberalism to conceptualize the AKP's use of 'redistributive politics as a tool for electoral support' (Öniş, 2012, p. 137). Yet, with the important exception of Sandbrook's (2014) recent work on ‘social liberalism’ in Brazil and South Africa, the literature still lacks more specific accounts of how social neoliberalism manifests itself in practice. In this article, I draw on a case study of the rise of social neoliberalism in Turkey during the 2000s to provide tentative answers to two key questions: What are the specific characteristics of the social neoliberal policy mix? And what kinds of politics drive the emergence of social neoliberalism?

3.3. Social Neoliberalism in Comparative Perspective

A good point of departure for comparing Turkey’s development model with that of other late-developers with now maturing welfare states is the World Bank’s new Shared Prosperity indicator. It allows us to compare countries according to both income growth of the total population and income growth of the bottom 40% of the population (World Bank, 2013). This is especially relevant for developing and emerging economies, where absolute improvements for the poor, in form of income and consumption growth, are at least as important as the relative distribution of income. Figure 5 shows the development of Shared Prosperity in selected emerging economies during the 2000s. Turkey achieved approximately 5% of average annual income growth between 2006 and 2011, both at the level of the total population and at the level of the bottom 40% of the population. It is, in fact, because of this balanced nature of growth that the World Bank labeled Turkey’s recent growth experience as “inclusive” (Raiser & Azevedo, 2013). Indeed, one can observe that economic growth in Turkey was more inclusive than in countries where total income growth outstripped bottom 40% growth, such as China or Costa Rica, but it was also less inclusive than in countries where the opposite occurred, such as Bolivia or Chile.

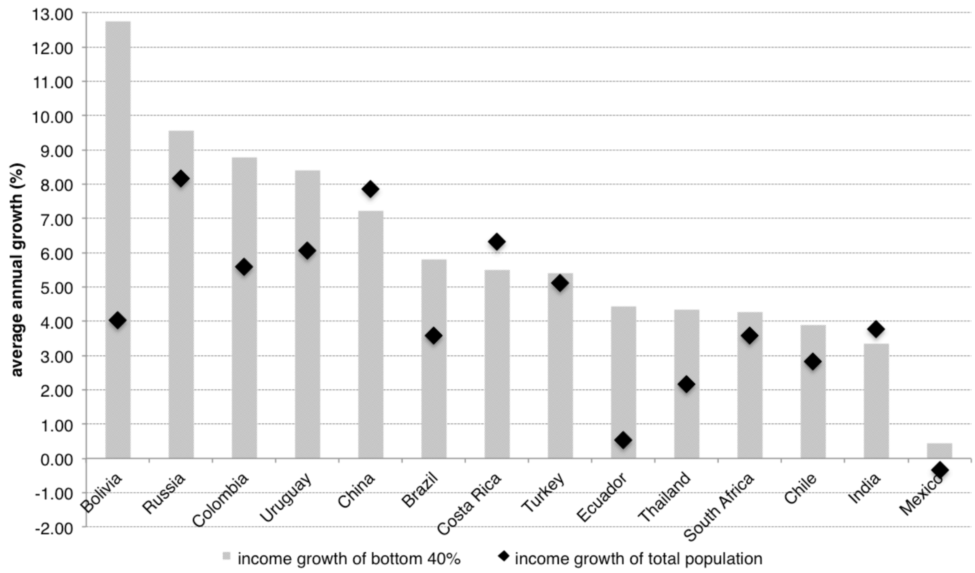

Figure 5: Shared prosperity in emerging economies in the 2000s
Source: World Bank (2014a)[14]

It is also useful to disaggregate Turkish development over time. When we look at relative income distribution, we see that Turkey's Gini index steadily decreased from 42.7 in 2002 to 38.7 in 2009, but went back up to 40.0 at the last available measurement in 2011 (World Bank, 2014c). This picture is reinforced by public expenditure data. According to government calculations, public social spending steadily increased from 9.6% of GDP in 2002 to 14.1% of GDP in 2009. Since then, public social spending appears to have plateaued, reaching 14.0% of GDP in 2013 (Figure 6). This data suggests that Turkish development in the period between 2002 and 2009 was relatively inclusive. This period overlaps with what has been described as the "golden age" of the AKP rule (Öniş, 2015). Importantly, the policies and politics of social neoliberalism that I study in this article are largely a product of this 2002-2009 period. While most of these policies are still in place today, Turkey's development since 2009 appears to have been less inclusive. But the question how and why Turkish social neoliberalism has transformed in the 2010s must be left to future research.

[14] The period used to calculate growth rates is 2006-2011, except for China (2005-2010), Colombia (2008-2011), Costa Rica (2004-2009), India (2005-2012), Mexico (2006-2010), Russia (2004-2009) and Thailand (2006-2010)

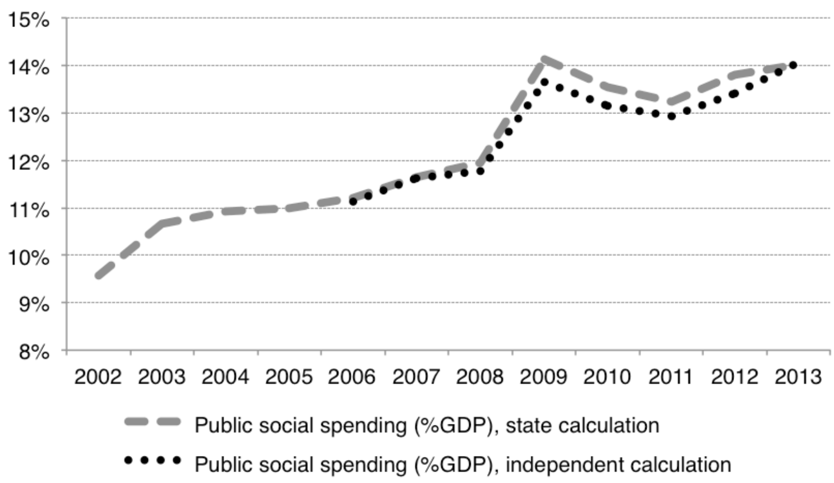

Figure 6: Public social spending (%GDP)
Sources: TurkStat (2015b), BUMKO (2015), Kamu Harcamalarını İzleme Platformu (2014)[15]

However, in order to understand the nature of the transformation of the Turkish political economy during the 2000s, one needs to look beyond these general indicators at changes in policies and institutions. I suggest that three stylized developments have defined the transformation of economic and social policy in Turkey during the 2000s. First, in the realm of economic policy there has been an augmentation of neoliberal principles that were first introduced in the 1980s. Since 2002, the AKP government effectively pursued policies of mass privatization, market liberalization, corporate tax reduction, and fiscal stability. Second, in one segment of social policy, which can be conceptualized as the protective welfare state (e.g. Gough, 2008), there has been a similar restructuring along orthodox neoliberal lines. Labor markets were made more flexible, union rights were curbed, and agricultural state support was reduced. Third, in another segment of social policy, the productive welfare state, there has been a very different and distinctly post-neoliberal development. Turkey's public healthcare and public transport systems have significantly expanded, both in terms of state expenditure and in terms of population coverage.

From a comparative perspective, Turkish social neoliberalism is best understood as being distinctly situated between orthodox neoliberalism (exemplified by Chile, 1973-

[15] Both sources follow the European Union's ESSPROSS methodology and not the OECD's SOCX methodology for calculating public social spending.

1990) and social democracy (exemplified by Chile, 2000-2010). While neoliberal restructuring in Chile during 1973-1990 and the slow reversal of this very policy legacy in Chile during the 2000s have been relatively even development paths, social neoliberalism in Turkey during the 2000s was characterized by uneven social development, with retrenchment in some policy areas and expansion in others. Table 1 provides a stylized overview of these three models of economic and social policy change.

Table 1: Turkish social neoliberalism in comparative perspective

	Social democracy Chile, 2000s	**Social neoliberalism Turkey, 2000s**	**Orthodox neoliberalism Chile, 1973-1990**
Economic Policy	Moderate challenges to neoliberal orthodoxy	Minimal challenges to neoliberal orthodoxy	Minimal challenges to neoliberal orthodoxy
Social Policy	Reversal of neoliberal policies across welfare state institutions	Neoliberal restructuring of protective welfare state institutions, but significant expansion of productive welfare state institutions	Neoliberal restructuring across welfare state institutions

Social neoliberalism is distinctly different from orthodox neoliberalism in that it recognizes that poverty and inequality require at least in part political solutions. Here, the case of Chile during the 1973-1990 period serves as an instructive contrast. Under the military dictatorship of Augusto Pinochet, Chile implemented orthodox neoliberal reforms across all areas of economic and social policy. Public enterprises were privatized, foreign trade was liberalized, and financial markets were deregulated. In the realm of social policy, the Pinochet government ‘replaced the old universalistic scheme with a market-oriented system that strengthened means-tested policies, transferred important responsibilities to the private sector, curtailed benefits, tightened eligibility rules, and significantly reduced the state’s participation in social policy provision and administration’ (Castiglioni, 2001, p. 37). Significantly, neoliberal welfare reforms occurred across the board, from the flexibilization of labour law to the retrenchment of health and education.

Social neoliberalism is also distinctly different from social democracy in that social reforms are more uneven and remain coupled with more orthodox economic policies. Here, the case of Chile during the 2000s makes for a useful comparison. While there are arguably other cases that better represent social democracy in the global South, such as contemporary Uruguay (Lanzaro, 2011), Chile seems to have followed the most social democratic route among the large middle-income countries of the global South. During the 2000s, Chile's centre-left *Concertación* government was led by two presidents of the Socialist Party (PS), Ricardo Lagos and Michele Bachelet, both of which contributed toward a steady if slow reversal of Chile's deeply neoliberal policy legacy in the face of severe political constraints. In the realm of economic policy, they moderately challenged neoliberal orthodoxy, most importantly by implementing a series of progressive tax reforms (Fairfield, 2015). In the realm of social policy, Lagos and Bachelet moved 'toward a more universal system of social protection, inspired by left commitments to social equity, justice, and solidarity' (Huber et al., 2010, p. 82). Among the most significant reform projects were health reform under Lagos and pension reform under Bachelet, both of which 'constituted major departures from the neoliberal model of narrowly targeted and market-driven social policy' (Huber et al., 2010, p. 95). These social democratic welfare reforms occurred relatively evenly across policy areas.

The conceptual inclusion of social neoliberalism has several analytical advantages. First, it allows us to bring several new positive cases into the analysis of the prospects of egalitarian capitalism in the global South. Second, it forces conceptualizations of social democracy in the global South to draw a more precise line between social democracy and social neoliberalism. And third, it may require us to reconsider the nature of some important cases. Brazil, for instance, in the realm of economic and social policy, arguably has more in common with social neoliberal Turkey than with social democratic Chile. The case of Turkey during the 2000s therefore provides important theoretical insights into the dynamics of egalitarian capitalism in the global South. It is also relevant in more direct and practical terms, as Turkey became a poster child of the World Bank with regard to welfare reform and 'inclusive growth' (Kim, 2013; World Bank, 2014b).[16]

[16] If the World Bank has promulgated the Turkish model of social development, one can argue that the ILO has been more supportive of the Chilean model, as became apparent with the so-called Bachelet Report of 2011 (ILO, 2011).

3.4. Turkey's Social Neoliberal Policy Mix

In the previous section, I made the argument that Turkey's economic and social policy mix can be conceptualized as a case of social neoliberalism, especially when viewed from a comparative perspective. In the following, I will substantiate this argument by tracing economic and social policy changes in Turkey during the 2000s, with a focus on identifying to what the extent these changes were inclusive or pro-poor.

Economic and social policy regimes are no monolithic unities, but comprise multiple policy areas, which all have a certain degree of autonomy from each other. For the purpose of this analysis, it is useful to think of social policy or the welfare state in terms of two distinct components: the 'productive welfare state' comprises public healthcare, active labor market policy, as well as unconventional forms of welfare provision such as public transport. The 'protective welfare state', on the other hand, comprises passive labor market policy, labor market regulation, social security, social assistance, as well as unconventional social policies such as agricultural state support and informal housing. Productive welfare state institutions generally promote market development, while protective welfare state institutions shield citizens from and in the labor market, rendering the latter by and large less compatible with business interests (Gough, 2008; Holliday, 2000; Rudra, 2008).[17] In this article, the analytical distinction between the productive and the protective welfare state serves primarily as a heuristic to capture the extremely uneven development of social policy in Turkey. To be clear, I do not argue that productive welfare state institutions do not fulfil important protective functions, nor do I argue that the expansion of productive welfare state institutions has necessarily made Turkey more productive.

In addition to the transformation of Turkey's welfare state institutions, I also examine the transformation of fiscal policy. Space constraints prevent me from tracing economic policy change with the same breath as social policy change, but there are at least two good reasons for including fiscal policy in my analysis. First, fiscal policy is arguably

[17] This does not imply that protective welfare state institutions may not be productive. Job security regulations, for instance, may function as 'beneficial constraints' that incentivize producers to upgrade from a low-quality wage-competitive strategy to a high-wage quality-competitive strategy, which increases economic productivity (Streeck, 1997). Nonetheless, the underlying logic of these institutions is protective rather than productive.

the area of economic policy that has the most immediate relevance for the prospects of egalitarian capitalism, as it determines both which funds are available for social policy and how those are raised. Second, while the nature of change in many other areas of economic policy during the 2000s is relatively less contested, Turkish fiscal policy has undergone a more contradictory transformation. Table 2 summarizes the three transformations that the following section will trace in more detail.

Table 2: Welfare and fiscal policy change in Turkey during the 2000s

Component	Policy Areas	Change
Productive Welfare State	Healthcare, Active Labor Market Policy, Public Transport	Egalitarian Expansion
Protective Welfare State	Passive Labor Market Policy, Labor Market Regulation, Social Security, Agricultural Subsidies, Housing Policy	Inegalitarian Retrenchment
Fiscal Policy	Taxation, Privatization	Inegalitarian Expansion

It may be necessary to underline that my analysis takes a macro-historical perspective. In other words, I readily acknowledge that there are important deviations from my characterization both within the three components of my analysis (e.g. the massive expansion of social assistance that falls within the realm of the protective welfare state) and within specific policy areas (e.g. the pronounced dualization of Turkey's health and education systems). However, I think that my conceptualization captures the specific characteristics of the macro-level changes.

A final clarification should be made with regard to the connection of social neoliberalism and social conservatism. Several scholars have correctly pointed out that the AKP's social policy agenda has been affected by its social conservatism (e.g. Buğra & Keyder, 2006). A case in point has been the de facto restriction of access to abortion services in recent years, following Erdoğan's controversial remark in May 2012 that abortion was "murder" (Letsch, 4 February 2015). However, it does not follow that social conservatism is an essential component of social neoliberalism as a model of economic and social policy. The AKP's social conservative values cannot explain the specific characteristics of this policy mix. The case of Brazil demonstrates that a very similar economic and social policy mix can go hand in hand with more social liberal values. I therefore leave the dimension of social conservatism aside in this article.

3.4.1. Productive Welfare State: Egalitarian Expansion

The argument that contemporary Turkey should be conceptualized as a case of social neoliberalism rests primarily on the transformation of Turkey's public healthcare system that occurred during the 2000s. Specifically, I claim that public healthcare has expanded in an egalitarian manner. This is not to say that significant inequalities do not remain. But Turkey's healthcare system today is significantly more inclusive than it was at the turn of the century. I will illustrate this argument here for the case of health policy, relying on four pieces of evidence: the coverage rate of the public health system, differences among public benefit packages, public health expenditure, and output indicators.

The health reform that was implemented between 2004 and 2008, known as the Health Transformation Program, belongs to the more radical welfare reforms of the AKP era. Prior to the reform, Turkey's health system was corporatist: provision of health services was predominantly public, but highly fragmented along occupational lines (Buğra & Keyder, 2006, p. 212). Under this system, three occupational groups were entitled to more or less comprehensive healthcare services: civil servants were covered by the government budget and the social security fund *Emekli Sandığı*, the formally employed registered with the social security fund *Sosyal Sigortalar Kurumu*, while the self-employed could register with the social security fund *Bağ-Kur*. In addition, there existed a non-contributory, means-tested program for the poor, the Green Card scheme. Together, these four programs covered only 67.2% of the Turkish population in 2002 (Ağartan, 2012, p. 461), thus entirely excluding one-third of the population from access to public healthcare.

Inequalities also existed among insiders of the public health system. The four public programs all offered different benefit packages to their members. By far most limited was the package of Green Card holders, who made up 8.6% of the population in 2002. They were only guaranteed inpatient care at hospitals run by the Ministry of Health and, if they received a referral, at university hospitals. They could apply for reimbursement for their outpatient expenses, but without any guarantee, because 'reimbursements depended on the availability of funds' (Ağartan, 2012, p. 461). Pharmaceutical expenses were entirely excluded from this reimbursement possibility (Dorlach, 2016).

The AKP's health reform ended these two major inequalities in access to healthcare. By uniting the existing three social security funds under the new Social Security Institution (*Sosyal Güvenlik Kurumu*, SGK), the government created a single-payer General Health Insurance (*Genel Sağlık Sigortası*, GSS). The reform introduced a universal benefits package for GSS and Green Card members, as a result of which the public health system now offers the same level of health insurance to all insiders. With the exception of Green Card holders, all citizens have to register with and pay premiums to the SGK. Consequently, a near-universal 98% of the population was formally covered by public health insurance in 2012 (Bump et al., 2014). Yet, this figure has to be read with caution, because actual eligibility for public health services and reimbursement depends on the regular payment of premiums (Yenimahalleli Yaşar, 2010, p. 129). In May 2014, 1.3 million workers and their dependents were formally covered by public health insurance, but had no access to public health services due to outstanding premium debt (Yazar, 3 May 2014). Taking these uncovered workers and their dependents into account, Turkey's actual health insurance coverage rate is likely to be a few percentage points lower than the official 98%, but still greatly above the level of 2002.

Health reform also led to a significant increase in public spending. Total public expenditure on health rose from 3.8% of GDP in 2002 to 5.0% in 2009 (Figure 7). Since then, public health expenditure dropped back to 4.3% of GDP in 2012. But the picture looks slightly different when one disaggregates this number into public health expenditure on pharmaceuticals and on non-pharmaceuticals. The post-2009 drop in public health expenditure had its origin primarily in falling pharmaceutical expenditure, which in turn was the result of strict pharmaceutical price controls which Turkey began to implement in 2009 (Dorlach, 2016). On the other hand, non-pharmaceutical health expenditure has only stagnated since 2009, and was in 2012 still one GDP percentage point above its 2002 level.

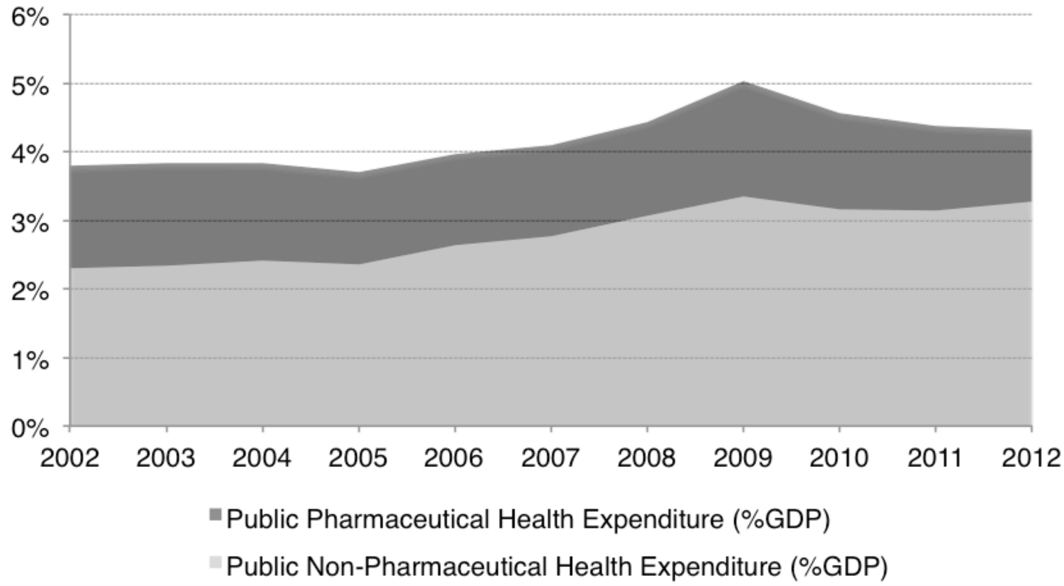

Figure 7: Public healthcare expenditure (%GDP)
Source: Dorlach, 2016

Finally, output indicators are probably of the most immediate concern to the population. Table 3 presents five indicators that demonstrate that access to healthcare and health status in Turkey significantly improved in the last decade. Between 2002 and 2011, the average number of visits to healthcare facilities increased by two and a half, while infant mortality decreased by three quarters. According to the World Health Organization, these improvements are 'mostly attributable to the successes of health reform' (WHO, 2013, p. 1).

Table 3: Indicators of access to healthcare and health status, 2002 and 2011

Indicator	**2002**	**2011**
Full vaccination coverage rate	78%	97%
Healthcare facility visits per capita	3.2	8.2
Hospital visits per capita	2.0	4.9
Infant mortality rate (per 1000 live births)	31.5	7.7
Maternal mortality rate (per 100,000 live births)	64.0	15.5

Source: WHO (2013)

At this point an important caveat is in order: while Turkey's *public* health system has expanded in an egalitarian manner, the same cannot be said about *private* healthcare. In fact, the AKP government's health reform included the partial privatization of healthcare provision and the increase of private health financing. As a result, health reform gave rise to a set of new income-based inequalities, in particular in access to private healthcare (Yılmaz, 2013). This is most obvious in the case of private hospitals: as a result of the reform, SGK members can now go to private providers, but have to make extra payments of up to 90% of the amount covered by the SGK (either paid directly 'out of pocket' or through a supplementary private health insurance). Considering the fact that private providers increasingly offer higher-quality services, one can say that all SGK members may have access to a basic package of benefits, but that access to additional and higher-quality services increasingly depends on individual income. Hence, the old dualism of the corporatist health system has been replaced with a new form of dualism: egalitarian provision of basic public health services of low-to-medium quality coupled with inegalitarian access to private health services of medium-to-high quality.

Active labour market policy (ALMP), another element of the productive welfare state, expanded in the late 2000s. Public expenditure on ALMP rose from only 35.5 million TL in 2008 to 408.6 million TL in 2011. Similarly, the number of beneficiaries increased from 32,000 in 2008 to 250,000 in 2011 (Keskin, 2012). The expansion of ALMP occurred in form of vocational training courses for the unemployed as well as public works for the long-term unemployed. This expansion of ALMP and the first-time adoption of an explicit employment strategy coincided with some improvements in the labour market: the employment rate increased from 41.2% in 2009 to 45.9% in 2013 (TurkStat, 2015a).

In sum, the expansion of productive welfare state institutions during the 2000s was substantial. In this realm, Turkey significantly increased public expenditure and extended coverage of public services to poor and previously excluded segments of society. This constitutes the "social" element of Turkish social neoliberalism. Without doubt, significant problems of exclusion and quality remain, including the recently increasing privatization of cost and the development of two-tier health and education systems. Yet, from a comparative perspective, Turkey's egalitarian expansion of public healthcare during the 2000s had few rivals in other emerging economies. The primary shortcoming of Turkish social development has therefore not been with the productive welfare state, but with the political neglect or active retrenchment of the protective welfare state. While "in Europe, protective and productive welfare states have developed together" (Gough, 2008, p. 54), their development in Turkey during the 2000s was extremely uneven.

3.4.2. Protective Welfare State: Inegalitarian Retrenchment

Protective welfare state institutions shield citizens from or in the market. Programs such as unemployment benefits or social assistance decrease individuals' dependence on participation in the labor market. In contrast, institutions such as minimum wages or workplace health and safety regulations protect individuals in the labor market. In stark contrast to the largely egalitarian expansion of productive welfare state institutions, the 2000s saw the inegalitarian retrenchment of these protective welfare institutions in Turkey (with the expansion of social assistance being the exception to the rule). Given the great diversity of protective welfare state institutions, the following section will focus on the issues of semi-formalization, labor union rights, agricultural state support, and social assistance.

One central development has been the process of semi-formalization that was brought about by the active retrenchment of labor market institutions, where semi-formalization (or *taşeronlaşma* in Turkish) is characterized by the increasing use of subcontracting and outsourcing practices. The size of this semi-formal economy greatly increased in the 2000s. According to government data, the number of sub-contracted workers rose from 0.4 million in 2002 to 1.5 million in 2011 (Çelik, 2015, p. 624). Interestingly, municipalities were among the frontrunners in switching from formal to semi-formal employment (Adaman et al., 2006, p. 181), and semi-formalization is especially pronounced in the health, education and construction sectors (Çelik, 2015; Vardar, 2012), which are exactly those sectors that have grown as a result of the expansion of the productive welfare state. From the perspective of employers the main advantages of subcontracting and outsourcing are lower labor cost and higher flexibility. For workers, however, semi-formalization means lower protection in the labor market. Semi-formal workers usually receive lower wages and lower benefits, and have lower job and therefore income security. Even workplace health and safety is lower in the semi-formal sector of the economy, because subcontracted and outsourced workers have lower bargaining power to insist on workplace security. It is no coincidence that most of the 301 miners who died in Soma in May 2014 were semi-formally employed. And Soma was no exception: for 2010, the International Labour Organization counts 1454 worker deaths in Turkey, the third-highest tally worldwide (ILO, 2015). The process of semi-formalization has at least in part been driven politically. The 2003 Labor Law limited the practices of subcontracting and outsourcing only on paper. In practice, these limitations were not sufficiently implemented (Vardar, 2012). The vast employment of semi-formal workers by municipalities shows that the state has an interest in permitting rather than prohibiting subcontracting and outsourcing.

A second important development in the 2000s was the restriction of labor union rights and ensuing deunionization. Union density (as calculated by the OECD as total union membership as a share of the total workforce) fell from 9.5% in 2002 to 5.9% in 2011. This meant a reduction by 38% and, in turn, the highest deunionization rate during this period in the entire OECD.[18] This process of deunionization, too, was driven politically. First of all, semi-formalization has driven deunionization, as "recourse to sub-contractors practically makes it impossible for workers to unionize" (Çelik, 2013, p. 46). Furthermore, reforms and implementation practices have decreased the protection of union members, making union membership much less attractive. For instance, Turkish law used to require 'monetary compensation against layoffs related to union membership'. This clause was supposed to protect unionized workers from layoffs or at least provide them with some financial compensation in case of layoff. Most likely, this clause had a positive effect on unionization. However, the 2012 Law on Trade Unions and Collective Bargaining nullified this clause for 'enterprises with less than 30 workers and for workers with less than six months of seniority', which represents about 50% of the entire Turkish workforce (Çelik, 2013, p. 46). In such an environment, union membership is a tangible risk for workers.

Any comprehensive analysis of social policy change, especially in a developing country, also needs to take into account changes in the realm of unconventional social policy. In absence of sufficient formal welfare state institutions, agricultural state support and permission of informal housing were long major instruments of indirect

[18] While deunionization was the general trend in the 2000s, the pro-AKP unions Hak-İş (in the private sector) and Memur-Sen (in the public sector) flourished. Memur-Sen, for instance, increased its membership from 42,000 in 2002 to 650,000 in 2012: a staggering increase of 1448% (Çelik, 2013, p. 47). If one takes this into account, then the weakening of more independent unions was even more severe than the general deunionization trend suggests.

welfare provision in Turkey (Eder, 2010; Keyder, 2005). Retrenchment of protective welfare state institutions also occurred in this realm of unconventional social policy, which I want to illustrate with the case of agricultural state support. After an initial restoration of agricultural subsidies during its first year in office (Güven, 2009, p. 180), the AKP government has reduced agricultural subsidies steadily ever since: the OECD's Producer Support Estimate fell from 3.4% of GDP in 2003 to 1.9% of GDP in 2013 (OECD, 2014). Yet, these declining aggregate numbers are insufficient evidence, since agricultural subsidies only partially function as indirect public welfare to small farmers and the rural poor, with the other, potentially much larger share going to large landholders and agri-business.

The active elimination of tobacco as a privileged cash crop in the 2000s is another piece of evidence for the retrenchment of unconventional protective welfare. For decades, tobacco occupied a privileged position in Turkish agricultural policy. The state-owned regulating agency TEKEL held a monopoly on tobacco procurement. Every year the state would negotiate guaranteed prices with tobacco farmers, as a result of which TEKEL had to buy large amounts of (often low-quality) tobacco, which it then sold at a lower price on the market or stockpiled (Keyder, 2013, p. 196). Despite the inefficiency, this system provided guaranteed income to a large part of the rural population. In 2000, there were still 583,400 tobacco-producing households (Aydın, 2010, p. 172). However, this tobacco policy, which meant a form of income support for the rural population, was eliminated in the post-2001 period. Part of the Agricultural Reform Implementation Project (ARIP), which was co-financed by the World Bank, the 2001 Tobacco Law ended state procurement of tobacco (Keyder, 2013, p. 201). The 2008 privatization of TEKEL finalized the abolition of the 'tobacco privilege' of the rural population. This particular retrenchment process was initiated before the AKP came to power in 2002, but the AKP faithfully completed it.

One important exception to the retrenchment of the protective welfare state during the 2000s has been the expansion of means-tested social assistance (Yörük, 2012). On the one hand, this suggests that the expansion of productive welfare state institutions alone may be insufficient to fulfill "the need for compensating losers" (Cerny, 2010, p. 160) which underpins social neoliberalism. On the other hand, the rise of this 'social assistance state' (Eder, 2010, p. 156) also contributed to the expansion of the productive welfare state. The Conditional Cash Transfer (CCT) program, in particular, has reinforced the expansion of public healthcare. Introduced nationwide in 2004, the CCT program provides means-tested social assistance to 'needy' families on a per-child basis, under the condition that these children go to regular health check-ups and attend school. In 2013, the CCT program covered some 2.9 million children and expended a total of 690 million TL (Aytaç, 2014, p. 1218). These cash transfers marginally reduce families' dependence on labor income and therefore represent a form of protection from the market. But they also incentivize poor families to make use of the healthcare and education systems, therefore furthering the reach of productive welfare state institutions.

In sum, Turkey's protective welfare state institutions have experienced significant retrenchment during the 2000s. While public unemployment benefits and pensions were not slashed, central institutions of worker protection, such as job security and workplace health and safety, were retrenched, most of all for semi-formal workers. An important heterogeneity has been that social security and labor market regulations were retrenched, while social assistance was expanded. This translated into less welfare state protection for workers, but expansion for the poor. Considering the simultaneous reduction of agricultural state support and opportunities for informal housing, retrenchment appears to have been the general trend.

3.4.3. Fiscal Policy: Inegalitarian Expansion

I now turn to the transformation of Turkish fiscal policy during the 2000s, in particular tax policy and the implications of privatization for public revenues. The contradictory nature of this transformation was one of inegalitarian expansion, as tax revenues expanded, but primarily on the basis of indirect taxes, which put a disproportional burden on the poor.

There were several changes to Turkish tax policy during the 2000s (Ateş, 2012). Between 2004 and 2006, the government passed three income tax cuts. In 2004, the marginal tax rate was reduced from 40% to 35% for wage income, and from 45% to 40% for non-wage income. In 2006, tax rates for wage and non-wage incomes were equalized by cutting the marginal tax rate for the latter to 35%, too. In 2006, the corporate income tax was reduced from 30% to 20%. In contrast, direct tax rates increased. While value added tax (VAT) rates remained unchanged, rates of the Special Consumption Tax (SCT), which is levied on a one-time basis on top of the VAT on a series of products, including alcohol and automobiles, were raised during the 2000s.

One result of the AKP-era tax reforms was the continuous expansion of tax revenues available to the government. Total tax revenues relative to GDP increased from 18.6% in 2002 to 27.1% in 2013 (Figure 8). This is significant, because an expansion of the tax share is a prerequisite for any sustained expansion of social spending. From this perspective of public revenues, the transformation of fiscal policy during the 2000s may be considered a success. However, this expansion of the tax share was based on inegalitarian grounds. In this context, the distinction between direct and indirect taxes is important. Indirect taxes tend to burden the poorer segments of society disproportionately, as the poor use a larger share of their income for consumption. Direct taxes, on the other hand, tend to be more progressive, as they put the burden disproportionately on the richer segments of society. In Turkey, the major part of the increase in tax revenues came from rising indirect tax revenues. Between 2002 and 2013, direct tax revenues increased by only 2.6 GDP percentage points (from 6.5% to 9.1%), whereas indirect tax revenues increased by 4.6 GDP percentage points (from 10.4% to 15.0%). The reliance on indirect taxes has been especially pronounced since 2009.

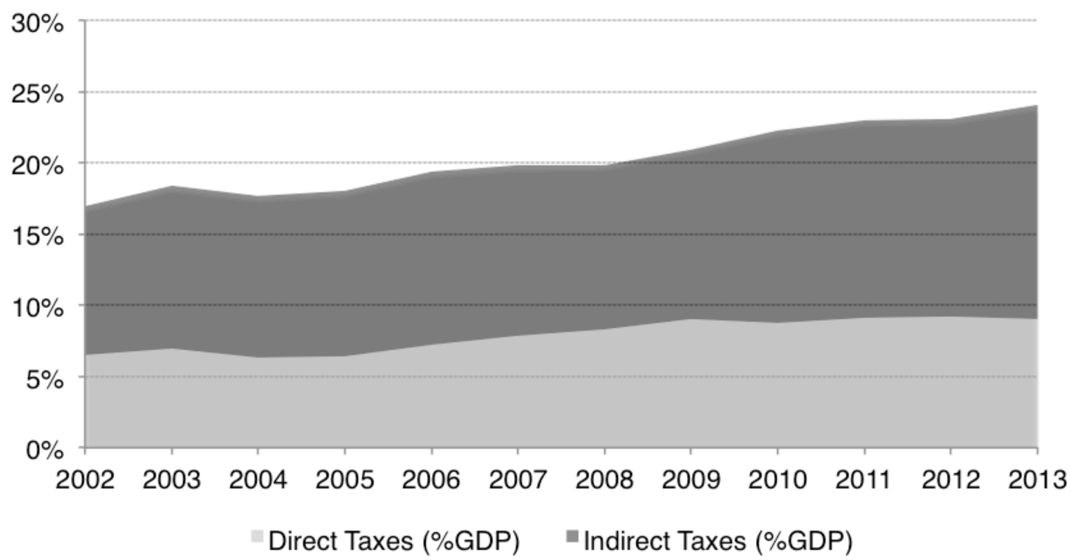

Figure 8: Tax revenues according to source (%GDP)

Source: Revenue Administration (2014)

In addition to tax revenues, the AKP government could also make use of sizeable privatization revenues during the 2000s. Between 2003 and 2011, mass privatization added some 35 billion USD to the government budget, vastly exceeding the 8 billion USD collected between 1986 and 2003 (Doğan, 2012). This amount has provided additional fiscal space that allowed the AKP government to increase social spending without having to increase personal or corporate income tax rates. Since the process of privatization has almost reached its end, with few public assets left to privatize, these additional revenues will no longer be available and Turkey's social spending will again become more dependent on tax revenues.
In sum, the transformation of fiscal policy has been as ambivalent as the transformation of social policy. While the AKP government was successful at increasing Turkey's tax share, this achievement was to the detriment of the lower and middle classes, who are burdened relatively more by indirect taxes. One may say that public social services for the poor were expanded during the 2000s, but that this expansion was financed by the privatization of public assets and by higher taxes for the lower and middle classes rather than the upper classes.

In a nutshell, then, Turkish social policy has become less egalitarian for workers (who were already covered by productive welfare state institutions, but whose protective welfare state institutions saw retrenchment), but more egalitarian for the poor (who were newly covered by productive welfare state institutions, and whose protective welfare state institutions also saw expansion), while fiscal policy has become less egalitarian for both lower and middle classes.

3.5. The Politics of Social Neoliberalism

In the previous section, I have outlined the specific configuration of economic and social policies that has arisen in Turkey since the 2000s. In order to understand why this policy mix has emerged and how it might develop in the future, we need to examine the politics of social neoliberalism. While a comprehensive explanation of the rise of Turkish social neoliberalism is beyond the scope of this article, I want to propose three important factors.

3.5.1. AKP's support coalition

Arguably the key element in explaining the emergence of the social neoliberal policy mix in Turkey is the nature of the coalition that has supported the rule of the AKP and its major social reforms. Since its rise to power in 2002, the AKP has relied on the support of three major groups, namely (i) the urban and rural poor, (ii) the domestic and international business community, as well as (iii) international organizations such as the World Bank, the International Monetary Fund, and the European Union. The overlapping interests of these three groups have provided the basis for the egalitarian expansion of the productive welfare state, but no similar overlapping interests existed with regard to a possible egalitarian expansion of the protective welfare state or fiscal policy.

Turkey's urban and rural poor were the primary beneficiaries of the expansion of welfare state institutions such as healthcare, public transport, and social assistance. Since large parts of the poor population were previously welfare state outsiders, the social reforms of the AKP resulted in their first-time inclusion into these systems of formal welfare provision. This does not necessarily mean that the poor demanded these changes. Instead, many of them opposed, for instance, health reform, as universal health insurance could force them to pay monthly premiums. Over time, however, these social reforms became more popular and increased electoral support for the AKP, especially among the poor. Here, the AKP appears to have acted as a political entrepreneur, anticipating the political potential of these social reforms. To what extent one considers this to be a manifestation of populism depends both on one's definition of the term and on the particularities of each policy area.[19]

The expansion of productive welfare state institutions was also in the interest of the business community. The first reason for this is that the expansion of this particular set of institutions promises to make the labor force more productive by investing in human capital formation. Productive welfare state institutions that are inclusive produce, at least in theory, healthy, educated and mobile workers. In addition, active labor market

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[19] See Aytaç and Öniş (2014) for a recent study that conceptualizes Turkey as a case of 'right-wing populism'.

policy increases the size of the available labor force. The second and possibly more important reason for the business community's support was that the expansion of the productive welfare state also provided direct and sizeable business opportunities. Healthcare reform created ample profit opportunities for private providers. The AKP era has witnessed the market entry of countless private hospitals. The expectation behind this is nicely illustrated by the support that health reform received from Turkey's largest business association, TÜSİAD, which envisioned a health system where the 'public sector will be a payer rather than a provider' (TÜSİAD, 2005, p. 25). Similarly, the expansion of public transport provided massive profit opportunities for Turkey's large construction sector. Hence, from the perspective of the business community, the expansion of Turkey's productive welfare state also meant the rise of a profit-generating welfare state.

The third major group that provided support for the AKP's social reforms were international organizations such as the World Bank. Since the late 1990s, these organizations have themselves undergone a paradigm shift, first from the Washington Consensus toward the Post-Washington Consensus and more recently toward the Inclusive Growth paradigm (Saad Filho, 2010), thereby providing part of the ideological foundation of Turkey's shift toward social neoliberalism. A recent country report demonstrates how closely the social neoliberal development model matches the expectations of the World Bank: 'Turkey has progressively narrowed the gap in health and education outcomes with the [OECD] countries and built a social service system that has significantly raised the welfare of the population today, with the promise of handsome economic rewards in the future', while "Greater labor market flexibility, through part-time work and a reform of severance pay arrangements […] could help sustain Turkey's job miracle" (World Bank, 2014b, pp. 205, 14). Beyond this important ideational dimension, international organizations also provided financial support for Turkey's social reforms. The European Union, for instance, supported the development of active labor market policies as part of its pre-accession aid (Bölükbaşı & Ertuğal, 2013, p. 246), while the World Bank provided support for health reform (Ağartan, 2012, p. 463) and the introduction of the conditional-cash transfer program (Aytaç, 2014, p. 1218).

3.5.2. Salience of access to public services

The second element that should be taken into consideration to better understand the politics of Turkish social neoliberalism is the specific type of inequality that the AKP has sought to address. While the party has paid lip service to the importance of reducing income inequality, its real concern has been with reducing inequalities in the population's access to public services. This has been at the core of the AKP's political message of social reform. In its party program, under the heading "Our Understanding of Social Policy", the AKP proclaims that "our party, which sees the state as an instrument to provide service to the people, will implement social policies that will ensure the welfare and happiness of all our citizens, not just of one class or segment" (AKP, 2002, p. 71; author's translation). Obviously, this could be just another instance of empty political rhetoric, but in several social policy areas, in particular healthcare, the AKP has promoted a more citizenship-based, rather than occupation-based, approach to defining access to public services. As a result, many welfare state institutions have become substantially more inclusive.

Acknowledging that the AKP has campaigned and delivered on the issue of expanding access to public services helps us to understand why its social policy reforms are perceived as inclusive by many of its supporters. This distinction between income inequality and inequality in access to public services is likely to provide analytical leverage for other cases as well. In the case of Russia, Daniel Treisman argues that "[w]hat Russians seem to want is not so much equalization for the sake of equalization but a well-functioning state with a significant welfare component" (Treisman, 2012, p. 269). This does not mean that issues of income distribution are unimportant in emerging economies, but they may well be less salient than they are in more advanced economies.

While the AKP has campaigned and substantially delivered on the inclusiveness of public services, it has been less keen on ensuring the quality of these public services and has permitted the increasing presence of private providers. Access to these private social providers is extremely exclusive, based almost entirely on ability-to-pay. Turkish social policy under social neoliberalism has therefore seen a new kind of dualization: egalitarian provision of basic public services of low-to-medium quality, and inegalitarian access to medium-to-high quality private services. Both elements of this dualization are important for understanding the broad popular support for the AKP's social reforms during the 2000s. The poor have gained access to public services for the first time and are thus for the time being less concerned with quality issues, while the rich can visit high-quality private hospitals and send their children to good private schools, leaving them, too, relatively unconcerned with the quality of public services.

3.5.3. Absence of iterated political struggles

The third element that should be considered when explaining the rise of social neoliberalism in Turkey is the particular political process that underpinned it. Significantly, all of the AKP's achievements in expanding welfare state institutions, be it in healthcare, active labor market policy, or social assistance, were initiated and realized by political elites in a top-down manner, rather than as a response to expressed political demands and civil society mobilization.

In contrast, in the social democracies of the global South, such as contemporary Chile, social policy expansion was 'driven by subordinate class mobilization even though the mass protagonist was a quite diverse assemblage of subordinate classes, including, along with a small but active working class, landless laborers and small farmers. These class fractions converged into mobilized political forces through iterated political struggles that took place in what were relatively open civil societies […] a politics of solidarity emerged out of civil society and became the foundation for a broadly-based, embedded developmental state' (Evans & Heller, 2015, p. 698). Such 'iterated political struggles' were absent from the politics of solidarity of the AKP era. In fact, the AKP government often proceeded by ignoring political demands actually voiced (for instance, very loudly, by health sector unions), and instead anticipating as a political entrepreneur the often-unvoiced demands of its poor electorate.

The fact that welfare state expansion in Turkey during the 2000s was elite-driven may not be a problem in itself, but it has important implications for the future of the Turkish economic and social model. Simply put, if the interests of the Turkish political elite regarding welfare state institutions change, then there may not be sufficient political pressure from below to realize further reforms of the welfare state. This relative disconnect of social policy-making from civil society mobilization means that there is little guarantee that the egalitarian elements of Turkey's current economic and social policy mix will be expanded or even just maintained. It is therefore uncertain how social Turkish neoliberalism will remain in the future.

3.6. Conclusion

The answer to the question how social Turkey's transformation during the 2000s has been is that 'it depends'. It is part of the compound nature of social neoliberalism that it evades easy categorization. First of all, the answer depends on where exactly one looks. The expansion of many productive welfare state institutions, such as healthcare, has on balance been to the benefit of the poor and thus somehow egalitarian. In contrast, the transformation of labour market institutions and agricultural state support has meant a retrenchment of the protective welfare that can only be considered as inegalitarian. The answer to the question how social Turkey's transformation has been also depends on the conception of inequality one adopts. The AKP's egalitarian appeal becomes more intelligible with reference to inequalities in access to public services, rather than income inequality. Turkish social policy may have become more egalitarian in the AKP era, while the same may not be true for the Turkish market economy as a whole.

The implications of this analysis clearly reach beyond Turkey. The Turkish case is relevant in a comparative context, because it provides us with a nearly ideal-type conception of social neoliberalism. The clarification of this specific policy mix has the potential to illuminate a variety of other cases. Table 4 provides a tentative overview of the new universe of cases after the conceptual inclusion of Turkey. I leave it to future research to test this taxonomy and to include further country cases.

Table 4: Models of economic and social policy change in the 2000s

Radical Left	**Social Democracy**	**Social Neoliberalism**		**Orthodox Neoliberalism**
Venezuela Bolivia Ecuador	Chile Uruguay	Turkey Brazil South Africa	Mexico Colombia	Chile, 1973-1990

A better understanding of social neoliberalism is useful for theorizing social democracy in the global South. The juxtaposition with Turkey suggests that the specific characteristics of contemporary Chile and Uruguay are the strengthening of protective welfare state institutions and complementary economic reforms. Key social democratic reforms that were implemented in these two countries include the introduction of solidaristic pensions in Chile, the reinstatement of wage councils in Uruguay and progressive tax reforms in both Chile and Uruguay. In order to classify countries in the global South as social democracies, it is important to identify reforms of this kind, rather than just to refer to increased social spending or improved output indicators.

The development trajectories of Mexico and Colombia have been similar to Turkey's experience with social neoliberalism. Like Turkey, these countries combined orthodox neoliberal economic policies with increasing levels of social policy activism that did not conform to the 'minimal state' of orthodox neoliberalism. However, the expansion of public healthcare in these countries has been less pronounced than in Turkey. Still, the economic and social policy mixes of countries like Mexico and Colombia can now be usefully theorized as being in between social neoliberalism and orthodox neoliberalism.

Turkey's experience with social neoliberalism has arguably been most similar to the experiences of South Africa and Brazil. Since the mid-1990s, South Africa has combined orthodox neoliberal economic policies with exceptionally high levels of pro-poor social spending, with South Africa's social assistance-to-GDP ratio being among the highest in the developing world (Sandbrook, 2014, pp. 148-155). Brazil is a particularly important case in point, as it is frequently referred to as a social democracy of the global South (e.g. Muir, 2011), but appears to have more in common with the social neoliberal model of development. Since 2002, Brazil introduced capital controls and increased social spending, but its social reforms focused on healthcare and conditional cash transfers, neglecting an equal expansion of the protective welfare state (with the important exception of minimum-wage raises) and avoiding progressive tax reform. Lessons from the Turkish case bear most directly on these other cases of social neoliberalism. The Turkish experience suggests that a social neoliberal policy mix can lead to significant albeit highly uneven welfare state development. This can be seen as an improvement over the orthodox neoliberalism of previous decades, but also as falling short of genuine social democracy. In any case, social neoliberalism may be the politically most likely outcome in many emerging economies, as it has the potential to receive the combined support of key international organizations, the business community, and the poorest segments of society.

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CHAPTER 4:

RETRENCHMENT OF SOCIAL POLICY BY OTHER MEANS: A COMPARISON OF AGRICULTURAL AND HOUSING POLICY IN TURKEY

4.1. Abstract

In many low- and middle-income countries, conventional welfare state institutions provide social protection only for the formally employed. In contrast, the rural and urban poor are often protected by "social policy by other means". Based on a comparative analysis of two major unconventional welfare programs in Turkey, agricultural state support and access to squatter housing, this article explains retrenchment of social policy by other means. Agricultural retrenchment was the result of coercive policy transfer from international organizations in a post-crisis context, while the retrenchment of squatter housing was driven by domestic political entrepreneurs responding to decreases in the availability of urban land and the number of informal squatters. In both cases, retrenchment became politically sustainable due to functional replacement with more conventional welfare programs. This analysis challenges the narrow focus of mainstream welfare state research, provides an explanation of retrenchment of social policy by other means, and enhances our understanding of Turkey's uneven welfare state development.

4.2. Introduction

At the shore of the Bosphorus in Istanbul stands a large silo, on which it reads, in large and washed out letters, "Office, the farmer's friend in dark days". "Office" refers to the Turkish Grain Board (*Toprak Mahsulleri Ofisi*, TMO), which was established in 1938 with the objective of controlling wheat prices. In order to protect farmer incomes, prices were prevented from falling below a certain minimum. For over half a century, the TMO, together with many other institutions, helped sustain the welfare of Turkey's rural population, which had very limited access to the conventional welfare state. This agricultural support system was cut back significantly during the 2000s. Emblematically, the TMO's silo has been defunct since 2005 and will soon be demolished. This story illustrates a phenomenon that is common to many low- and middle-income countries. Without conventional welfare state institutions that can provide for the social protection of the entire population, these countries often rely on social policy by other means, or (from the perspective of mainstream welfare state research) unconventional social policy, to support the livelihoods of poor informal-sector workers and their families.

While mainstream welfare state research usually does not consider such programs as social policies, they are often *functional equivalents* of conventional welfare programs. For example, agricultural subsidies often function as income support programs, while access to squatter housing can be equivalent to social housing services. Echoing arguments made by Castles (1989) and Bonoli (2007), such programs should be considered as social policies, albeit by other means, when they fulfill the fundamental functions of the welfare state, which "is a state in which organized power is deliberately used […] in an effort to modify the play of market forces" in order to guarantee a basic minimum income, reduce the insecurities associated with social risks such as sickness, old age and unemployment, and provide high-quality social services (Briggs, 1961, p. 228).

Despite a recent increase in research on the provision of social policy by other means in low- and middle-income countries (Albertus, 2015; Holland, 2017; Kim, 2010), we still know relatively little about when and why such unconventional social policies are retrenched. This article studies the case of Turkey, where unconventional social policy was long a central pillar of welfare provision to informal-sector workers, but was significantly retrenched during the 2000s. This makes Turkey an ideal case to study the causes of retrenchment of unconventional social policy. To be able to generalize beyond the particularities of specific policy areas, and in contrast to most existing research, this article studies the development of two distinct unconventional welfare programs: agricultural state support, which was formal and targeted at the rural population, and access to squatter housing, which was relatively informal and targeted at the urban poor.

The article first outlines the functioning of agricultural state support and access to squatter housing and then focuses on why these programs were retrenched. To be able to trace the respective political processes in sufficient detail, I focus on the abolition of agricultural state support for small-scale tobacco farming in 2002 and on the criminalization of squatting in 2004. The empirical analysis is based on content analysis of relevant legislation, official documents, news reports, and key informant interviews conducted in 2017. It furthermore draws on a rich empirical literature on agricultural state support and squatter housing in Turkey, on which this article expands by developing an explicit explanation of retrenchment.

The argument of this article is threefold. First, retrenchment of unconventional social policy can have exogenous or endogenous causes. While agricultural retrenchment was the result of coercive policy transfer from international organizations after a severe economic crisis, retrenchment of access to squatter housing was driven by domestic political entrepreneurs who saw retrenchment as a political opportunity. Second, retrenchment requires political decision-makers unconcerned with the political risk associated with retrenchment, such as risk-indifferent international organizations or risk-taking domestic political entrepreneurs. Third, retrenchment can become sustainable through functional replacement. The introduction of more conventional welfare programs replaced the social-welfare and political-clientelistic functions of the retrenched unconventional programs and offset the political cost of retrenchment.

In developing this argument, the article seeks to make three contributions. First, it challenges the narrow focus of mainstream welfare state research by demonstrating that agricultural state support for small-scale farmers and the possibility to squat on public land have functioned as social protection mechanisms in Turkey. Second, it develops an explanation of unconventional social policy retrenchment, differentiating between the initial political decision and the subsequent political sustainability of the decision. Third, it contributes to a better understanding of Turkey's uneven welfare state development by demonstrating that the expansion of the conventional welfare state in the 2000s was accompanied by retrenchment of unconventional welfare programs, questioning accounts of welfare state expansion during the rule of the Justice and Development Party (*Adalet ve Kalkınma Partisi*, AKP).

4.3. Social Policy by Other Means in Low- and Middle-Income Countries

This article focuses on the type of social policy by other means that is common in many low- and middle-income countries. In contrast to most welfare states in Western Europe and North America, which have been characterized by a high degree of population coverage since the 1950s, the welfare states of many low- and middle-income countries have long been characterized by a sharp dualism in the way they relate to formal-sector and informal-sector workers. In Latin America, for instance, “most states established occupationally based social insurance and health systems that favored formal-sector workers but typically excluded informal urban workers and the rural sector” (Haggard & Kaufman, 2008, p. 4).

While informal-sector workers were not covered by conventional social policy, it may be premature to conclude that “informal and rural sectors were generally excluded” from “social protection” (Huber & Niedzwiecki, 2015, p. 797), as states often used unconventional programs to support the welfare of informal-sector workers. One instance of this is what Holland describes as “forbearance” – or the “intentional and revocable government leniency toward violations of the law” (Holland, 2017, p. 13) – toward activities such as street vending or squatting. Furthermore, given the large rural populations in most low- and middle-income countries, they often provide welfare by means of land reform or agricultural subsidies (Albertus, 2015; Kim, 2010), which “can provide poor families with the opportunity to produce for either their own consumption or for the market” (Seekings, 2008, p. 26). Other programs address both rural and urban populations, e.g. by subsidizing basic goods such as food.

While mainstream welfare state research on low- and middle-income countries tends to neglect unconventional social policy (Haggard & Kaufman, 2008; Huber & Niedzwiecki, 2015; Mares & Carnes, 2009), it should be uncontested that such unconventional programs greatly matter for “welfare state outsiders”. To some extent, they can provide for all three basic functions of the welfare state. Agricultural state support can provide *income support*, while the tacit permission of squatter housing can function as a *social service* and, by allowing for life-cycle investments, as a *social insurance* mechanism.[20]

4.3.1. Retrenchment of Social Policy by Other Means

Given the importance of unconventional social policy to informal-sector workers, radical retrenchment should not easily be expected, where retrenchment is defined as "policy changes that either cut social expenditure [or] restructure welfare state programs to conform more closely to the residual welfare state model" (Pierson, 1994, p. 17). Pierson (1996) argues that the introduction of welfare programs has policy feedback effects that lead to a "new politics" of welfare state retrenchment—distinct from the "old politics" of welfare state expansion. Once in existence, welfare state programs tend to be popular among voters in general and the beneficiaries of these programs in particular. This makes retrenchment electorally risky for politicians.

Pierson's theory travels well to the field of unconventional social policy. With regard to agricultural policy, Coleman and his colleagues find that farmers in France and the United States "have organized into powerful groups in both countries in order to protect farm programs, and they have often met with success" (Coleman et al., 1997, p. 480). Holland (2017, pp. 237-238) argues that a shift from informal toward formal welfare programs is politically difficult because states that have long relied on informal policies lack the administrative experience in and capacity for providing formal welfare, and because the existence of informal welfare programs reduces political pressure to introduce formal programs. Together, these supply and demand factors make the retrenchment of unconventional social policies relatively difficult.

And yet, cases of retrenchment of unconventional social policy exist. In explaining these, one group of scholars has focused on the international sources of this retrenchment. Mishra, for instance, argues that unconventional welfare provision in the cases of Australia, Japan and formerly socialist countries, which was based on labor market regulation and trade protectionism to support full employment, was "weaken[ed], if not undermine[d]" by economic globalization (Mishra, 2004, p. 69).

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[20] Some specific functions are more difficult to provide unconventionally, especially healthcare services and redistributive social insurance.

Likewise, Davis and Oh (2007) find that international pressure by the World Trade Organization (WTO), on the basis of its 1995 Agricultural Agreement, explains the repeal of the Japanese Rice Laws in the 1990s and 2000s.

A second group of scholars has emphasized the domestic sources of declining unconventional social policy. Holland argues that equitable growth reduces poverty and thereby make politicians "less reliant on the votes of the urban poor" (Holland, 2017, p. 302), which in turn leads them to enforce against squatters and street vendors—a retrenchment of informal welfare policy. Focusing on the independent role of political entrepreneurship, Sheingate (2000) explains retrenchment of agricultural state support with reference to politicians who redefine the issue of agricultural support in terms of its negative externalities and change the decision venue to a higher level, e.g. from an agriculture to a finance committee. Reconciling these two strands of the literature, my analysis finds that unconventional social policy retrenchment can have exogenous or endogenous causes.

Furthermore, I expand on the existing literature by accounting for the political sustainability of unconventional social policy retrenchment. We know from the literature on reform sustainability that the challenge of "protecting broad-based policy reforms against subsequent political erosion" is distinct from the initial challenge of "policy implementation" (Patashnik, 2003, p. 205). To explain the surprising political sustainability of the retrenchment of unconventional social policy in Turkey, I use the concept of *functional replacement*, which refers to the process of one policy being at least partially replaced with a functionally equivalent policy.

4.4. Social Policy by Other Means in Turkey

Throughout the second half of the twentieth century, Turkish social policy was characterized by the kind of dualism outlined in the previous section. The formally employed were covered by an occupationally stratified social security system, which provided old-age pensions and health services (Buğra & Candaş, 2011; Buğra & Keyder, 2006). In the year 2000, only about half of the Turkish population were covered by this "Bismarckian" pillar. Historically, some social assistance programs existed, but their reach was limited. The non-contributory Green Card program, introduced in 1992, provided partial access to health services for the poor. A non-contributory pension was available, since 1976, for poor elderly without family members, but was lower than the absolute poverty line.

The more significant social protection the state provided for informal-sector workers came through unconventional social policies, including state support for small-scale agricultural production and forbearance toward squatter housing and informal employment. The magnitude of these unconventional social policies was substantial. Agricultural state support, as measured by the OECD's Total Support Estimate, cost on average 5% of GDP per year in the 1987-1999 period (OECD, 2017), among the highest in the OECD, and a significant share of which fulfilled a social policy function. Similarly, redistribution entailed by forbearance toward squatter housing was estimated at 0.9 to 1.2% of GDP in 1994 (Başlevent & Dayıoğlu, 2005, pp. 40-42).

4.4.1. Agricultural State Support

Agricultural state support was long a central part of the Turkish welfare regime (Buğra & Candaş, 2011). The state supported agricultural incomes through a variety of policy instruments, including state monopolies, support purchases, as well as input and credit subsidies. This system of agricultural state support "shielded small farmers […] from the destructive potential of rapid commercialization" (Güven, 2009, p. 172) and sustained "family farming specialising in traditional crops such as cereals, tobacco and sugar beet" (Aydin, 2010, p. 152). Dating back to Ottoman times, small-scale landholding was very common in twentieth-century Turkey, with some 60 percent of rural families owning less than five hectares of land around the year 2000 (Eder, 2009, p. 159). In the absence of conventional income support, agricultural state support served an important social policy function for the rural poor- It contributed to farmers' incomes and created employment. Turkey's former Prime Minister and President Süleyman Demirel recognized this function when he remarked that "[a]gricultural subsidies in this country should actually be seen as unemployment insurance" (cited in Eder, 2009, p. 152).

The case of tobacco is illustrative for the social policy function that agricultural state support long had in Turkey. The small-leafed Oriental tobacco, which is cultivated in

Turkey, is an undemanding crop. It requires no or little irrigation and can be grown on arid soil. It therefore long dominated agricultural production in areas such Adıyaman, Denizli, Manisa, and Samsun. Moreover, Oriental tobacco yields after 14 months and can be produced on relatively small plots of land. Many tobacco farmers could therefore cultivate tobacco without owning (all) of their land (Keyder & Yenal, 2011, p. 70). Given that the farming of Oriental tobacco is not very prone to mechanization, the share of large-scale tobacco farmers is limited.[21] In sum, tobacco was a crop produced mainly by poor families with little or no land, in areas with few alternative crops.

The Turkish state supported tobacco farming through a system of support prices and purchases. Established in 1938, the state-owned enterprise TEKEL long held a commercial tobacco monopoly. Every year, it would negotiate prices with tobacco farmers to prevent that prices fall below a defined minimum (Özet, 1992, p. 13). In 1961, the social protection of farmers became an official objective of tobacco policy, when TEKEL began making "support purchases". The agency essentially provided a purchase guarantee for all produced tobacco. Tellingly, these support purchases were sometimes financed through redirected social security funds (Kılıçdaroğlu, 1998, p. 37). The tobacco that TEKEL did not require for its own cigarette production was exported or stored, and at times eventually destroyed (Gümüş, 2009, pp. 53-61). These support prices and purchases created the functional equivalent of a cash transfer program for tobacco farmers, which sustained the livelihood of up to 600,000 tobacco farmers and their families throughout the second half of the twentieth century.

Despite its importance for the livelihoods of tobacco-farming families, Turkey's public support system for small-scale tobacco farming was dismantled during the 2000s. Two policy reforms were key in this retrenchment process. First, the 2002 Tobacco Law terminated the practice of support purchases, which led to a steady decline in the number of tobacco farmers, from nearly 600,000 in 2000 to about 200,000 in 2008.[22] Second, the 2008 privatization of TEKEL ended the state's role as a major purchaser of

[21] Interviews with A. B. Erdem, president of the Turkish tobacco union (Soma, September 2017) and with S. Yaprak, president of the Turkish association of tobacco experts (Izmir, September 2017)
[22] The sharp decline in the number of tobacco farmers already began in 2001. This can be attributed to the anticipation of the Tobacco Law, which had first been passed in June 2001 before being vetoed by the president.

tobacco. Consequently, the number of tobacco farmers fell from just under 200,000 in 2008 to 80,000 in 2009. Figure 9 displays the evolution of the number of tobacco farmers since the 1960s. It illustrates how more than half a million tobacco farmers and their families lost their state-supported source of income during the 2000s.

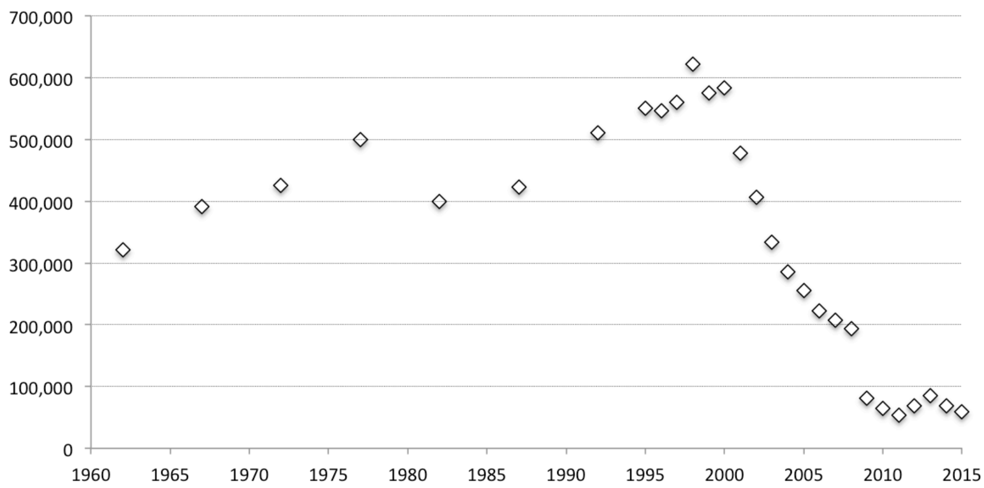

Figure 9: Number of tobacco farmers in Turkey, 1960-2015
Sources: Gümüş 2009 (for 1960-2002), TAPDK 2017 (for 2003-2015)

Tobacco farmers received little compensation for their losses. The state, as part of the Agricultural Reform Implementation Project (ARIP), co-financed by the World Bank, did start an “alternative crop project”, which financially supported tobacco farmers who switched to producing other crops, e.g. olives. However, this project “showed very low levels of adoption by farmers” and was “eventually discontinued in 2007” (World Bank, 2007, p. 4). This is unsurprising, given that olives, a key alternative crop, require more land and multiple years until first harvest, which was not feasible for the poorer tobacco farmers.[23] Instead, many tobacco farmers or their children migrated to the cities and sought employment there.

4.4.2. Access to Squatter Housing

Access to squatter housing has also long functioned as an unconventional social policy in Turkey (Buğra, 1998; Keyder, 1999). Beginning in the 1940s, the Turkish state began to tacitly permit the building of squatter houses (*gecekondu*), predominantly on public

[23] Interview with A. B. Erdem, president of the Turkish tobacco union (Soma, September 2017)

land, by not enforcing relevant property rights. In the 1980s, this approach was formalized by means of several amnesty laws that post hoc legalized squatter houses. Moreover, the 1984 Amnesty Law introduced a provision that allowed owners of squatter houses to add up to four additional stories to their mostly single-story buildings, which increased the commercialization of squatter housing (Başlevent & Dayıoğlu, 2005). In the 1980s, more than half of the population in Turkey's three largest cities – Istanbul (70%), Ankara (55%), and Izmir (50%) – lived in such informal settlements (Buğra, 1998, p. 307).

Through these mechanisms of state intervention and non-intervention, "access to urban land" became "an important aspect of social policy" (Buğra, 1998, p. 309). Squatting on urban land meant access to affordable albeit informal and often substandard housing. This mostly benefitted rural-to-urban migrants. It allowed them to save on rent cost and to potentially gain rent income by enlarging their houses. As mentioned above, this forbearance toward squatter housing was worth around 1% of GDP per year. It was a functional equivalent of formal social housing services, and also functioned as an old-age pension mechanism by allowing for investments over the life cycle. Squatter housing, too, was recognized by politicians as social policy. In 1965, Prime Minister Demirel remarked that "the demolition of gecekondu without providing alternative shelter for squatters was totally out of the question" (Buğra, 1998, p. 307).

Nonetheless, access to squatter housing significantly declined during the 2000s. New squatting was made more difficult by the 2004 reform of the Turkish Penal Code, which made the construction of squatter houses a criminal offense, subject to a one-to-five-year prison sentence. The new law was effective in preventing new squatting, because it also banned the provision of public services, in particular water, to squatter houses constructed after October 2004. At the same time, existing squatter settlements were demolished through a series of urban renewal projects (Kuyucu & Ünsal, 2010). As a result, the share of the metropolitan population that lives in informal settlements has been decreasing and newly arriving rural immigrants cannot rely on this unconventional social policy anymore.

The AKP government, in power since November 2002, had initially tied, at least in discourse, the retrenchment of access to squatter housing to the expansion of public social housing, and it did indeed initiate massive state-led housing construction (on which I will elaborate below). However, while some squatter-house owners benefited from urban renewal projects, especially those who were compensated with multiple flats, the new (purchase-only) social housing programs have mostly benefitted middle-class households, who are capable of repaying a long-term housing credit. In contrast, the very poor, primarily former squatter-house tenants, but also owners without land titles, often could not afford purchase conditions and were left without meaningful public housing support (Kuyucu, 2016, pp. 64-65).

4.5. Explaining Retrenchment of Social Policy by Other Means in Turkey

In the previous section, I have described how in Turkey agricultural state support and access to squatter housing have long functioned as social policy by other means, and how these welfare programs were substantially retrenched during the 2000s. As discussed above, given their magnitude and long institutional persistence, radical retrenchment of these unconventional welfare programs should be unexpected, and even more so, because the party that has ruled Turkey since 2002, the AKP, has a strong constituency among lower-income, informal-sector and rural voters (Tillman, 2014). Retrenchment of unconventional social policy in Turkey therefore represents a real puzzle.

To solve this puzzle, I first identify the structural factors that led political decision-makers to implement the unpopular and thus electorally risky retrenchment decisions. I show that there were two paths to retrenchment: an exogenous path via risk-indifferent international organizations (for whom domestic electoral risk is irrelevant) and an endogenous path via risk-taking political entrepreneurs. I further argue that in both cases retrenchment became politically sustainable due to the functional replacement of the retrenched welfare programs with new, conventional welfare programs that fulfilled similar social-welfare and political-clientelistic functions at the population level (*i.e.* not necessarily at the individual level). Table 5 provides a schematic summary of the argument.

Table 5: Explanation of unconventional social policy retrenchment in Turkey

	Agriculture State Support	Squatter Housing
Structural cause	Economic globalization and a new global policy norm	Institutional exhaustion and shrinking constituency
Mechanism	Economic crisis and coercive policy transfer	Political entrepreneurship
Cause of political sustainability	Functional replacement with conventional social policy	

4.5.1. Agricultural Retrenchment

I demonstrated in the previous section that the 2002 Tobacco Law was the key reform in the retrenchment of state support for tobacco farmers. Now I proceed to showing that the Tobacco Law, in turn, was the result of economic globalization in conjunction with a new, liberal global policy norm for the agricultural sector, which was transferred to Turkey through coercive loan conditionality by the IMF during a severe economic crisis.

Exogenous structural pressure on Turkey's protectionist agricultural policy regime began to mount in the 1990s, driven by the country's increasing international economic integration and a simultaneous shift toward a liberal global policy norm in agriculture (Akder, 2003; Güven, 2009). In 1995, Turkey joined the WTO and signed the WTO's Agreement on Agriculture, which prescribed the reduction of tariffs and domestic agricultural support. In the same year, Turkey also established a customs union with the EU, and in 1999 became an official candidate for full membership, which required harmonization with the EU's Common Agricultural Policy. By the late 1990s, both the WTO and the EU criticized Turkey's lack of progress in reforming its agricultural support system, in particular in the tobacco sector, with the EU pointing out that the state monopoly in the tobacco sector would not "align" with EU competition law (EU, 1998; WTO, 1998).

While the WTO and the EU had charted the course toward agricultural retrenchment, they had limited leverage over the Turkish government. Instead, it took a severe economic crisis and a subsequently empowered IMF to introduce the Tobacco Law. In 2000-2001, Turkey was hit by a crisis that caused the exchange rate to collapse, inflation to skyrocket, and real GDP to fall by 6% in 2001. Given its high budget deficit, Turkey was in need of a large external loan from the IMF. The IMF made the passing of the Tobacco Law one of several strict conditions for a loan of 16 billion USD (Turkey, 2001).

The Tobacco Law was unpopular domestically. Tobacco farmers mobilized and protested in the capital (İslamoğlu, 2002). The opposition fiercely resisted the law in parliament and significant parts of the coalition government were also unhappy with it (Kayaalp, 2015, pp. 39-40). In May 2001, Yüksel Yalova, privatization minister and member of the center-right Motherland Party, had to resign just hours after publicly questioning the design and urgency of the Tobacco Law, which had caused the stock market and exchange rate to plummet. Bülent Ecevit, Prime Minister and leader of the center-left Democratic Left Party, remarked that “I have supported tobacco farmers during my entire political career” (Hürriyet Daily News, 2001), but that the law was necessary to receive the IMF credit. When the Tobacco Law was passed with the votes of the governing coalition in June 2001, it was vetoed by the Turkish president, Ahmet Necdet Sezer, who, clearly aware of the social policy function of agricultural state support, criticized that the law would violate the constitutional “social state” principle by erasing the incomes of Turkey’s many tobacco-producing household without providing a real alternative (TCCB, 2001).

In January 2002, disregarding the president’s criticism, the parliament re-passed the law unchanged, thus precluding another presidential veto. In February 2002, once the Tobacco Law and other conditional laws were passed, the IMF approved a three-year, 16 billion USD loan, immediately releasing a first tranche of 9 billion USD. Given that the Tobacco Law enjoyed virtually no domestic political support at the time and that it was introduced as an explicit condition for a credit that Turkey relied on, its introduction should be considered as the result of coercive policy transfer, and not just as an attempt to shift the blame for an unpopular reform to an external actor. Given the high electoral risk of agricultural retrenchment, it took an empowered external actor, for whom domestic electoral risk was irrelevant, to introduce it.

4.5.2. Squatter Housing Retrenchment

I demonstrated above that retrenchment of access to squatter housing was implemented through the criminalization of (new) squatting as well as the legal facilitation of urban renewal projects in existing squatter settlements. Now I will argue that these reforms were the result of the AKP government's risk-taking political entrepreneurship, which responded to two structural changes, namely the decreasing availability of public land and number of informal squatters.

Endogenous structural pressure on Turkey's regime of forbearance toward squatter housing increased in the 1990s and 2000s. A first source of pressure was the regime's own institutional exhaustion. Forbearance was possible and did not carry major costs for the state as long as public land was relatively abundant in urban areas. But with the rapid growth of urban populations, land became increasingly scarce, making forbearance toward squatter housing more costly, in particular in Turkey's largest cities (Keyder, 2005). Second, due to Turkey's rapid economic development during the 2000s, urban poverty rates fell significantly and the middle class expanded. Holland (2017) argues that this reduced the support base for forbearance toward squatter housing and "reduced the electoral costs of enforcement and allowed the AKP to shift away from forbearance" in the 2000s (Holland, 2017, p. 284). Relatedly, the post-1980 amnesty laws also had reduced the constituency of informal squatters.

A window of opportunity for the criminalization of squatting opened during Turkey's integration with the EU in the early 2000s. One requirement for EU membership was a comprehensive penal code reform. Following the EU's January 2003 directive "on the protection of the environment through criminal law", the Turkish parliament's legal affairs committee included a new section on "crimes against nature" into the draft law. Consequently, Article 184 of Turkey's 2004 Penal Code defines the crime of "zoning defilement" (*imar kirliliği*), placing a one-to-five-year prison sentence on the construction of squatter houses.

Article 184 was included by request of Prime Minister Erdoğan (Yalçın, 2004). It was apparently his "favorite article" in the law and he had described the banning of squatting as a "revolution" (TBMM, 2004). Erdoğan's insistence on the retrenchment of squatting may seem surprising. Many squatter-dominated districts of Istanbul, such as Sultanbeyli, have long been strongholds of the AKP and its predecessor parties. And the AKP has in general more support among lower-class voters (Tillman, 2014). The criminalization of squatting and the subsequent introduction of urban renewal legislation were relatively unpopular, even among AKP politicians. I propose that it was the political entrepreneurship of Erdoğan and the AKP – their alertness to political opportunity and their willingness to take risks in the expectation of political profit – that led to the retrenchment of squatter housing.

In contrast to risk-averse politicians, who avoid retrenchment because of the risk of "electoral retribution", risk-taking political entrepreneurs may be attracted to it "in search of windfall political gains" (Sheingate, 2000, p. 338). The literature has conceptualized the risks and rewards of retrenchment primarily in terms of public opinion, where costs are often concentrated and benefits diffuse. This may have played some role in the Turkish case, given the shift in public opinion about the legitimacy of squatter housing in the 1980s and 1990s (Buğra, 1998). But I would argue that a more important motivation for Erdoğan and the AKP were the anticipated benefits of a concomitant policy measure that became possible through the retrenchment of squatter housing, namely massive state-led housing construction.

In January 2003, the newly minted AKP government announced both the prevention of squatter housing and state-led housing construction as key objectives in its "Emergency Action Plan". A series of institutional reforms strengthened the Mass Housing Administration (*Toplu Konut İdaresi Başkanlığı*, TOKİ) and its authority over public land. This turned TOKİ, directly attached to the Prime Ministry since 2004, into the central actor in the Turkish construction sector (Ocakli, 2018). Outsourcing construction to the private sector, TOKİ produced and sold a total of 636,000 housing units in the 2003-2014 period, compared with just 43,000 units in the 1984-2002 period.

The resulting state-led construction boom had several (anticipated) benefits for the AKP. First, it helped to spur growth and reduce unemployment after the 2000-2001 crisis. Macroeconomic stability was a key priority for the AKP during its early years in power. Second, state-led housing construction has served as a tool of clientelism and has significantly contributed to the AKP's enduring electoral success (Marschall et al., 2016). Third, given the high level of discretion in privatizing public land, state-led construction became a key instrument in the building of loyal and supportive business constituency (Buğra & Savaşkan, 2014). These potential benefits would not have been possible without the retrenchment of squatter housing, as they depended on public land being redistributed to construction firms and middle-class house buyers rather than to poor squatters. Given that these benefits were anticipated at the outset, the retrenchment of access to squatter housing should be considered as the result of the AKP's political entrepreneurship.

4.5.3. Alternative Explanations

Alternatively, one may argue that the decline of unconventional social policy in Turkey was the result of urbanization and the shift away from an agricultural economy. These structural trends undoubtedly exist. According to World Bank data, urbanization increased from 65% in 2000 to 73% in 2015. Conversely, agricultural employment declined from 36% in 2000 to 20% in 2015. However, these trends explain neither the timing nor the severity of the decline of agricultural state support in the 2000s. Agricultural employment already declined during the 1990s, but agricultural state support did not. Moreover, the precipitous decline of small-scale tobacco farming can be traced back to specific policy reforms. Indeed, it was these reforms that accelerated migration to urban centers and exit from the agricultural economy. This suggests that urbanization and deagriculturalization were at least partially the result of agricultural retrenchment.

More specifically, one may object that retrenchment in the case of tobacco farming was related to tobacco being a public health hazard, and thus suggest the subcase of tobacco to be atypical. Indeed, the AKP government has appeared determined to reduce tobacco consumption in Turkey. In 2004, it signed the World Health Organization's Framework Convention on Tobacco Control and has implemented extensive implementation measures, including a smoking ban and advertisement restrictions. However, this was not part of the justification for cutting state support for small-scale tobacco farmers, neither on the side of the international organizations that pushed for the abolition of state support (EU, 1998; WTO, 1998), nor on the side of the Turkish government that implemented it (Turkey, 2001). The purpose of this reform clearly was productivity enhancement and relief of state expenditure through liberalization and privatization.

4.6. The Political Sustainability of Retrenchment

Thus far my focus has been on explaining the initial political decisions to retrench agricultural state support and access to squatter housing. But reforms do not always stick, as the challenge of "protecting broad-based policy reforms against subsequent political erosion" is distinct from the initial challenge of "policy implementation" (Patashnik, 2003, p. 205). In this section, I propose that the retrenchment of Turkey's two major unconventional welfare programs became politically sustainable through functional replacement. The AKP government introduced conventional welfare programs, in particular in health, housing and social assistance, that replaced the social-welfare and political-clientelistic functions of agricultural state support and access to squatter housing at the population level (*i.e.* not necessarily at the individual level) and thus offset the electoral risk associated with retrenchment. Demonstrating this requires crude estimations of the numbers of winners and losers from the parallel retrenchment and expansion processes, but the exercise will help us better understand why retrenchment of unconventional social policy was politically sustainable in Turkey.

As I have shown above, around half a million tobacco-farming households lost public income support in the 2000s, which corresponds to 2 million people or 3% of the population.[24] As regards the agricultural sector in general, it is impossible to determine the number of losers from retrenchment without detailed sectoral analyses. But given that agricultural employment fell from 36% to 20% between 2000 and 2015, one may say that 36% is the upper bound estimate of losers from agricultural retrenchment, with the number much more likely to be in the 10-20% range. With regard to squatter housing, tenants who were evicted without compensation were probably the biggest losers (Kuyucu, 2016, p. 65). The fact that TOKI has so far built some 85,000 housing units as part of urban renewal projects, together with the fact that a significant share of squatter-house inhabitants were owners who were compensated with one or multiple flats, suggests that the group of uncompensated evicted households is probably below

[24] Assuming an average household size of four and taking Turkey's 2005 population of 67 million as a reference value.

50,000 or 0.3% of the population. A second group of losers comprises recent rural-urban migrants who no longer had access to affordable housing through squatting. Given that urbanization increased from 65% to 73% between 2000 and 2015, 8% of the population would be an upper bound estimate for this group. It should be noted that there likely was significant overlap among the losers from retrenchment in squatter housing and agriculture. Households that exited the agricultural sector due to reductions in state support and migrated to the city were the same households who no longer had access to the possibility of squatting on public land. Given the available data, I would estimate that the losers from retrenchment of unconventional social policies were between 10% and 20% of the population.

Given the sweeping and concentrated costs of retrenchment, existing theoretical accounts would expect electoral retribution (Pierson, 1996) and the subsequent erosion of retrenchment policies (Patashnik, 2005). Yet, the AKP increased its electoral support at the national level from 34% in 2002 to 47% in 2007 and 50% in 2011. Zooming in on the localities where the negative impact of retrenchment should have been strongest, the AKP held on to three of the four biggest tobacco-producing provinces in the country (Adiyaman, Denizli, and Samsun, losing only Manisa in 2009), and to the Istanbul municipalities with the most controversial urban renewal projects (Fatih and Küçükçekmece). How did the AKP manage to oversee large-scale retrenchment without electoral retribution?

Retrenchment of unconventional social policy did not occur in a vacuum. The AKP government simultaneously expanded a series of conventional welfare programs, including the Green Card program, a non-contributory health insurance for the poor, public housing construction by TOKI, and a conditional cash transfer program. Between 2002 and 2015, public social expenditure rose from 9.6 to 14.3 percent of GDP, while central-government social assistance expenditure increased from 0.4 to 1.6 percent of GDP. This translated into increased population coverage. Between 2002 and 2012, the coverage of public health insurance increased from 67% to 98% of the population (Agartan, 2012, p. 461; Dorlach, 2015, pp. 527-528). In addition, the benefits package of Green Card holders, ca. 9% of the population in 2002, was significantly improved. Hence, health reform alone created new beneficiaries in the range of 40% of the population. It is likely that the great majority of the approximately two million households (11% of the population) who regularly receive social assistance (Kivanç & Akça, 2016), and a significant part of the 500-600 thousand households (3% of the population) who have purchased a TOKI flat are a subset of these new health beneficiaries. The AKP's new health, housing, and social assistance policies thus benefited an estimated 40% of the population.

These welfare reforms have benefited the AKP politically. Health reform was reportedly a key factor in the AKP's early election victories, with surveys suggesting that a majority of voters considered health policy as the government's most successful policy area (Dorlach, 2016, p. 73). Furthermore, housing and social assitance became effective new instruments of political clientelism and contributed to the electoral durability of the AKP throughout the 2000s (Aytaç, 2014; Marschall et al., 2016; Yörük, 2012). In short, the political gains associated with the expansion of policies like health, housing and social assistance compensated for the political cost associated with the retrenchment of agricultural state support and squatter housing. To illustrate this argument, Figure 10 displays the inverse trajectories of agricultural state support and social assistance in Turkey.

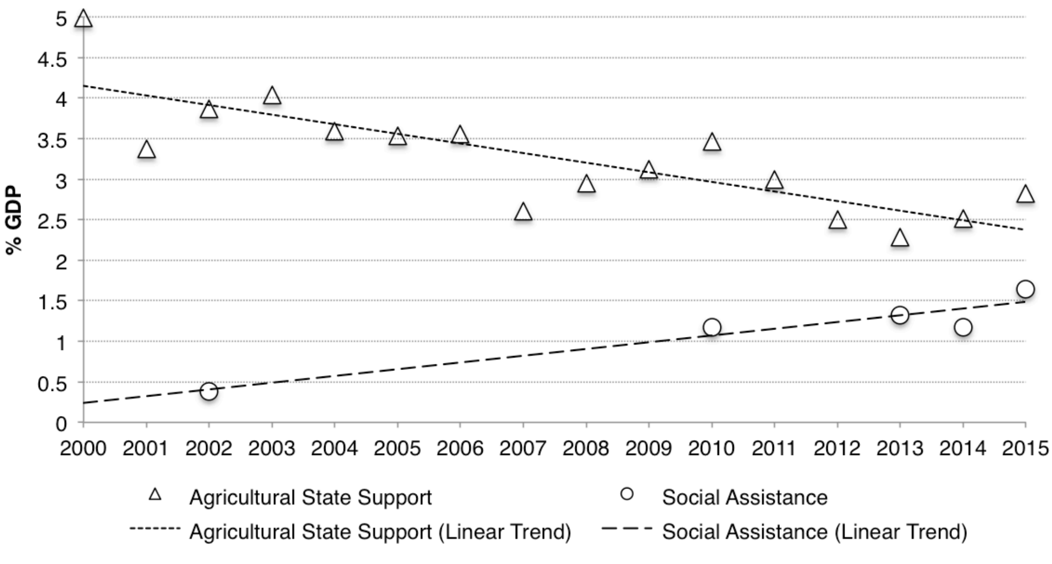

Figure 10: Agricultural State Support and Social Assistance (%GDP), 2000-2015
Sources: Ministry of Family and Social Policy Annual Reports (several years), OECD (2017).
Note: Agricultural State Support is measured by the OECD Total Support Estimate.

The expansion of conventional welfare programs during the 2000s was possible for at least two reasons. First, this expansion was financially feasible in a macroeconomic context with high GDP growth, increasing tax revenues and high primary budget surpluses in the early 2000s (Öniş, 2012). Second, the expansion received important financial and ideational support from international organizations. For example, the World Bank was directly involved in the introduction of health reform and the conditional cash transfer program (Aytaç, 2014). This support from international organizations for the introduction of conventional welfare programs in conjunction with their insistence on the retrenchment of agricultural state support implies significant exogenous pressure toward the "conventionalization" of the Turkish welfare state.

4.7. Conclusion

This article has examined the historical development of social policy by other means in Turkey. By demonstrating how agricultural state support and forbearance toward squatter housing have functioned as equivalents of formal social protection, it joins other recent studies in challenging the narrow focus of mainstream welfare state research on formal social policies, which can lead to the inaccurate conclusion that informal- and rural-sector workers are excluded from public social protection. This article suggests that rather than by a welfare state dualism that provides social policy to "insiders" and nothing or very little to "outsiders", which is commonly assumed in the literature, many low- and middle-income countries are characterized by a welfare state dualism that provides conventional social policy to "insiders" and unconventional social policy to "outsiders".

Through a comparison of two sectors of unconventional social policy, I have identified two paths of retrenchment of social policy by other means. While the causes of agricultural retrenchment were exogenous (neoliberal economic globalization and coercive policy transfer after a severe economic crisis), the causes of squatter housing retrenchment were endogenous (with domestic political entrepreneurs seeking political gain from retrenchment and responding to decreases in the availability of urban land and the number of informal squatters). My findings reconcile two different strands of the existing literature that have focused on either exogenous or endogenous causes of retrenchment, usually based on single-sector analyses. One important common element of both the exogenous and the endogenous retrenchment path was the existence of political decision-makers who were not averse to the electoral risk associated with welfare retrenchment, because they were either risk-taking national political entrepreneurs or risk-indifferent international organizations. Moreover, in both cases, retrenchment became politically sustainable through the functional replacement of the retrenchment unconventional welfare programs with new, more conventional welfare programs.

The article also contributes to a better understanding of Turkey's uneven welfare state development. It demonstrates that the expansion of Turkey's conventional welfare state during the 2000s (as measured by public social expenditure) was accompanied by substantial retrenchment of unconventional social policy. This calls into question the nature of welfare state development in the AKP era. While it is difficult to exactly quantify the extent of welfare retrenchment in agriculture and informal housing, it is plausible that it largely canceled out the growth of public social expenditure. Therefore, accounts of welfare state expansion may have to be replaced with an account of mere institutional rearrangement or conventionalization of the Turkish welfare state.

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CHAPTER 5:

BUSINESS INTERESTS AND THE POLITICS OF HEALTH INSURANCE EXPANSION IN TURKEY AND CHILE

5.1. Abstract

This article studies the politics of expanding health insurance coverage in low- and middle-income countries. In particular, it explores the nature of business interests in expansionary health insurance reforms, and how business actors shape the content of such reforms. Based on case studies of episodes of health insurance expansion in Turkey (2006/2008) and health insurance deepening in Chile (2004), it is argued that overall the accommodation of business interests is no major obstacle to the introduction or the deepening of universal health insurance per se, but that seeking business support limits governments' flexibility in introducing universal health insurance that is generous, efficient, and equitable. The analysis is based on fieldwork conducted in Chile and Turkey between 2016 and 2019.

5.2. Introduction

In May 2006, Turkey's parliament passed a law that introduced a public universal health insurance (UHI) scheme. After the Justice and Development Party (*Adalet ve Kalkınma Partisi*, AKP) had come to power in November 2002, it promptly expanded the coverage and generosity of an existing non-contributory health insurance scheme (known as the Green Card). The 2006 health insurance law unified contributory and non-contributory schemes and introduced a single, generous benefits package. The reform resulted in a significant expansion of health insurance coverage at relatively low cost. Between 2002 and 2010, enrollment in public health insurance increased from 67% to 96% (Ağartan, 2012, p. 464). Public healthcare expenditure increased from 3.7% to 4.3% of GDP over the same time period. Turkey's health reform has been called a "remarkable revolution in health" (Horton & Lo, 2013), and the country has been identified as one of six countries worldwide that made the biggest improvements toward universal health coverage between 2000 and 2016 (Fullman et al., 2017a).[25]

Similarly, in August 2004, the Chilean Congress passed a law that substantially deepened the country's existing near-universal health insurance system. During his 1999 presidential campaign, Ricardo Lagos had proclaimed that "inequality in access to healthcare is the worst of Chile's injustices today" (Lagos, 1999). After he won the presidential elections, Lagos made health reform one of his government's central political projects. The 2004 Plan AUGE (*Plan de Acceso Universal de Garantías Explícitas*) improved and equalized the generosity of healthcare benefits by introducing explicit guarantees of access for a set of priority conditions across public and private insurers. After the reform, public healthcare expenditure increased from 2.6% of GDP in 2000 to 4.5% of GDP in 2016. And the reform also led to significant improvements in coverage and access, and reductions in hospitalization and death rates (Bitrán, Escobar, & Gassibe, 2010).

Both Turkey's and Chile's healthcare systems remain far from perfect,[26] but the successful introduction of universal health insurance in Turkey and the substantial deepening of health insurance in Chile both constitute important steps toward realizing fully universal health coverage. Given that universal health coverage and the creation of "social protection floors" have become explicit goals of most governments around the world, the political foundations of health insurance expansion clearly merit the attention of political scientists. Existing research on the politics of health insurance expansion in Turkey, Chile, and elsewhere has accurately emphasized the role of government ideology, electoral incentives, and international organizations such as the World Bank in motivating the expansion of health insurance schemes. However, scholars have paid

[25] The other five countries are Cambodia, Rwanda, Equatorial Guinea, Laos, and China (Fullman et al., 2017a).

[26] Turkey's new healthcare system is characterized by significant (new) inequalities in access (Yılmaz, 2013), and the reform was in large parts formulated and implemented against the suggestions of medical doctors, an essential part any healthcare system (Yılmaz & Buğra, 2011). Moreover, improvements in health outcomes that occurred after the Turkish health reform cannot simply all be causally attributed to this reform (Yazıcı, 2014). Similarly, Chile's healthcare system continues to be characterized by significant inequalities between public and private insurees. In fact, in 2010, Chile's Constitutional Court ruled that "risk rating" by private insurance firms violated universal access rights introduced by the 2004 health reform (Zúñiga Fajuri, 2014).

much less attention to the interests and power of an important actor, if not "veto player", in most capitalist economies: organized business. I demonstrate in this article that business interests have critically shaped the formulation and introduction of expansionary health insurance reforms in Turkey and Chile.

In a nutshell, I argue that organized business interests often do not oppose health insurance expansion as such, but have strong preferences regarding the specific content of health insurance reform: employers want them to be cost-efficient, so that payroll or other taxes do not need to be raised. Various provider sectors welcome expansion if it also expands private business opportunities. In the cases of Turkey and Chile, these business interests shaped the content of expansionary health insurance reforms, with a tendency toward less generous, less efficient, and less redistributive health insurance programs.

Theoretically, this means that organized business actors are not necessarily antagonists of universal health insurance, but can become critical consenters. However, business interests in universal health insurance crucially depend on the system's specific design, namely its cost and financing (employers' primary concern), and its effects on the size and profitability of health markets (providers' primary concern). This means that reformers who seek to expand health insurance with support from the business community need to design it in a way that is cost-neutral for employers and/or expands business opportunities for private providers. Clearly, there is an inherent tension between those two goals and therefore potentially also between employer and provider interests regarding universal health insurance. Whether governments lean toward employer or provider interests, seeking business support thus limits governments' policy space in introducing universal health insurance that is as effective, efficient, and equitable as possible.

In developing this argument, this article contributes to two important literatures in the field of welfare state research. First, it contributes to the emerging literature on the politics of universal health coverage in the global South (for a review, see Greer & Méndez, 2015). Existing explanations of the recent expansion and universalization of healthcare systems in low- and middle-income countries have focused on the roles of democratization and electoral competition, left parties, as well as social movement pressure by welfare state outsiders and medical professionals (e.g. Garay, 2017; Harris, 2017; Pribble, 2013; Wong, 2004). While the interests of various, often powerful business sectors (e.g. employers, pharmaceutical producers, private hospitals, insurance companies) are directly affected by the introduction of universal health insurance schemes, their preferences and lobbying activities have so far been mostly neglected by research on the politics of universal health coverage. Second, this article also makes a fresh contribution to the theoretical debate about the potential role of organized business in welfare state expansion. While many scholars believe that organized business actors fundamentally oppose the expansion of social programs (Hacker & Pierson, 2002; Korpi, 2006), others have argued that organized business may actually have a "first-order" preference for the expansion of at least some welfare programs (Mares, 2003; Swenson, 2002, 2018). This literature suffers from having focused almost exclusively on the interests of *employers* in the development of welfare states in the *global North*. Based on an empirical examination of the interests of employers and various provider sectors in two middle-income countries, this article suggests that both employers and private providers may indeed come to support welfare state expansion, but it is unlikely to attain the support of both given their contradictory interests.

This article is based on fieldwork conducted in Chile and Turkey between 2016 and 2019. I use descriptive statistics on healthcare expenditure and coverage to demonstrate that both countries did move closer toward universal health coverage following major health insurance reforms in the 2000s: the 2004 "Plan AUGE" law in Chile and the 2006/2008 health insurance law in Turkey. To describe and explain the preferences of different segments of the business community regarding these health insurance reforms, I draw on news reports, policy documents, and elite interviews. I conducted a total of 19 semi-structured (mostly anonymous) interviews with health policymakers, bureaucrats, and informants from various relevant business sectors. Wherever possible, I cite publicly available records, including news pieces and industry reports, to further support claims originally drawn from interviews. Methodologically, I use process tracing and comparative analysis.

The remainder of this article proceeds as follows. Section 2 describes the general but internally heterogeneous trend toward implementing universal health coverage in low- and middle-income countries. Section 3 surveys the literature on the politics of health insurance expansion and considers insights from the existing literature on business interests in health reform. Section 4 studies the nature and influence of business interests on health insurance *expansion* in Turkey in the 2000s. In turn, Section 5 examines the role of business interests on health insurance *deepening* in Chile in the early 2000s. I discuss the Chilean case after the Turkish case, even though the Chilean reform (2004) occurred before the Turkish reform (2006/2008), because the Turkish reform's focus on expanding the population coverage of a "truncated" health insurance system comes logically before the Chilean reform's focus on deepening an already (near) universal health insurance system. Section 6 concludes by considering the implications of these case studies for the politics of health insurance expansion in the global South.

5.3. The Global Trend Toward Universal Health Coverage

In recent years, universal health coverage (UHC) has become an increasingly explicit global policy goal.[27] In 2011, the World Health Assembly passed a resolution that officially recognized the importance of achieving "universal health coverage" by "providing comprehensive health care and services for all" (WHA, 2011). In December 2012, the United Nations General Assembly underlined "the responsibility of Governments to urgently and significantly scale up efforts to accelerate the transition towards universal access to affordable and quality health-care services" (UN, 2012). In 2015, achieving universal health coverage became an explicit part of the UN's Sustainable Development Goals (SDGs). The SDG target 3.8 aims to "achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all" (UN, 2015, p. 16). This promotion of universal health coverage as a global policy goal has gone beyond the WHO and UN and also taken root in the more "neoliberal" international financial institutions. In 2014, World Bank president Jim Yong Kim declared that "achieving universal health coverage and equity in health are central to reaching the [World Bank's] global goals to end extreme poverty by 2030 and boost shared prosperity" (Kim, 2014). Emphasizing that achieving universal health

[27] While the concept of "universal health coverage" as a policy idea and norm is thus relatively recent, it has of course built on various earlier efforts and ideas, e.g. the 1978 Alma-Ata Declaration of the International Conference on Primary Health Care, which emphasized the idea and goal of "Health for All" (Lawn et al., 2008).

coverage requires policy reforms, the World Bank has launched UNICO, a comprehensive series of studies that document "how countries are driving UHC reforms and policies that benefit poor and low-income populations" (World Bank, 2019).[28]

While universal health coverage may seem like an intuitive concept, there is a fair amount of debate about how to define and measure it, reflecting broader debates about the meaning of universalism in social policy (see Anttonen et al., 2012). A common approach to defining and measuring healthcare coverage equates it with the share of the population that is enrolled in a public or private health insurance program, thus supposedly enjoying financial protection (see Savedoff et al., 2012, p. 925). However, formal insurance enrollment often does not mean complete service coverage and financial protection, e.g. if public healthcare facilities are poorly funded or if private copayments are high. To address these limitations, international organizations have recently sought to develop a more comprehensive and valid measurement of universal health coverage. These efforts have been an attempt to create an indicator that would allow the international community to monitor progress toward the SDG target 3.8.1.[29] According to the new definition, embraced by the WHO and World Bank, UHC is fundamentally two-dimensional, involving both effective service coverage and financial protection. Accordingly, UHC means "all people receiving the health services they need […] while at the same time ensuring that the use of these services does not expose the user to financial hardship" (World Health Organization & World Bank, 2015, p. 7). This new UHC index draws on ideas behind the UN's Human Development Index, which has been in active use since the 1990s (Wagstaff et al., 2016, p. 148). While data on financial protection is still rather limited (but see Wagstaff et al., 2016), relatively comprehensive data on service coverage has already been published.[30] This new UHC index clearly isn't perfect either, as it focuses primarily on *basic* health services and has difficulty to capture the financial efficiency of health systems. Keeping these limitations

[28] By 2018, the UNICO series had published 39 country case studies of UHC reforms.
[29] In 2016, several non-governmental and international organizations successfully advocated for the United Nations to develop and adopt a statistical indicator of universal health coverage that goes beyond the "number of people covered by health insurance or a public health system" (Wright, 2016).
[30] Essential health service coverage is measured through 16 tracer indicators in four areas, namely "Reproductive, maternal, newborn and child health", "infectious diseases", "noncommunicable diseases", and "service capacity and access". For example, one of the tracer indicators in the first of these areas is "One year old children who have received 3 doses of a vaccine containing diphtheria, tetanus and pertussis (%)".

in mind, UHC index data allows for useful global comparisons. Drawing on Fullman et al. (2017b), Figure 11 displays UHC index data for 188 countries in 2000 and 2016.

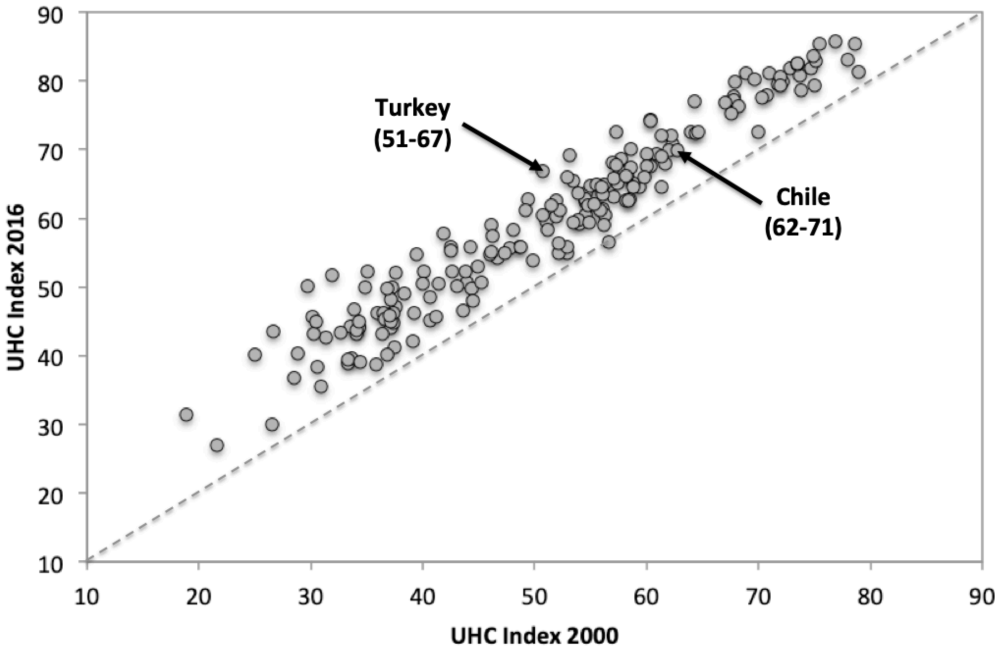

Figure 11: Health coverage around the world, 2000 and 2016
Source: Fullman et al. (2017b, Table 3)

The data in Figure 11 allows us to make three broad observations about the global development of health coverage. *First*, this data shows that *all* of the countries for which data for both years was available made absolute improvements toward universal health coverage since the year 2000. Hence, the movement toward more universal health coverage does indeed seem to be a global phenomenon. *Second*, and despite these global improvements, there has been significant variation in terms of how much countries have progressed. Several countries at different levels of development have made only minimal progress, including Lesotho, Oman, and the United States. Other countries, in contrast, have made major progress over this relatively short period of time, including Cambodia, Rwanda, Turkey, China, and South Korea. *Third*, the data also shows that many countries that have officially prided themselves in having reached "universal coverage", such as Turkey and Chile, still have big steps to take toward fully universal health coverage. In fact, the only two emerging economies that have reached a UHI index of higher than 80 are Singapore and South Korea. And in 2016, both Turkey and Chile still had lower UHC index scores than Brazil, Cuba, or Peru.

This discussion clearly suggests that achieving universal health coverage is a multidimensional policy challenge that cannot be reduced to enrolling everyone in some form of health insurance. It also entails service quality enhancement, health workforce development, the deepening of benefits packages, and the reduction of out-of-pocket payments in healthcare. Be that as it may, achieving *universal health insurance* (UHI) remains the primary or at least the initial policy problem across many low- and middle-income countries. For the poor segments of society, low service quality or high copayments only become relevant problems when they actually have access to healthcare. Indeed, many of the countries that have made significant improvements in the UHC index, such as China and Turkey, have also significantly expanded health insurance schemes over the past two decades. Most of these countries have expanded health insurance coverage through the expansion of (public or mandatory-private) contributory programs together with the expansion of non-contributory health insurance programs to include the poor and vulnerable.

5.4. The Politics of Health Insurance Expansion and the Role of Business Interests

Given the central role of health insurance expansion in achieving universal health coverage, political scientists have begun to study the political causes of health insurance expansion.[31] In this section, I review the findings of this literature and make an argument to pay more attention to the interests and influence of organized business groups in health insurance reform processes. Empirically, the recent literature on the politics of health insurance expansion has focused on the countries of the global South as well as the United States, which is the most prominent case of a country in the global North still lacking universal health insurance. Theoretically, scholars have focused on two sets of factors, namely (*i*) the structural and institutional effects of *democratic politics*, in particular through democratization and electoral competition, and (*ii*) the power of various *universal health insurance advocates*, in particular social movements, left-wing parties, and activist health experts.[32]

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[31] Not unexpectedly, this literature on health insurance expansion echoes many of the findings of the broader literature on the recent phase of welfare state expansion in the global South (see Chapter 2).

[32] Another important set of studies of health reforms in the global South has focused on the role of international organizations, such as the World Bank, and their health policy prescriptions

There is broad consensus that democratization has driven health insurance expansion in the global South. Joseph Wong (2004) shows that the introduction of universal health insurance in South Korea and Taiwan was the direct result of these countries' democratic transitions in the second half of the 1980s. He argues that authoritarian incumbents "*preemptively* initiated the universalization of health care during the late 1980s", as they were "anticipating challenges from emerging opposition parties and a revitalized civil society" (Wong, 2004, p. 15). This general finding is confirmed by research on the impact of democratization on healthcare expansion in Chile, Ghana, and Indonesia (Aspinall, 2014; Carbone, 2012; Weyland, 1997, pp. 44-45). Similarly, James McGuire's analysis of the determinants of infant mortality in eight East Asian and Latin American countries concludes that democracy tends to lead to an expansion of "public financing or provision of basic social services", which in turn tends to "produce rapid mortality decline" (McGuire, 2010, p. xi). While there is relatively broad consensus that democracy has on average a positive effect on health coverage expansion, China's substantial health insurance expansion in recent years suggests that democracy is no necessary condition for the expansion of health insurance schemes (see Yu, 2015).

Going beyond the effects of democracy as such, other scholars have argued that health insurance expansion is driven by the quality of democracy, in particular the competitiveness of elections. Scholars of Latin American health politics have argued that the pressure of electoral competition was key in motivating left-of-center governments to introduce universalistic health reforms (Pribble, 2013, pp. 39-69), and drove the introduction of equity-enhancing health reforms by both left and right governments (Ewig, 2016). Candelaria Garay (2016) develops a systematic theory of electoral competition to explain the growth of non-contributory social policy, including non-contributory health insurance, focusing on bipartisan electoral competition for low-income voters or "welfare state outsiders". For instance, she argues that Chile's 2004 health reform, the "Plan AUGE", which I will explore in Section 5, was caused by heightened electoral competition for low-income voters between Chile's center-left government and the right-wing opposition in the 2000s (Garay, 2016, pp. 275-283).

(Kaasch, 2015; Noy, 2017; Sumarto & Kaasch, 2018; Wireko & Beland, 2017; Yılmaz, 2017a, Chapter 5). I do not discuss these studies in detail here, as there is no strong evidence that these international health policy prescriptions help explain differences in health insurance expansion in the global South.

Another strand of research on the effect of the quality of democracy and elections on health coverage expansion has focused on the impact of electoral institutions. For instance, Selway (2015) traces the significant health insurance expansion in Thailand in the early 2000s back to a reform of the country's electoral system in 1997, which introduced Proportional Representation in one part of the Thai parliament. However, he also argues that majoritarian electoral systems can be superior for health coverage expansion in countries where ethnicity is highly salient but where ethnicities are geographically intermixed, such as in Mauritius.

Beyond the dynamics of democratic politics, scholars have shown that pressure from a variety of advocates has contributed to health insurance expansion. In particular, there is good evidence that social movement mobilization has a positive impact on health insurance expansion. Joseph Wong (2005) shows that broad social movement coalitions played key roles in supporting universal health insurance in South Korea and Taiwan during the 1990s, after it had taken these coalitions several years to develop after initial democratization. In 1999, the South Korean "Health Solidarity" movement pushed its government to unify national health insurance and to thus deepen its redistributive dimension. Similarly, in 1998-1999, the Taiwanese "National Health Insurance Coalition" successfully prevented a government bill that would have privatized the country's universal health insurance program. It is notable that many social movements in support of health insurance expansion are led by doctors and other public health professionals, while relying less on street-level protests by (potential) beneficiaries, which, in contrast, appears to be a central characteristic of social movements demanding cash transfers (see Anria & Niedzwiecki, 2016). Relatedly, Joseph Harris has argued that Thailand's massive health insurance expansion in 2001 was in large part achieved by the Rural Doctors' movement, a "professional movement" that had first gained influence in the country's health ministry and later with *Thai Rak Thai*, Thailand's ruling party from 2001 to 2006 (Harris, 2017, p. 35). In a similar but distinct fashion, public health professionals affiliated with the Brazilian *Sanitarista* movement have sought the subnational political offices of state-level and municipal health secretaries to expand health coverage (Gibson, 2017; Harris, 2017; Weyland, 1995).

Emphasizing the strength of left parties as a key variable in explaining social policy expansion, Evelyne Huber and John Stephens (2012, p. 3) argue that “left political strength” in the legislative and executive branches has been central to the development of “redistributive social policy” in democratic Latin America. According to this theory, left parties do not only promote welfare state expansion because of immediate electoral considerations, but also for ideological reasons. While Huber and Stephens do not find evidence that left-party leads to more healthcare expenditure, they argue that “what left-of-center governments did, however, was to shift the composition, or the structure of spending, to make it more redistributive” (Huber & Stephens (2012, p. 151). In fact, Huber and Stephens emphasize the importance of healthcare expenditure, as it can potentially be much more progressive and redistributive than social security expenditure (which often predominantly benefits formal-sector employees). As regards the (early) 2000s, Huber and Stephens (2012, p. 151) report a significant effect of left political strength on public healthcare spending. Relatedly, Jennifer Pribble has argued that left parties that are programmatic and have strong constituency ties, such as Uruguay’s *Frente Amplio*, are more likely to introduce universalist and equitable health insurance programs (Pribble, 2013, pp. 39-69).

Finally, health policy experts, such as health ministry bureaucrats or professionals in policy networks, are another important advocacy group that can drive health insurance expansion. In line with a more state-centric perspective on welfare state development, such experts can become advocates of universal health insurance without expecting any direct material benefits. While experts may have limited influence on the expansion of public expenditure, they can play key roles in shaping the policy design and hence the logic and quality of health insurance systems. For instance, when Costa Rica set up the basic principles of its health insurance scheme in the 1940s, a small group of “state actors”, bureaucrats and ministers, which enjoyed the support of the president, successfully promoted a “policy architecture” that “created the incentives for pro-universal expansion” (Martínez Franzoni & Sánchez-Ancochea, 2016, p. 121). More recently, technocrats that achieved considerable autonomy in Peru’s healthy ministry during the 1990s successfully pursued the introduction of a free healthcare program for the poor (Dargent, 2015, pp. 137-139).

5.4.1. Does Business Have an Interest in Health Insurance Expansion?

As outlined, existing research on the politics of health insurance expansion in the global South has documented the positive roles played by democratization and electoral competition, as well as by the emergence of powerful social movements, left-wing parties, and activist health experts. However, scholars have paid much less attention to the role of *organized business interests* in the politics of health insurance expansion. This widespread disregard of the interests and power of organized business is puzzling given their importance in many developing and emerging economies, often with the power to act as significant "veto players" during welfare reform efforts.

Ben Ross Schneider recently criticized this strange blind spot in an analysis of the current state of Latin American political economy research. According to Schneider (2014, p. 20), in "every country of Latin America […] vast, diversified, family-owned conglomerates, best known as business groups, control large swaths of their economies and wield enormous political power. Why, then, does nearly everyone ignore them?" In his related work on extending the "Varieties of Capitalism" approach to middle-income countries, Schneider (2013) concludes that "political systems and practices in Latin America are remarkably accommodating for business interests, especially narrow or individual interests of big business" (Schneider, 2013, p. 148), a characterization that he expects to also apply to other "hierarchical market economies", such as "Turkey, Thailand, or South Africa" (Schneider, 2013, p. 5). Furthermore, an emerging literature on business power in developing and emerging economies has demonstrated the significant influence that organized business interests have over social and economic policy-making—often with specific reference to the case of Chile (Bril-Mascarenhas & Madariaga, 2019; Bril-Mascarenhas & Maillet, 2019; Fairfield, 2015).

Following these recent calls for greater attention to organized business as central political actors, I propose to explore the role of organized business interests in the politics of health insurance expansion in the global South. In doing so, a useful point of departure is the literature on the development of European and North American healthcare system. Mirroring a more general scholarly disagreement about the nature and role of business interests in welfare state expansion (for a review, see Paster, 2015), there has been a debate about the nature of business interests vis-à-vis health insurance expansion in the United States.[33] Given that the United States is the only advanced industrial country without universal health insurance, this discussion is of particular relevance to research on the politics of health insurance expansion in the global South.

Probably the standard view in this debate is that business interests generally oppose the expansion of mandatory health insurance and have played a significant role in preventing its introduction in the United States (see, for instance, Hacker & Pierson, 2002, 2010). Jill Quadagno argues that the Clinton administration's 1993 Health Security bill, which was probably the most serious attempt in United States history to introduce universal health insurance (through an employer mandate), was effectively resisted by a coalition of two well-organized segments of the business community: private health insurance providers, whose profitability would have been reduced, and small businesses, who would have been required to purchase and pay for their employees' health insurance, something many small businesses did not do at the time (Quadagno, 2005, pp. 189-191). Other scholars have added that the tobacco industry also played a major role in opposing the Clinton administration's health insurance bill, which would have introduced an additional tobacco excise tax to finance healthcare cost (Tesler & Malone, 2010; but see Givel, 2017).

In contrast to these scholars who emphasize various business sectors' active antagonism to health insurance expansion, Peter Swenson argues that other important segments of the business community, namely large employers, actually often *supported* the introduction of health insurance expansion. Swenson (2018) shows that large employers, in particular automakers, provided "quiet support" for the 1965 Medicare bill, which introduced public health insurance programs for the elderly (Medicare) and the poor (Medicaid). This was primarily because, at the time, large employers were *already* covering the health insurance premiums of their retired workers and thus stood to save money under Medicare. Moreover, within the business community, big employers were among the most "tolerant" and "open" to reform in the years prior to Clinton's 1993 Health Security bill, as they were troubled by their escalating

[33] There is lack of research on business interests regarding health insurance expansion in other advanced industrial economies, but see Swenson (2008, pp. 250-254) for an analysis of industrial employers' interests in (and, according to Swenson, "early support" for) Germany's 1883 health insurance law, which introduced the world's first compulsory health insurance system.

expenditure on employer-provided private health insurance schemes for their employees (Swenson & Greer, 2002). According to Swenson, large employers also supported the Obama administration's 2010 Affordable Care Act, which drew heavily on previous Republican policy proposals, and which was expected to further reduce employers' own healthcare cost (Swenson, 2018, pp. 19-20). Beyond large employers, Swenson also points out that the pharmaceutical industry strongly supported both the Bush administration's 2003 Medicare expansion and the Obama administration's 2010 Affordable Care Act, as both promised large increases in pharmaceutical market size while not introducing any significant price controls (Swenson, 2018, pp. 19-20; see *Politico*, 2016).

Swenson's research does not really refute Quadagno's argument that certain organized business interests have prevented the introduction of universal health insurance in the United States, e.g. the Clinton administration's 1993 Health Security bill. But Swenson convincingly shows that business interests in health insurance reform are highly heterogeneous and potentially contradictory: large employers and pharmaceutical producers may rationally support a reform that the insurance industry and small employers fiercely oppose. In any case, Swenson, Quadagno, Hacker and Pierson all agree that organized business interests can be very consequential for the prospects of health insurance expansion and thus merit scholarly attention.

Studies on the politics of universal health insurance in the global South have so far paid only little systematic attention to the interests and power of organized business. Scholars have pointed to instances of business-sector opposition to expansionary or equity-enhancing health insurance reforms. For instance, scholars of Korean health politics mention that employers were against the unification of health insurance in South Korea in 1999 (Kwon 2009, p. 67; Wong, 2005, p. 93). Meanwhile, scholars of Chilean health reforms have correctly pointed out that, in the early 2000s, Chile's private health insurance providers resisted the partial pooling of contributions between private and public health insurance providers (Ewig & Kay, 2011, pp. 81-84; Garay, 2016, pp. 279-282; Pribble, 2013, pp. 52-54). Scholars of Turkish health politics have examined how a new private hospital association has influenced Turkey's healthcare reform of the 2000s, so as to "increase the role of the private sector in healthcare provision" (Yılmaz, 2017a, p. 195). However, most studies of healthcare expansion in the global South simply ignore the interests and potential influence of business actors. Bump and Sparkes' (2014) "political economy analysis" of Turkey's 2003 health reform program strikingly illustrates this common neglect by researchers. They draw up elaborate "stakeholders maps", counting and profiling more than 20 distinct stakeholders, however, they consider neither employers, nor any major health-sector provider industries, such as pharmaceutical producers, private hospitals, or the insurance industry.

To fill this gap in the literature on the politics of health insurance expansion in the global South, this article seeks to answer the following question: What are the interests of organized business sectors in expansionary health insurance reforms and how, if at all, do these interests shape the content of those reforms? To answer this question, I examine the role of business interests in two cases of successful health insurance expansion: I first study Turkey's 2006/2008 health insurance reform, which substantially *expanded* the coverage of a previously truncated public health insurance program, a challenged faced by most of today's low- and middle-income countries. I then study Chile's 2004 health insurance reform, which substantially *deepened* the coverage of an already relatively broad but unequal health insurance system. I demonstrate that organized business interests often do not oppose health insurance expansion as such, but have strong preferences regarding the specific content of health insurance reform: employers want them to be cost-efficient, so that payroll or other taxes do not need to be raised. Various provider sectors welcome expansion if it also expands private business opportunities. In my cases, these business interests shaped the content of expansionary health insurance reforms, with a tendency toward less generous, less efficient, and less redistributive health insurance programs. Table 6 summarizes business interests and their effects on health insurance reforms in Chile and Turkey. These will, in turn, be discussed in detail in the following two sections.

Table 6: Business interests in health insurance expansion in Turkey and Chile

	Turkey's 2006/08 reform	**Chile's 2004 reform**
Employers	Openly supported the reform, because it did not lead to increases in payroll or other taxes.	Unsuccessfully opposed the reform proposal to finance higher healthcare expenditure through a higher value added tax. But successfully kept proposals of higher payroll or corporate taxes to finance the reform off the agenda.
Private insurance companies	Successfully opposed the reform proposal to not allow the marketing of private supplementary health insurance.	Successfully opposed a reform proposal of risk-based redistribution of insurees' payroll taxes, which would have reduced private insurance companies' profitability.
Private hospitals	Successfully opposed the reform proposal to not allow private hospitals to charge public insurees additional payments.	Quietly supported the reform, as it was expected to increase private hospitals' market volume.
Pharmaceutical industry	Unsuccessfully opposed the reform proposal to finance higher healthcare expenditure in part through stricter pharmaceutical price controls and pharmaceutical cost-containment.	Quietly supported the reform, as it did not introduce stricter pharmaceutical price controls but was expected to increase pharmaceutical market volume.
Tobacco, alcohol, and oil industries	No discernible role in the reform process.	Successfully opposed the reform proposal to finance higher healthcare expenditure in part through higher excise taxes on tobacco, alcohol, and diesel.

Note: Cells shaded in grey represent cases where organized business interests changed the content of governments' initial reform proposal.

5.5. Business Interests and Health Insurance Expansion in Turkey

In this section, I first describe Turkey's pre-reform healthcare system and introduce the AKP government's 2006/2008 health insurance law. I then provide an overview of the political causes of this expansionary health insurance reform, before focusing in detail on the interests and influence of organized business interests during the reform process.

At the beginning of the 2000s, Turkey's healthcare system was corporatist: provision of health services was predominantly public, but highly fragmented along occupational lines (Buğra & Keyder, 2006, p. 212). Under this system, three occupational groups were entitled to more or less comprehensive healthcare services: civil servants were covered by the government budget and the social security fund *Emekli Sandığı*, the formally employed registered with the social security fund *Sosyal Sigortalar Kurumu*, while the self-employed could register with the social security fund *Bağ-Kur*. In addition, there existed a non-contributory, means-tested program for the poor, the Green Card scheme. Together, these four programs covered only 67.2% of the Turkish population in 2002 (Ağartan, 2012, p. 461), thus entirely excluding one-third of the population from access to public healthcare. In healthcare as in other social policy areas, Turkey's "truncated" welfare state thus excluded a large population of "welfare state outsiders" (see de Ferranti et al., 2004; Garay, 2016). Substantial inequalities also existed within the public healthcare system. The four public programs all offered different benefit packages. By far the most limited was the package for Green Card holders, who made up 8.6% of the population in 2002. They were only guaranteed inpatient care at hospitals run by the Ministry of Health and, if they received a referral, at university hospitals. They could apply for reimbursement for their outpatient expenses, but without any guarantee, because "reimbursements depended on the availability of funds" (Ağartan, 2012, p. 461). Pharmaceutical expenses were entirely excluded from this reimbursement possibility (Dorlach, 2016).

In the 2000s, the AKP government replaced Turkey's old, truncated health insurance system with a unified and near-universal public health insurance scheme. In theorizing the expansion of health insurance in Turkey, three broad phases can be distinguished. *First*, the AKP government expanded the coverage of contributory and especially non-contributory health insurance between 2003 and 2006, eager to build support for the reform process and to begin rolling out benefits before the 2007 general elections (Sparkes, Bump, & Reich, 2015, p. 271; *Zaman*, 2004). In particular, the Ministry of Health rapidly expanded the coverage and benefit generosity of Turkey's pre-existing non-contributory health insurance program, known as the Green Card (*Yeşil Kart*). *Second*, the AKP sought to further expand and integrate the coverage of contributory and non-contributory health insurance through a universal health insurance law. The Social Insurance and General Health Insurance Law (Law No. 5510) was passed by parliament in May 2006. However, this law was vetoed by the Turkish president and in parts annulled by the Constitutional Court in December 2006, which required a revision and re-legislation of the law. While the concerns of the Constitutional Court were primarily about the law's changes to Turkey's social security system, parliament used this window of opportunity to also make some significant changes to the design of the new health insurance system. Thus, and *third*, Turkey's parliament amended and finalized the Social Insurance and General Health Insurance Law in April 2008 (through Law No. 5754), and "General Health Insurance" entered fully into force in January 2012.

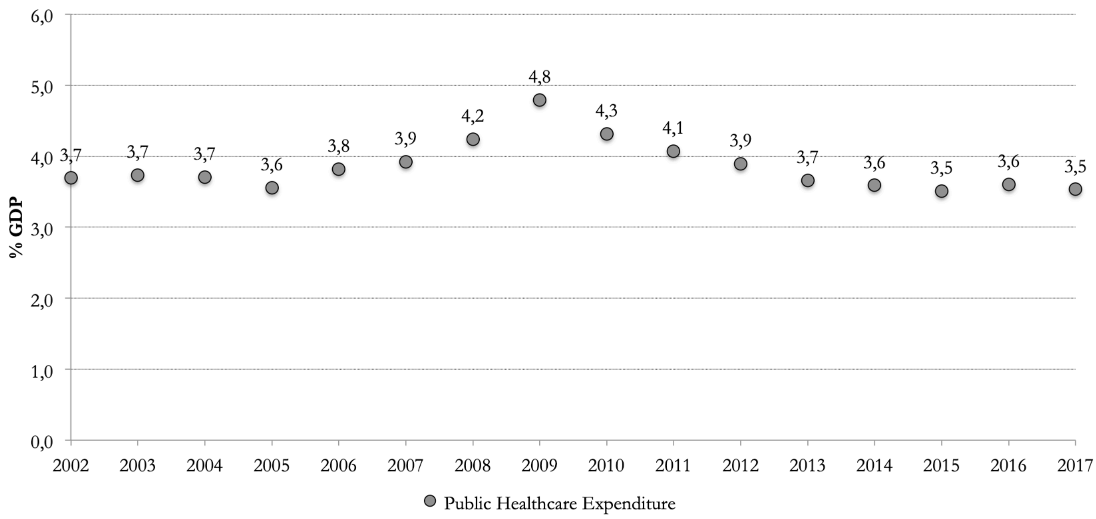

Figure 12: Public healthcare expenditure in Turkey (%GDP)
Sources: BUMKO (2019), Yılmaz and Yentürk (2017)

The AKP's health reform led to substantial health insurance expansion. Health insurance enrollment increased from 67% in 2002 to 96% in 2010 (Ağartan, 2012, p. 464) and 98% in 2012 (Bump et al., 2014, p. 1). The number of non-contributory health insurees (i.e. Green Card holders) rose from 6.7 million in 2004 to 11 million in 2006 (*Hürriyet*, 27 April 2006), corresponding to a rise from 10% to 16% percent of the population in just two years. Nominal public expenditure on non-contributory health insurance increased tenfold from 2001 to 2007 (Yılmaz & Yentürk, 2017, p. 300), corresponding to an increase from 0.16% to 0.45% of GDP. Total public healthcare expenditure grew from 3.7% of GDP in 2002 to 4.3% of GDP in 2010 (Figure 12).[34] It should be noted that public healthcare expenditure has reverted below its original level during the 2010s, declining from 4.3% of GDP in 2010 to 3.5% of GDP in 2017.[35] It is

[34] These numbers diverge from those calculated by Yılmaz and Yentürk (2017, pp. 302-303), as they are based on Turkey's recently updated GDP data (see A. Yilmaz, Yasar, & de Rosa, 2017).
[35] It should furthermore be noted that public healthcare expenditure as a share of GDP actually peaked in 2009, at 4.8% of GDP. However, this was largely due to a stagnation of Turkey's nominal GDP in that year, caused by the 2008/2009 global financial crisis (see Öniş & Güven, 2011). Therefore, 2010 should be treated as the more realistic peak of Turkey's public healthcare expenditure during the AKP era.

an open empirical question if this reduction of public expenditure during the 2010s has been due to increased efficiency, as originally envisioned by the reform team, or to some form of retrenchment, as suggested by critics. In any case, this development during the 2010s is not directly relevant to understanding the causes of health insurance expansion during the 2000s.

5.5.1. The Politics of Health Insurance Expansion in Turkey

Unsurprisingly, health insurance expansion in Turkey was the result of a longer political process. In the following section I provide a brief overview of that political process. When AKP came to power in 2002, universal healthcare had already been on Turkey's political agenda for at least 40 years. Turkey first wanted to introduce universal health coverage in the 1960s, but failed to implement the envisioned non-contributory universal primary healthcare system, which would have been layered over (or rather under) the highly truncated existing contributory health insurance system. This has been attributed to successive governments' failure to provide sustainable financing for the program and (relatedly) the limited active popular support for it. Urban welfare state insiders had little to gain from the new program, while its prospective beneficiaries, poor, mostly rural welfare state outsiders, did not actively mobilize to push the government to guarantee the financial resources the program would have required (Günal, 2018).

The idea of universal healthcare as universal health insurance emerged later, in the 1990s. Between 1990 and 1993, and thus initiated under the rule of the center-right Motherland Part (see Öniş, 2004), a relatively autonomous bureaucratic team in the Ministry of Health, led by Serdar Savaş, and with financial support from the World Bank, developed a comprehensive health reform proposal as well as actual draft laws. A core element of this reform proposal was a universal health insurance scheme that included contributory and non-contributory components (Savaş et al., 2002, pp. 93-95). Due to political pressure for quick results, a limited version of the non-contributory component was already introduced in mid-1992, in form of the means-tested Green Card (*Yeşil Kart*) program, which was layered on top of existing contributory programs and characterized by limited benefit generosity (see Buğra, 2008, pp. 213-218).[36] The government was planning to discuss the introduction of an integrated universal health insurance scheme in May 1993, but the sudden death of President Turgut Özal in April 1993 led to snap elections and a change in government. One health ministry bureaucrat of the 1990s emphasized that all health reform proposals during the 1990s included the idea of universal health insurance. Centre-left and center-right parties were both aware of its potential popularity, but no party managed to introduce the necessary large-scale reform, due to constantly changing coalition governments in the 1990s (see Ağartan, 2015, p. 981), and with the responsible ministries (i.e. Finance, Health, and Labor and Social Security) usually in the hands of different parties.[37]

After the center-right AKP came to power in November 2002,[38] it made health insurance expansion one of its central political projects. Universal health insurance had been an important part of the AKP's election manifesto: "A General Health Insurance will be established that will cover the entire population. The premiums of those who cannot afford it will be paid by the state" (AKP, 2002, p. 82; author's own translation, as all subsequent translations in this article).[39] After its landmark election victory in November 2002, the newly minted AKP government presented an Emergency Action Plan and reaffirmed its goal of introducing single-payer universal health insurance based on premiums and taxes (to finance the premiums of the poor) (AKP, 2003, p. 100). While formulating out its own concrete health reform proposals, the AKP heavily drew on policy ideas developed during the 1990s. In fact, the AKP's "Health Transformation Program" (MoH, 2003), often treated as the key policy document of Turkey's health reform, was shadow-authored by Serdar Savaş, the main author of the Ministry of Health's 1993 reform proposal.[40]

Several factors contributed to the AKP's high political will *and* capacity to successfully introduce health insurance expansion in the 2000s. While the AKP in the 2000s clearly emphasized economic liberalization, the party's approach to social policy was much

[36] Interview with former Ministry of Health bureaucrat (Istanbul, 26 January 2019)
[37] Interview with former Ministry of Health bureaucrat (Istanbul, 26 January 2019)
[38] See footnote 3, for a discussion of the AKP as a center-right party.
[39] The quote in original: "Nüfusun tamamını kapsayacak şekilde bir Genel Sağlık Sigortası Sistemi kurulacak, prim ödeme gücü bulunmayanların primleri, devlet tarafından ödenecektir."
[40] Interview with former Ministry of Health bureaucrat (Istanbul, 26 January 2019)

more activist and interventionist (Dorlach, 2015; Öniş, 2012, Yılmaz, 2017, pp. 152-153). This policy orientation had ideological and strategic reasons. The AKP's ideology was strongly influenced by (moderate) political Islam (see Gumuscu & Sert, 2009), giving rise to a strong emphasis on poor relief and social justice. Strategically, the AKP was eager to introduce policies that would increase its popular support and legitimacy. While the AKP had won an absolute majority in parliament in 2002, it had done so with only 34% of the popular vote. Following its surprising emergence, the AKP leadership was eager to increase its electoral base beyond its traditional core constituency of Islamic-conservative voters. One group targeted by the AKP were "welfare state outsiders", urban and rural informal-sector workers who were long excluded from Turkey's healthcare and social security system, but whose interests had enjoyed only limited representation and articulation in the Turkish party system. The AKP won 47% of the popular vote in the elections of 2007, and many analysts and scholars agreed that a significant share of these new votes were due to the AKP's health reform project (e.g. Gür, 2011; also see Yılmaz & Buğra, 2011). Beyond this usual concern with re-election, the AKP at the time was actually fighting for its survival as a political party. Like other Islamic parties that had come before it, the AKP was under serious threat to be closed down by Turkey's constitutional court or to be ousted by an intervention of Turkey's secular military. Agartan (2015) argues that the AKP leadership pursued health insurance expansion "to be recognized as a legitimate political actor that delivered real benefits to the electorate", which would reduce the "threat of a military coup and being banned from political life" (Agartan, 2015, p. 988).

Importantly, the AKP's approach to health financing and insurance was also decidedly statist in the 2000s. While scholars of Turkish health politics have emphasized the liberalizing and marketizing dimension of the AKP's health policy in the field of service provision (Agartan, 2012; Yılmaz, 2017a), and like to cite Erdoğan's 2006 statement that "healthcare should be a free market" (*Hürriyet*, 17 March 2006), the AKP has been decidedly less liberal regarding healthcare financing. One reason behind this stance was that Recep Akdağ, a high-ranking founding member of the AKP and health minister from 2002 to 2013, was one of the most statist figures within the AKP (see *Anadolu Ajansı*, 2 April 2017), who was very hostile to the idea of private health insurance.

The AKP also had the political capacity to act on its political will to introduce universal health insurance as part of a broader social security and health reform. First and foremost, the AKP benefited from controlling absolute legislative majorities throughout the reform process. This meant that the AKP had to make very limited concessions to opposition parties when universal health insurance was legislated in 2006 and re-legislated in 2008. Beyond the opposition in parliament, the AKP faced other "veto points" (see Immergut, 1992) while trying to introduce its combined health and social security reform, in particular Turkey's President and Constitutional Court.[41] But the AKP government's health reform team overcame these veto points through a combination of multiple strategies, including "avoiding", "compromising", and "overpowering" (Sparkes et al., 2015).

One of the main opponents of the AKP's health insurance reform, but an ultimately ineffective veto player, was the Turkish Medical Association (*Türk Tabipleri Birliği*, TTB). The TTB was no opponent of universal health coverage as such, having advocated for an expansion of non-contributory primary care since the 1970s (Agartan, 2016, p. 62-63; Yılmaz, 2017a, p. 167). However, Yılmaz (2017a) contends that "during the reform process […] the main contestation between the AK Party government and the TTB was the control over the labour of medical doctors. As a professional medical organization, the TTB was unable to escape from its role as a special-interest group promoting the rights of a politically strong group of medical doctors during different periods of the healthcare reform" (Yılmaz, 2017a, pp. 167-168). Thus, organized doctors became one of the major opponents of the AKP's health insurance reform, not because they were opposed to health insurance expansion itself, but because they strongly opposed the specific policy design of AKP's health insurance reform, with its emphasis on contributory financing and stricter regulation of doctors' private practices. In this context, the contrast with Thailand is interesting, where the Rural Doctors' movement closely cooperated with Thaksin Shinawatra's center-right *Thai Rak Thai* party—which was rather similar to Erdoğan's AKP (Hawkins & Selway, 2017)—in pushing for health insurance expansion (Harris, 2017).

[41] Under Turkey's political institutions of the time, the President had the power to veto laws and send them for judicial review to the Constitutional Court.

In contrast to the fierce opposition of the Turkish Medical Association, one of the main supporters of the AKP's health insurance reform was the World Bank. The World Bank had financed projects at Turkey's Ministry of Health since at least 1990 (Agartan, 2015, p. 977), and the 2003 Health Transformation Project received funding of 61 million USD (Agartan, 2012, p. 463). The World Bank and the AKP government agreed on the two main objectives of health reform, namely the universalization of health insurance coverage and the importance of efficiency enhancing through a marketization of healthcare provision (see Agartan, 2012). Although the AKP and the World Bank did not agree on all aspects of health reform, the World Bank's reform proposal published in March 2003 (World Bank, 2003) and the Turkish Ministry of Health's own reform project published in December 2003 (MoH, 2003) are distinctly similar. However, Yılmaz (2017a) argues that Turkey's adherence to the World Bank's principles was not due to coercive loan conditionalities, pointing out that only 0.5 percent of Turkey's total public healthcare expenditure was financed by the World Bank (Yılmaz, 2017a, p. 142). Instead, he argues that the AKP government "chose to work with the [World Bank] […] because it shared a similar policy perspective and thus took advantage of [World Bank] know-how and expertise on healthcare reforms" (Yılmaz, 2017a, p. 142). The World Bank's impact on Turkey's health insurance reform therefore appears to have been consensual and ideational rather than coercive.[42]

The business community's interests and influence during the health insurance reform process in Turkey have so far received only limited attention by scholars of Turkish health policy. This is despite the fact that there is a general agreement that Turkey's health reform has had significant implications for various segments of the business community, including employers, private hospitals, pharmaceutical producers, and insurance companies. Yet, business groups have not usually been considered as major stakeholders in Turkey's health insurance expansion. Agartan (2015) only discusses "key stakeholders including representatives from the [TTB], major labor unions, and the World Bank" (Agartan, 2015, p. 971). Similarly, Bump and Sparkes (2014) draw up extensive stakeholder maps, but consider neither employers nor provider groups such as the pharmaceutical industry, private hospitals, or private insurance firms, focusing instead on various subgroups of health sector workers, incl. dentists, nurses, midwives,

[42] For a theoretical discussion of coercive and constructivist perspectives on policy diffusion, see Dobbin, Simmons, & Garret (2007).

and pharmacists (Bump and Sparkes, 2014, pp. 34-35, 40-42). An important exception to this general neglect of business interests is Yılmaz' (2017a, Ch. 8) analysis of the private hospital industry as an important new actor in Turkish health politics. Furthermore, Dorlach (2016) examines the pharmaceutical industry's interests in the liberalization and stricter regulation of Turkey's pharmaceutical market after health insurance reform. However, neither of these contributions focuses on the nature and role of business interests during the introduction of health insurance expansion and no empirical analyses exist of the role of employers or the insurance industry.

In the remainder of this section, I fill this gap in the literature on Turkish health politics and answer the question to what extent health insurance expansion in Turkey occurred with support from organized business. Empirically, I examine the interests of four relevant segments of the Turkish business community, namely employers, the pharmaceutical industry, the private hospital industry, and the insurance industry. Medical doctors who prior to the reform often ran their own private practices parallel to employment in public hospitals were arguably the fifth major private-sector interest group during the reform process. However, I exclude this group from my analysis here, because the interests of organized medical doctors have already been studied in relative detail elsewhere (esp. Yılmaz, 2017a, Ch. 7) and, more importantly, because the nature of self-employed doctors' "business interests" is clearly distinct from those of corporations (although certainly also driven by a profit motive).

In a nutshell, my empirical argument can be summarized as follows. From the beginning, employers openly supported health insurance expansion, because it would not lead to premium increases and because it was tied together with a pension reform, for which employers had a strong preference. In contrast, pharmaceutical producers perpetually opposed the health insurance reform, because it was tied to stricter pharmaceutical price regulations, which were included in order to finance higher public healthcare expenditure through efficiency gains. The positions of private hospitals and the insurance industry were more dynamic. Both opposed the first version of the health insurance reform law, passed in 2006, which would have prohibited private hospitals to charge public insurees additional payments and the insurance companies to offer supplementary health insurance plans. However, both sectors supported the second version of the health insurance reform law, passed in 2008 and in force since 2010, which allowed private hospitals to charge substantial additional payments and opened the market for private supplementary health insurance. The private hospital and insurance industries proved to be much more effective than the pharmaceutical industry in influencing the content of the AKP's expansionary health insurance reform. The analysis shows that universal health insurance can be introduced with the support of private providers as long as it is designed in a way that creates business opportunities for these providers (with potentially negative implications for the design of the system).

5.5.2. Employers and the Centrality of Premium Rates

In this section, I discuss the interests of organized (big and formal-sector) employers vis-à-vis the AKP's health insurance reform. I show that employers' interests in this regard were shaped predominantly by financial and macroeconomic considerations. Because the reform was largely neutral with regard to public healthcare expenditure and employers' social security contributions, employers took no issue with health insurance expansion and openly supported the reform.

The primary reason behind employers' (as well as the IMF's) open support for the AKP's expansionary health insurance reform was that it did not lead to an increase in employers' social security premium rates.[43] The level of total contribution rates did not rise with the introduction of universal health insurance, because the latter has not led to a major increase in public healthcare expenditure. A major reason behind this cost containment was a series of cost-containment reforms introduced as part of the reform.[44] These presumably efficiency-enhancing reforms included the introduction of a general-practitioner system, the introduction of performance-based bonus payments for doctors in public hospitals, the decentralization, managerialization and (passive) privatization of hospitals, as well as the introduction of price controls for medical inputs, including pharmaceuticals, medical equipment, and medical devices (Prime Ministry, 2005, p. 74).

[43] Interview with TÜSIAD informant (Istanbul, 20 February 2019)

[44] There is some discussion if the AKP's health reform has led to an increase of out-of-pocket payments in healthcare, which could have also contributed to the achieved public expenditure containment. However, WHO data suggests that overall out-of-pocket health expenditure in Turkey decreased from 20% in 2002 to 17% in 2015. URL: https://data.worldbank.org/indicator/SH.XPD.OOPC.CH.ZS?locations=TR

These cost containment reforms allowed the AKP government to significantly expand health insurance coverage—from about 67% in 2002 to 96% in 2010—without a large increase in public expenditure. They also helped to convince employers that health insurance expansion would not lead to additional cost, which they could end up paying for. In mid-2004, policymakers told TÜSIAD that the planned health reform may lead to some transition costs in the first years but would "benefit" public finances on the long run (TÜSIAD, 2004a, p. 4).[45] The government's 2005 draft bill prominently featured long-term projections of public health expenditure, calculated with help from the World Bank (Prime Ministry, 2005, p. 75). According to these, universal health insurance alone, without a structural reform of health service provision, would lead public healthcare expenditure to more than double and reach up to 9% of GDP by 2025. With the planned cost-containment reforms, however, public healthcare expenditure would only increase moderately, reaching about 4% of GDP by 2025—less, the draft bill contended, than with no reform at all. As one informant put it, the "inefficiency" of Turkey's previous healthcare system was a "great luck" for the reformers, as it allowed them to increase output through efficiency gains rather than through expenditure increases, which in turn allowed them to secure the support of key stakeholders, including organized employers and the IMF.[46]

Most crucial from the perspective of employers was the fact that the social security and health insurance reform, due to the government's cost containment strategy, did not lead to an overall increase in employers' social security contributions, and thus employers' so-called "non-wage labor costs".[47] While employers' healthcare premiums did increase from 6 to 7.5 percentage points, their total premiums remained unchanged, because their premiums for so-called "short-term" social insurance (incl. maternity leave, sick leave, as well as occupational disease and injury insurance) decreased by 1.5 points (Table 7). This, in fact, was a key promise that the government and the reform team

[45] The quote in original: "devlet tarafından […] bildirmiştir. Sisteme ilk geçiş yılında önemli bir geçiş maliyetinin ortaya çıkabileceği öngörülen sistemin, uzun vadede kamu maliyesine faydası olacağının düşünüldüğü açıklanmıştır."
[46] Interview with former reform team member (Istanbul, 2 February 2019)
[47] Interview with TÜSIAD informant (Istanbul, 20 February 2019)

repeatedly made to employers throughout the reform process (Prime Ministry, 2005, p. 87).[48]

Table 7: Premium rates before and after the 2008 social security reform

	pre-2008		post-2008	
	Employees	*Employers*	*Employees*	*Employers*
Healthcare	5	**6**	5	**7.5**
Pension	9	11-13[a]	9	11
Unemployment	1	2	1	2
Maternity, occupational disease and injury, sick leave	0	2.5-8	0	1-6.5[a,b]
Total	15	**21.5**-29[a]	15	**21.5**-27[a,b]

Sources: SGK (2013), Law 5510, Law 4447
Notes: Premium rates as a share of workers' gross wage in percentage points; pre-2008 rates are for SSK insurees, as this was the relevant insurance fund for employers; (a) premium rate depends on employers' sectoral risk classification (Council of Ministers, 2008); (b) since September 2013, premium payments for short-term social insurance are fixed at 2% across sectors, leading to a fixed total employer rate of 22.5% (Law 6385).[49]

A second important reason behind Turkish employers' support for the AKP's expansionary health insurance reform was instrumental. Health insurance expansion helped pave the way for significant pension cuts, for which employers had a very strong preference. Understanding the basis of this support requires a brief excursus on the Turkish social security system. Turkey's pre-2008 pension system was commonly characterized to be very expensive and to incentivize informality,[50] both with negative macroeconomic effects. A populist pension reform in 1992 had eliminated the minimum retirement age and reduced the minimum contribution period to just 20/25 years (for women and men respectively), which allowed Turkish workers to formally retire in their 40s, one of the lowest retirement ages in the OECD (Aysan, 2013; *Hürriyet*, 29

[48] Interviews with former SGK president (4 & 8 February 2019) and TÜSIAD informants A (Istanbul, 31 January 2019) and B (Istanbul, 20 February 2019)
[49] This rate equalization implied a premium increase for employers in low-risk sectors, such as the retail and service sectors, and a premium decrease for employers in high-risk sectors, such as construction, mining, and heavy industry (see *Dünya*, 8 May 2013). While it is unclear if employers played an active role in this 2013 reform, it brings to mind Mares' (2003) seminal analysis of the introduction of obligatory work insurance industry in Germany. Mares argues that employers from high-risk economic sectors were protagonists of obligatory and cross-sectoral work accident insurance (Mares, 2003, pp. 64-85).
[50] Saydam (2018) argues that the post-2008 Turkish pension system is poorly designed because it does not fit a labor market characterized by high unemployment and informality. While she has a point, especially regarding the lack of sufficient noncontributory pensions, this discussion here shows that one major goal of the 2008 pension reform was to boost formal employment.

August 1997). After early retirement, workers would transition into unemployment or informal employment (Saydam, 2018).[51] At the time, the OECD pointed out that Turkey's social security system "is a major drain on the budget" and that it "provides a disincentive to work and is actuarially insolvent" (OECD, 1995, p. 41). In 1999, the Turkish state made budget transfers of 3.7% of GDP to its three social security funds and projections expected this deficit to rise up to 14% of GDP by 2050 (Güney, 2004). The Turkish business community and employers in particular were highly concerned about a looming "social security crisis". First, the growing social security deficit made payroll or other tax increases much more likely. Second, this deficit contributed to the state's fiscal deficit and drove inflation, threatening macroeconomic stability in a country accustomed to recurrent crises (Öniş, 2010).

Against this background of a pension system perceived to be in deep crisis, employers became strong proponents of pension reform in the 1990s and 2000s (e.g. TÜSIAD, 1996). Against protests from labor unions (*Hürriyet*, 2 July 1999), an initial reform in 1999 raised contribution periods together with the retirement age: to 52/56 years for current social security insurees and to 58/60 years for new insurees (Saydam, 2018, p. 337). But these initial measures did not go far enough to solve the pension system's deficit problem. Its urgency was reinforced by a major financial and fiscal crisis in 2000-2001 (see Öniş, 2003). In 2003, budget transfers to the country's contributory social security funds rose to 4.5% of GDP. In its Emergency Action Plan, the AKP government resolved to rescind any "[social security] payments not backed by contributions" in order to restore the "actuarial balance" of the social security funds (AKP, 2003, p. 103).[52] The AKP government and the bureaucratic reform team, led by the Ministry of Finance, proposed to gradually raise the retirement age to 65 years for both men and women by 2048 (and to 68 by 2075, but that proposal was subsequently dropped), and to reduce income replacement rates from 60% to 50%. This pension reform that was narrowly focused on attaining fiscal balance was strongly supported by the IMF in the context of two Stand-By Agreements between 2002 and 2008 (Gülec, 2014, p. 83). Turkish employers likewise strongly and openly supported this pension reform, as it promised to reduce the risk of another fiscal crisis, reduce public

[51] It has been correctly pointed out that "in the absence of formal unemployment insurance, early retirement was often used as a source of income during unemployment, and people would then continue working [informally] despite having formally retired" (Saydam, 2018, p. 337).
[52] The quote in original: "prim karşılığı olmayan ödemeler"

expenditure and thus potentially companies' tax burden, and reduce informal employment (*Hürriyet*, 1 November 2005; TÜSIAD, 2006, 2008; *Yeni Şafak*, 2 November 2005).

While the AKP's pension reform proposal may have been economically "necessary", it implied a massive retrenchment of future pension entitlements. Unsurprisingly, especially given the absence of robust unemployment protection and social assistance systems, labor unions and opposition parties united in resisting the proposed pension reform (Duyulmus, 2011, p. 289). To increase the chances of being able to pass such an unpopular pension reform and to lower its political cost, the government decided to combine it with its planned health reform bill, which it rightly anticipated to be much more popular, into one single bill, the "Social Security and General Health Insurance Law" (Law 5510). Initially, the government had planned to submit a separate health reform bill to parliament as early as fall 2004 (TÜSIAD, 2004a, p. 4). One member of the reform team explicitly admitted that one key function of introducing "General Health Insurance" was as a "sweetener" for pension reform (see *Yeni Şafak*, 18 July 2004).[53] According to the same informant, the Ministry of Finance, which played a key role in the reform process, would not have been interested in health insurance expansion, if it hadn't perceived it as instrumental in passing pension reform. Likewise, Turkish employers at the time cared relatively little about the details of health insurance expansion, and much more about the macroeconomic implications of social security reform. While one may well call this type of support "strategic" (see Hacker & Pierson, 2002), it was nevertheless real, and it is important to keep the interrelatedness of policy areas in mind when conducting sectoral analysis.

In conclusion, Turkey's employers lent their support to health insurance expansion, because it did not incur any additional cost for them, which was employers' main concern with regard to social security and health insurance, and because health reform was perceived as instrumental to pass pension reform. At the same time, employers ultimately cared relatively little about the structural aspects of health insurance reform. In fact, TÜSIAD's official health reform proposal (TÜSIAD, 2004b) was mostly developed by private providers, namely representatives from the pharmaceutical,

[53] Interview with former SGK president (4 & 8 February 2019)

hospital, and insurance industries that are organized in TÜSIAD's working group on health. TÜSIAD headquarters did, however, afterwards check the report to make sure that none of the proposals would raise employer's payroll taxes.[54]

In the following sections, I examine the interests of private providers in the health sector vis-à-vis the AKP's expansionary health insurance reform. In particular, I focus on the preferences and lobbying efforts of the pharmaceutical industry, the private hospital industry, and the insurance industry.[55]

5.5.2. The Pharmaceutical Industry and the Introduction of Price Controls

The pharmaceutical industry was the biggest opponent of the AKP's health insurance reform within the private sector: not because it opposed health insurance expansion or the (potential) expansion of public healthcare expenditure, but because it feared (in retrospect, rightly so) the impact of stricter pharmaceutical price regulations that were designed to contribute to the cost-neutral financing of health insurance expansion through "efficiency gains".[56]

The reform interests of any business sector can only be understood in relation to that sector's pre-reform status quo. This is especially relevant for the pharmaceutical industry, as the Turkish pharmaceutical market was already relatively large and rather profitable prior to the reform (whereas the private hospital and private health insurance markets were of small size and marginal relevance before the reform). Since 1984, prices in Turkey's pharmaceutical retail market were officially regulated by a cost-plus pricing system, under which producers were allowed to freely set prices within certain profit margins (15 percent for total revenues and 20 percent for any single product). In practice, the Ministry of Health did not have the administrative capacity to oversee and audit the cost structures of all pharmaceutical producers and products. Therefore, it regularly allowed producers to increase their sales prices by certain, agreed-upon rates (Eren, 2002, p. 143).

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[54] Interview with TÜSIAD informant (Istanbul, 20 February 2019)
[55] Other private providers include the medical device industry, the medical supply industry, as well as private-practice physicians.
[56] Parts of this section are based on material first presented in Dorlach (2013) and Dorlach (2016).

At the same time, a significant part of pharmaceutical sales remained outside of this retail market. SSK insurees, that is, active and retired formal-sector employees and their dependents, which made up for 45% of the population in 2000 (Buğra & Keyder, 2006, p. 214; author's calculation) were only reimbursed when purchasing their medicines in the SSK's own pharmacies. Prices in SSK pharmacies were lower than in retail pharmacies (and payments to producers were often delayed), because the SSK purchased through tenders and even ran its own factory for generic drugs. Overall, however, pharmaceutical prices and public pharmaceutical expenditure were very high and increased over the 1980s and 1990s. For instance, the share of pharmaceutical expenditure in total health expenditure increased from 20% in 1990 to 35% in 1998 (Savas et al., 2002, p. 57). This placed a particular burden on the state budget, given that around 85% of total pharmaceutical consumption in Turkey was financed by the state, one of the largest "public shares" in the world (and in stark contrast to a very low public share in Chile), constituting a quasi-monopsonistic market structure (IEIS, 2008). As a result, in 2003, Turkey's different social security funds spent between 45% and 60% of their total budgets on pharmaceutical reimbursement (Top & Tarcan, 2004).

Given the state's high pharmaceutical expenditure prior to the reform, which tended to crowd out non-pharmaceutical health expenditure, pharmaceutical cost containment became a central element of the AKP's health reform project: "Proportionally speaking, expenditures on pharmaceuticals are very high in Turkey. Because of the current policies of the social security institutions [high reimbursement rates], a large part of the population is increasingly insensitive to pharmaceutical prices. We know that the increases in drug prices do not rest on a scientific basis. As part of the Health Transformation Program, stakeholders will be brought together in dialogue and agreement, in order to solve, according to scientific principles, the longstanding problems with pharmaceuticals, one of the most important elements of health care" (MoH, 2003, pp. 34-35; author's translation). Hence, it was an explicit goal of the AKP's health insurance reform to reduce pharmaceutical prices.

The AKP government quickly implemented a structural reform with the aim of reducing pharmaceutical prices. In February 2004, Turkey introduced "external reference pricing" (Council of Ministers, 2004). Under this system, the legally permitted maximum price of a medicine in the Turkish market is determined in relation to the price of the same product in a group of reference countries. In addition to reference pricing, pharmaceutical producers were forced to grant the state special public discounts (between 4 and 11 percent). While prices did not begin to fall immediately, the combination of reference pricing and mandatory discounts had put in place a regulatory framework that could effectively control prices.

Importantly, pharmaceutical producers were partially compensated for the effect of the new price controls through the expansion of Turkey's pharmaceutical retail market. A December 2004 decision terminated the separate SSK pharmacy system and 35 million SSK insurees were allowed to purchase their medicines on the retail market (*Hürriyet*, 15 December 2004). The government also closed the SSK pharmaceutical factory (*Yeni Şafak*, 21 June 2006). Furthermore, the pharmaceutical expenditures of approximately 13.5 million Green Card holders began being reimbursed. These changes implied a significant expansion of the pharmaceutical retail market.

In conjunction, the price controls and the abolition of the SSK system led to higher volume but lower profit margins. Policymakers and pharmaceutical industry informants agreed that the pharmaceutical industry preferred the pre-reform status quo, where the size of the retail market was smaller, but prices and profit margins were higher.[57] In fact, in 2004, the reform team met with a large group of pharmaceutical sector representatives, where it presented its plan of liberalizing the SSK pharmacy system in "exchange" for public discounts. Industry representatives discussed the proposal internally but ended up rejecting it, telling the reform team that they did not want to grant any discounts.[58] The government implemented the plan anyway, indicating that the pharmaceutical industry had limited power to influence the health reform's content at the time.

The pharmaceutical industry was later proven right to have been skeptical of the new system of pharmaceutical price controls. When Turkey was hit by the global financial crisis in 2009, the Turkish government needed to cut public healthcare expenditure but

[57] Interviews with former SGK president (Istanbul, 4 & 8 February 2019) and pharmaceutical industry informant (Istanbul, 6 February 2019)
[58] Interview with former SGK president (Istanbul, 4 & 8 February 2019)

wanted to avoid retrenching public service provision. Between 2009 and 2012, it radically tightened the recently introduced regulations, reducing statutory maximum prices and increasing mandatory public discounts, resulting in what today are likely the world's strictest pharmaceutical price regulations (Dorlach, 2016). After the share of public pharmaceutical expenditure in GDP—which closely corresponds to total pharmaceutical expenditure, given Turkey's very high public share in pharmaceutical financing—had fallen from 1.5% in 2002 to 1.3% in 2008, it fell all the way to 0.8% in 2017 (Figure 13). Given that most of this reduction came through price rather than volume cuts, this had massive implications for pharmaceutical sector profitability. For instance, if Turkey had spent 1.3% rather than 0.8% of GDP on pharmaceutical reimbursement in 2017, it would have spent 40 instead of 26 billion TL.

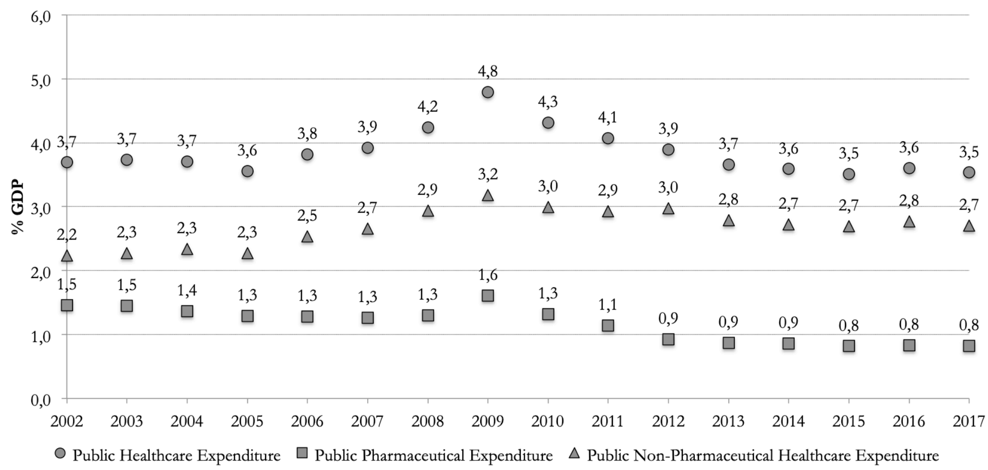

Figure 13: Pharmaceutical and non-pharmaceutical public healthcare expenditure in Turkey

One can conclude from Figure 13 that the squeezing of pharmaceutical prices was a major factor behind the Turkish government's ability to expand contributory and non-contributory health insurance coverage significantly while not increasing public healthcare expenditure. From this perspective, the pharmaceutical industry was one of the biggest losers of health insurance expansion in Turkey. However, governments in other countries may be less likely to couple health insurance expansion with strict pharmaceutical price controls, depending on the power of the pharmaceutical industry in the country.

It should be emphasized that the pharmaceutical industry's opposition to the AKP's health reform had nothing to do with health insurance expansion as such or the (potential) increase of public healthcare expenditure. To the contrary, these changes by themselves would have meant a welcome expansion of pharmaceutical market volume. The pharmaceutical industry's opposition was entirely a response to the stricter regulation of pharmaceutical prices that was included in the reform to control public pharmaceutical expenditure and to thus finance health insurance expansion, at least in part, through efficiency gains. This illustrates that employers and providers can have very different interests when it comes to health insurance reform, in particular as they relate to public health expenditure.

This also shows that providers' reform interests depend significantly on a sector's pre-reform status quo. After all, the central "structural" reason behind the pharmaceutical industry's opposition to health reform was that it was already in something close to a first-best situation in the late 1990s, namely a sector characterized by minimal price regulation and high profit margins. Turkey's private hospital and insurance sectors, in contrast, were little developed until the early 2000s, and thus had little to lose but much to gain from a comprehensive health insurance reform.

5.5.3. The Hospital Industry and the Regulation of Additional Payments

Turkey's private hospital industry was relatively small until the early 2000s.[59] In 2002, private hospitals made up for 23% of all hospitals, but provided only 8% of the total bed capacity in all hospitals (Figure 14). This shows that private hospitals in the early 2000s were relatively small in size and/or focused on outpatient services. Unsurprisingly, private hospitals were used disproportionality by higher-income households and households with private health insurance (Adaman et al., 2007).

[59] For a detailed analysis of the development and the changing political role of Turkey's private hospital industry, see Yılmaz (2017a, Chapter 8).

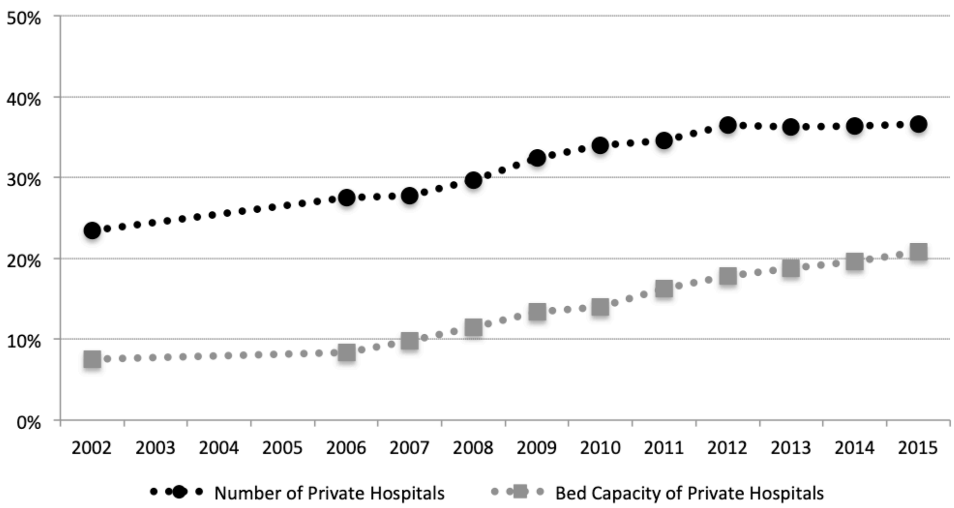

Figure 14: Private hospitals in Turkey, 2002-2015 (as share of total hospitals)
Source: Yılmaz (2017a, pp. 207-208)

Turkey's incipient private hospital industry welcomed the AKP's overall health reform project, as it promised to increase the role of the private sector in health service provision. The AKP government explicitly announced that it would develop measures to incentivize private sector investment in the health sector (AKP, 2003, p. 101). One central measure has been the use of public-private partnerships (PPP) in the construction and operation of large-scale hospital complexes across Turkey (first known as "integrated health campuses" and today as "city hospitals") (see Pala, 2010). In July 2005, the Turkish government decreed that new health facilities could be procured through a tender, "in exchange for rental [of those facilities] for a specified time and price" (Law 5396).[60] The first of these hospitals were opened in early 2017, with more than 20 under construction (*Milliyet*, 3 February 2017). The largest of these is currently built in Istanbul by a Turkish-Japanese consortium, with an investment volume of 4.3 billion USD, providing a dual boost for the private hospital sector and the construction sector (*Hürriyet*, 3 April 2017). While most of these PPP projects in the health sector only began being realized in the 2010s, the anticipation of these projects contributed to the hospital and construction industries' early support for the AKP's health reform.

[60] The quote in original: "Yapılmasının *gerekli* olduğuna Yüksek Planlama Kurulu tarafından karar verilen *sağlık tesisleri*, Sağlık Bakanlığınca verilecek ön proje ve belirlenecek temel standartlar çerçevesinde, kendisine veya Hazineye ait taşınmazlar üzerinde ihale ile belirlenecek gerçek veya özel hukuk tüzel kişilerine kırkdokuz yılı geçmemek şartıyla *belirli süre ve bedel üzerinden kiralama karşılığı yaptırılabilir*" (emphasis added).

While these PPP projects help explain why the hospital industry welcomed the health reform process in general, the interests of the hospital and construction sectors in building and operating nominally public hospitals are quite distinct from (and less complicated than) the private hospital industry's interests vis-à-vis health insurance expansion, the primary concern of my analysis. In the following, I examine if the private hospital industry in Turkey supported or opposed the AKP's expansion of health insurance, and what kind of public health insurance scheme the private hospital industry preferred. I show that a key parameter of contestation was the level of additional payments ("*ilave ücretleri*") that private hospitals would be allowed to charge public insurees above and beyond the amount covered by public health insurance, or, in other words, the question if the reimbursement amounts of the public health insurance scheme constitute a price regulation or a public subsidy for private hospitals.

Initially, Turkish health policymakers sought to reform health insurance in a way that would have allowed SGK-affiliated hospitals (*i.e.* hospitals that wanted to qualify for public reimbursement for SGK insurees) to charge insurees no or little additional payments. In the original health insurance law passed in 2006 (Law 5510), the crucial "payments paragraph" did not permit hospitals to charge *any* additional payments (except for "hotel services" and for treatment by head physicians) (Law 5510, para. 73).[61] The same was stated in a booklet by the Ministry of Labor and Social Security: "[SGK] insurees will be able to benefit from affiliated health service providers without paying any fee" (MoLSS, 2005).[62]

A member of the reform team explained to me that the reform team's original plan was to institute full (quality) competition between private and public hospitals, solely on the basis of the SGK reimbursement price. If a private hospital did not want to offer services at that price, then they would have to be fully private, and thus ineligible for any public reimbursement. The reform team accepted that some of the rich, maybe 10%

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[61] The quote in original: "*Sözleşmeli sağlık hizmeti sunucuları*, genel sağlık sigortalısı ve bakmakla yükümlü olduğu kişilerden sözleşmeli olduğu sağlık hizmetleri için otelcilik hizmetleri ile öğretim üyesi tarafından sağlanan sağlık hizmetleri dışında, *herhangi bir fark ödemesi talep edemez*" (emphasis added).

[62] The quote in original: "*Sigortalılar, sözleşme imzalayan sağlık hizmeti sunucularından hiçbir bedel ödemeksizin faydalanabileceklerdir*. Tasarı ile kamu – özel ayrımı olmadan, sektörün tamamında rekabet şartlarına dayanan daha kaliteli sağlık hizmet üretilmesi teşvik edilecektir" (author's emphasis).

of the population, would go to such fully private hospitals (and thus effectively opt out of the financial reimbursement provided by public health insurance), but expected to be able to reach about 90% of the population through hospitals with an SGK agreement.[63] In January 2008, Sabahattin Aydın, Undersecretary of Health and co-leader of the reform team, clarified the reform team's view of the private hospital sector that underpinned their decision: "If the health sector today is profitable, it is because it is out of control. In the long run there will be no profit [in the health sector]. For the private sector to continue investing in the area of health, it will need to think of hospitals as social responsibility projects, rather than as a way to make profit. Otherwise, these [private-sector] institutions will in the long run not find what they are long for" (*Hospital Manager*, 2008a, p. 25).[64] Hence, the health reform team envisioned private hospitals more like private universities or private secondary schools.

As mentioned above, the Turkish parliament returned to revising the health insurance law in 2007, after Turkey's constitutional court had annulled some of its paragraphs in December 2006. This also gave the government and the reform team an opportunity to reconsider its stance on additional payments charged by private hospitals. The reform team did give up on its previous "zero additional payments" stance, but remained firm that additional payments should be marginal. According to the revised health insurance bill that the government brought to parliament in 2008, private hospitals would be permitted to charge additional fees of up to 20% (TTB, 2010).[65] Health Minister Akdağ stated at the time: "In my opinion, apart from hotel services, citizens should not make significant [additional] payments beyond the amount reimbursed by SGK. Additional payments in the order of 10% to 20% are possible. But let's assume that SGK paid one thousand Lira to a private hospital for a service it provided. And then that private hospital wants to charge you an additional one thousand Lira. It is obvious that such an

[63] Interview with former SGK president (Istanbul, 4 & 8 February 2019)
[64] The quote in original: "Sağlık sektörü bugün karlı ise kontrolsüzlükler yüzündendir. Uzun vadede bu kar olmayacaktır. Özel sektörün sağlık alanında yatırımlarına artarak devam etmesi ancak hastaneleri kar kapıları olarak değil, sosyal bir sorumluluk alanı olarak tasarlamaları gerekir. Aksi takdirde uzun vadede bu kurumlar beklediklerini bulamazlar."
[65] Parallel to this legislative struggle over the permitted level of additional fees in private hospital, which would have indirectly limited the growth of the private hospital sector, the Ministry of Health also sought to directly limit this growth with a pair of February 2008 regulations (which the industry later referred to as the "15 February Earthquake") that required ministerial approval to build new or expand existing private hospitals (MoH, 2008a, 2008b; see *Hospital Manager*, 2008b; Yılmaz, 2017a, pp. 221-222).

approach is unacceptable both from the citizens' perspective and from our perspective" (TTB, 2012).[66]

Unsurprisingly, the private hospital industry strongly opposed this kind of universal health insurance—the (partially annulled) 2006 law allowing no additional payments just as the 2007 draft bill allowing marginal additional payments (of up to 20%). Both versions would basically have made it unprofitable or only marginally profitable to operate private hospitals open to public insurees. They were consequently deeply concerned over how much business would be left for private hospitals.[67] In response to the 2006 law, private hospital industry representatives stated that it would be "impossible" for private hospitals to decrease their prices to the level of public hospitals, and that they would not sign an agreement with the public health insurance fund if they were not allowed to charge additional payments. This would cap the growth potential of Turkey's private hospital sector and limit new investments in the sector (*Medimagazin*, 2 May 2006). Private hospitals' position did not change in response to the 20% additional payments proposed by the 2007 draft bill (*Hürriyet*, 5 December 2007; *Milliyet*, 29 February 2008). As one analysis put it at the time: "Private hospitals now have two options: The will either sign agreements with the SGK and comply with SGK prices by increasing their capacities or reducing their cost, or they don't sign an agreement with the SGK and continue serving only private patients." (*Milliyet*, 29 February 2008). Especially higher-end private hospitals quickly signaled that they would choose the latter option. In February 2008, Istanbul's American Hospital (which is owned by Koç Holding, one of Turkey's largest family-owned holdings) was the first to announce that it would stop accepting public insurees (*Milliyet*, 29 February 2008). To clarify, if the AKP government had maintained this policy design, it would have put a hard cap on the market size of private hospitals (some 10% of the patient population, according to the estimate of the reform team member mentioned above), limiting it to the small market of upper-class patients willing to forego reimbursement by their (mandatory) public health insurance scheme to attend fully private hospitals.

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[66] The quote in original: "Benim görüşüme göre otelcilik hizmetleri … dışında vatandaşın Sosyal Güvenlik Kurumu'nun (SGK) ödediği rakamlar üzerine ciddi rakamlar ödememesi lazım. … Yüzde 10-20'lik veya buna benzer bir takım katkı payları olabilir. Var sayalım SGK bir özel hastaneye verdiği hizmet için bin lira ödedi. … Özel hastane de sizden bin lira ilave fazla para istedi. Böyle bir yaklaşımın vatandaş açısından da bizim açımızdan da kabul edilemeyeceği açıktır"

[67] Interview with former SGK president (Istanbul, 4 & 8 February 2019)

The private hospital industry sought to relax this strict regulation of additional payments under universal health insurance. Represented by the industry association OHSAD, the private hospital industry told journalists that it would do whatever was necessary "to change the ministry's course of action" (*Hürriyet*, 5 December 2007).[68] After the reform team's 20% cap had made it through all relevant parliamentary committees, it was discussed in a plenary session of the Turkish parliament in spring 2008 (TBT, 2010) where some of the ruling AKP's own members of parliament successfully motioned to relax the paragraph (TTB, 2010). When the revised health insurance law was passed by parliament in April 2008, the crucial payments paragraph read as follows: "Affiliated [private] health service providers […] can charge SGK insurees and their dependents additional payments of no more than three times of the [SGK's] designated service prices" (para. 73 of Law 5510, as changed by Law 5754).[69] Hence, the revised 2008 health insurance law, which remains in force until today, mandates that private hospitals can charge additional fees between 0% and 300% of the public health insurance's price, but that the exact level of permissible fees would be defined by an inter-ministerial pricing commission.

Permissible additional fees were initially set at 30% in September 2008.[70] However, they were subsequently raised to 70% in 2009, 90% in 2012, and 200% in 2013 (*Hürriyet*, 23 October 2013). Hence, if, in 2018, a public insuree came to a private hospital for an outpatient medical examination with an Ear, Nose, and Throat (ENT) specialist, the private hospital got a 25.92 TL reimbursement from SGK, like any public hospital, and was allowed to charge the patient up to 51.84 TL (200%) in additional

[68] The quote in original: "Özel sağlık kurumları, SSK'lı hastalardan alınan ücret farklarının en fazla yüzde 20 ile sınırlandırılmasını öngören yasa tasarısına karşı eylem hazırlığında. […] Fark almaksızın maliyetlerini kurtaramayacaklarını ifade eden *özel hastaneler bakanlığı yolundan çevirmek için her türlü eylemi yapacaklarını söylüyor*" (emphasis added).

[69] "*Sözleşmeli sağlık hizmeti sunucuları*, Kurumca belirlenmiş standartların üstündeki talepleri karşılayan otelcilik hizmetleri ile hayati öneme sahip olmama ve alternatif tedavilerin bulunması gibi hususlar göz önüne alınarak Sağlık Hizmetleri Fiyatlandırma Komisyonu tarafından belirlenen istisnai sağlık hizmetleri için, *genel sağlık sigortalısı ve bakmakla yükümlü olduğu kişilerden belirlenen hizmet fiyatlarının üç katını geçmemek üzere ilâve ücret alabilir*" (emphasis added).

[70] This initial level of 30% was apparently decided by Prime Minister Erdoğan personally, who mediated between the Minister of Health, Recep Akdağ, who wanted 25% (just slightly above the 20% proposed in the 2007 draft bill), and the Minister of Labor and Social Security, Faruk Çelik, who wanted 100% (Tezel, 2013).

payments (plus a 15 TL co-payment). If it was determined that the patient required an operation to get his tonsils removed, the private hospital got a 617.87 TL reimbursement from the SGK, and was allowed to charge the patient up to 1235.74 TL (200%) in additional payments.[71] In this system, the "prices" determined under Turkey's public health insurance scheme effectively function as a demand subsidy, because public insurees can choose to go to private hospitals, which are allowed to charge additional payments. In fact, it has been pointed out that private hospitals have begun to refer to the public health insurance's reimbursement rate as a "SGK discount" (Yılmaz, 2017b).

The private hospital industry clearly prefers this new version of the health insurance law, which permits private hospitals to charge additional payments of up to 200%, to the initially planned version that would have permitted no or only marginal additional payments. The hospital sector's interests, as channeled through OHSAD's lobbying activities, were also the key reason for this gradual but fundamental revision of Turkey's universal health insurance scheme in this regard from 2008 to 2013.[72] Given that the health ministry, Turkey's medical association, and patient organizations were staunch opponents of introducing additional payments, private hospitals, together with the insurance sector, were the clear main supporters of this policy change. In fact, the massive increase of permissible additional payments from 90% to 200% in October 2013 occurred only after Turkey's long-time health minister Recep Akdağ, who was a pronounced "statist", had been succeed by Mehmet Müezzinoğlu, the owner of a private hospital, in January 2013.

However, it needs to be pointed out that Turkey's current health insurance scheme is far from perfect from the perspective of Turkey's private hospital industry. First, the hospital sector has long been calling for a complete removal of any limitations on additional fees (*Hospital Manager*, 2010, p. 4).[73] Second, the hospital sector has also called for an increase in the SGK's reimbursement amounts, which have not been updated since 2013 (*Al Jazeera*, 2 April 2014). Given that the reimbursement "prices"

[71] These figures were calculated with the SGK's online "İlave Ücret Hesaplama Ekranı".
[72] Interview with former SGK president (Istanbul, 4 & 8 February 2019)
[73] "Sağlık hizmetlerinde tüketimi rasyonalize etmek amacıyla kullanıcılardan katkı payı alınmalı, *SGK tüm özel sağlık kuruluşları ile anlaşma yapmalı ve özel sağlık kuruluşlarını tercih edenlerin ödeyecekleri farklarla ilgili sınırlama uygulanmamalıdır*."

determined by Turkey's public health insurance system function as a demand subsidy, the private hospital industry has a natural interest in increasing the amount of this subsidy. This is even more salient as long as the total prices that private hospitals can charge are capped in relation to the amount of this subsidy. Third, to cover additional payments, the private hospital sector also supported the introduction of private supplementary health insurance, which was ultimately implemented in 2013 and which I discuss in detail in the following section. Overall, however, one can conclude that the private hospital industry strongly opposed Turkey's universal health insurance scheme as initially developed between 2005 and 2007, but then supported the revised scheme, as gradually implemented since 2008.

5.5.4. The Insurance Industry and the Introduction of Supplementary Health Insurance

In this section, I discuss the reform interests of the private insurance industry during the process of health insurance expansion in the 2000s. In a nutshell, my argument is that the insurance industry welcomed the AKP's health insurance reform project, as it provided a window of opportunity to broaden the market for private health insurance products, although this was initially not one of the government's goals. While the private insurance industry accepted that mandatory primary health insurance would be public, it actively lobbied policymakers for the new system to allow for private supplementary health insurance (*tamamlayıcı sağlık sigortası*, TSS). In sum, the insurance industry consented to coverage expansion, welcomed efforts of public expenditure containment, and actively supported the partial privatization of health insurance services.

When the AKP government initiated health reform in 2003, universal health insurance coverage (through mandatory enrollment) was the core of the reform project and a widely, if not universally, shared policy goal. It was also widely accepted that mandatory primary health insurance would be public. The insurance sector had a first-order preference for allowing workers to opt out of the public system and purchase their primary health insurance plan from a private provider—as is the case in Chile or Germany. But this policy option was not seriously discussed in the 1990s or early 2000s. Even TÜSIAD's 2004 health reform proposal, whose lead author was an insurance sector consultant, did not demand the outright introduction of private primary health insurance but only proposed this a potential future option *after* the implementation of universal public health insurance (TÜSIAD, 2004, p. 131).[74] Hence, the introduction of mandatory-public primary health insurance was the largely uncontested core of the AKP's health insurance reform.

What was unclear and open for contestation, however, was the room that would be legally available for private health insurance beyond the SGK's "basic benefits package". Here, the main question was if private insurance companies would be allowed to offer integrated supplementary health insurance plans that workers could purchase to cover services and costs that remained outside the SGK's benefits package, such as, importantly, the additional payments charged by private hospitals. While supplementary health insurance has long been common in countries like Germany and the Netherlands, and is therefore hardly a radical policy proposal, it tends to stratify health systems and may create pressure on the generosity of the benefits of public health insurance (Yılmaz, 2013, pp. 72-73).

Naturally, the insurance industry in Turkey had a clear preference for the introduction of supplementary health insurance, in order to create a market for a new private health insurance product. In 2003, when the government began working on the details of its health reform, industry associations representing the insurance industry (*Türkiye Sigorta Reasürans ve Emeklilik Şirketleri Birliği*, TSRSB) and private health service providers (*Sağlık Kuruluşları Derneği*, SAGKURDER) sponsored the preparation of a 52-page policy proposal on supplementary health insurance by a private-sector expert group (Çelik et al., 2003).[75] Aware of the reform team's pronounced fiscal concerns, the proposal presented supplementary health insurance as an ideal policy instrument to control the emerging financial pressure on public health insurance by "balancing people's expectations" (Çelik et al., 2003, p. 33).

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[74] "GSS'nin tüm toplumu kapsayacağı zamana kadar geçen bir başlangıç döneminin ardından, dileyenlerin sistemden çıkabilmelerine ve esas sigortaları olarak özel sigorta yaptırmalarına imkan tanıyan bir seçeneğin de düsünülmesi önerilmektedir."

[75] While the insurance industry clearly was more active in lobbying for the introduction of supplementary health insurance, it is unsurprising that the private hospital industry shared this goal. The out-of-pocket, top-up payments that SGK insurees have to pay in private hospitals were one of the major expenditure categories to be covered by supplementary health insurance, thus promising to boost demand for private hospital services.

Initially, however, key decision makers plainly rejected the industry's supplementary health insurance proposal. Industry representatives had the opportunity to present their policy proposal directly to health minister Recep Akdağ in January 2004. But, Akdağ, who, as already mentioned above, had a generally more statist mindset, did not like the idea of introducing supplementary health insurance, worried that it could increase the share of private health financing and potentially dilute public satisfaction with health policy.[76] Hence, expanding the market for private health insurance providers was not an initial aim of the AKP's health insurance reform. Akdağ was not the only critic of introducing supplementary health insurance. The head of the reform team, the SGK's inaugural president Tuncay Teksöz, also emphatically opposed the idea. A common argument made by these bureaucrats was that, if the SGK's benefits package was in any way incomplete, then this public benefits package should be expanded rather than privately supplemented (see Özsarı, 2017). With two vocal opponents in charge of the health ministry and the reform team, supplementary health insurance was notably absent from the 2005 draft bill and the 2006 health insurance law passed by parliament (Prime Ministry, 2005; Law 5510).

While the opportunity to introduce supplementary health insurance in Turkey appeared to have passed, a second window of opportunity opened in December 2006, when Turkey's constitutional court cancelled several articles of the social security and health insurance reform law, requiring a substantial revision. While the court's decision was not concerned with the issue of supplementary health insurance, the ensuing re-legislation process created a second opportunity for the insurance industry to lobby for its introduction. The insurance industry first successfully convinced high-ranking members of the parliamentary health committee to support their cause.[77] Bureaucratic opposition was also significantly lower than previously, after the previous SGK president, a key opponent of supplementary health insurance, had resigned in September 2006, three months after the successful passage of the original reform bill

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[76] Akdağ still had this mindset when he returned for a second stint has health minister in 2016-2017 (*Milliyet*, 20 April 2017). "Ben, biraz sağlık hizmetlerinde kamu sigortacılığının vatandaşın üstüne yüklenmemesinden yanayım. Tamamlayıcı sigorta, yine ilave pirim verilmesini gerektiriyor. Ama Türkiye'de aslında zorunlu sağlık sigortası sistemi var. Benim, anlayışım şudur. Zorunlu sağlık sigorta sistemi koyduğunuza göre, herkes zorunlu olarak sigortalanmak zorunda. O zaman bu primi ödüyorsam, karşılığını almam lazım. Tamamlayıcı sigorta falan yaptırmama gerek kalmamalı."

[77] Interview with insurance industry informant (Istanbul, 8 February 2019)

(*Hürriyet*, 5 September 2006; see Özsarı 2017).[78] As a result, the revised health insurance law of 2008 introduced the possibility of supplementary health insurance.[79]

However, this was not the final victory of the insurance industry yet, as supplementary health insurance still had to be implemented. The 2008 health insurance law delegated this implementation to the Treasury, which had long considered supplementary health insurance favorably, given that it could ameliorate the financial pressure on public health insurance. From 2004 to 2008, the Treasury convened a special commission (headed by a consultant of the insurance industry association) to develop a detailed proposal on supplementary health insurance. Yet, health minister Akdağ, who was in office from 2002 to 2013, long resisted its implementation.[80] Only in 2012/2013, some ten years after the initiation of health insurance reform, did the SGK and the Treasury formally implement the introduction of supplementary health insurance (Prime Ministry, 2013; SGK, 2012). Since then, the market has begun to grow significantly, with number of supplementary health insurance policies growing from 64,000 in 2014 to 676,000 in 2017 (*Sağlik Aktüel*, 28 March 2017). While the sector initially expected that this number would reach 5 million within a few years (Yılmaz, 2013, p. 72), it has recently begun to argue that it requires public support measures, such as a demand subsidy, to reach these growth goals (*Hürriyet*, 3 June 2018).

Summing up, the insurance industry's primary goal during the health insurance reform process was to legalize supplementary health insurance, in order to expand the market for private health insurance products. While the introduction of mandatory public health insurance may not have been the industry's first-order preference, it did open a genuine window of opportunity to expand the private health insurance market compared to the status quo. However, in Turkey, these market-expanding regulations were not introduced based on health policymakers' own initiative, but they ensued from sustained direct lobbying by the private insurance industry.

[78] This confirms Kaan Agartan's (2017) argument that the prevalence of bureaucrats with a statist ideology was a key factor preventing privatization in the decades before the AKP era.
[79] "Yıllık veya daha uzun süreli tamamlayıcı veya destekleyici özel sağlık sigortalarına ilişkin usûl ve esaslar Kurumun uygun görüşü alınarak Hazine Müsteşarlığı tarafından belirlenir."
[80] Interview with insurance industry informant (Istanbul, 8 February 2019)

In this section, I have analyzed how health insurance expansion in Turkey has affected business interests and how organized business has influenced the reform process. I have shown that employers openly supported health insurance expansion from the beginning, because expansion would not lead to premium increases and because it was coupled with a business-friendly pension reform. In contrast, pharmaceutical producers opposed health insurance expansion, because it was tied to stricter pharmaceutical price regulations. Private hospitals and the insurance industry both initially opposed the health insurance reform law, as it would have prohibited private hospitals to charge public insurees additional payments and the insurance companies to offer supplementary health insurance plans. However, both sectors came to support the second version of the health insurance law, which allowed private hospitals to charge substantial additional payments and opened the market for private supplementary health insurance. The interests of private hospital and insurance sectors directly shaped the content the AKP's expansionary health insurance reform through lobbying, while the pharmaceutical sector's advocacy efforts proved ineffective.

5.6. Business Interests and Health Insurance Deepening in Chile

In this section, I turn to the case of Chile, where the center-left government of Ricardo Lagos deepened the country's existing (near) universal health insurance system through a major health reform in 2004. As above, I first describe Chile's pre-reform health insurance system and then introduce the content of the Lagos government's reform proposal. I then focus on the interests and influence of organized business interests during the reform process, demonstrating how the organized interests of employers, private insurance companies, as well as the tobacco, alcohol and oil industries significantly changed the content of the Chilean health insurance reform through active lobbying.

The structure of Chile's contemporary health insurance system was established during the military dictatorship of General Augusto Pinochet (1973-1990), when the system was gradually introduced between 1979 and 1986 (Castiglioni, 2005, pp. 19-20). The system features one public health insurance fund (*Fondo Nacional de Salud*, FONASA) and several private health insurance funds (*Instituciones de Salud Previsional*, ISAPREs). Dependent workers pay a mandatory 7% payroll tax for health insurance, but can choose to enroll either with FONASA or with one of the private ISAPREs. The ISAPREs can offer their insurees optional benefits for additional premium payments. FONASA covers those categorized as indigent—26% of the population in 2011 (Bitrán, 2013, p. 2)—, who are exempted from premium payments and co-payments. This dual health insurance system is largely reflected in dualized healthcare provision. FONASA insurees must go to (good quality but often crowded) public hospitals, while ISAPRES insurees use (more hotel-like) private clinics, which usually charge higher co-payments than public hospitals.

In the 1990s, three problems of Chile's health insurance system became increasingly clear. *First*, the dual health insurance system became a burden on public finances, in significant part because of the limited redistribution between high-income and low-income insurees. While the ISAPREs covered only 16% of the population in 1990 (and 21% in 2000), they collected 57% of total mandatory payroll taxes (Castiglioni, 2005, p. 20). The upper and upper-middle class insurees of the ISAPREs do not only have higher incomes and thus pay higher premiums in absolute terms, they are generally also a lower-risk and thus lower-cost patient population. This meant that the private ISAPREs could develop a highly profitable business model based on low-cost, high-income insurees (known as "cream-skimming" in the literature), while the public FONASA was left with lower-income and higher-risk insurees as well as a large group of indigent insurees completely exempt from contribution payments. The resulting "actuarial imbalance" in the public insurance system meant that, in 2005, around 50% of FONASA's expenditures was financed by the general budget rather than contribution payments, which became a major concern for Chile's influential Ministry of Finance in the late 1990s (Pribble, 2013, pp. 48-49).

Second, health insurance enrollment was near-universal but not yet fully universal. While health insurance enrollment was already above 90% in 2000 (see Martínez Franzoni & Sánchez-Ancochea, 2018), higher than in most other middle-income countries, such as Turkey or Thailand, a significant portion of non-indigent informal-sector workers, perhaps some 6% of the population in the early 2000s, remained without health insurance. These independent workers were not poor enough to qualify for non-contributory enrollment in FONASA, and their contributory health insurance enrollment was optional. However, many chose to forego health insurance enrollment, because to be able to enroll in FONASA and pay a 7% premium, they also had to enroll in one of Chile's private pension funds and pay them an additional 10-13% premium (Pribble, 2013, pp. 54-55).

Third, and politically perhaps most importantly, the generosity of benefits, especially in the public system, was limited and unequal. When seeking to access services in the public healthcare system, FONASA insurees often faced long waiting lists and lines and thus limited access to care. Many public healthcare facilities in rural areas were severely underfinanced. Moreover, FONASA offered insurees varied benefits package depending to their level of contribution. For instance, the indigent, who qualified for non-contributory enrollment in FONASA (and are known as "FONASA Group A"), only had access to primary care.[81] This problem was the most salient in the public debate and was at the center of subsequent reform efforts.

In light of these significant problems, Chile's center-left *Concertación* government, in power since the country's transition to democracy in 1990, turned its attention to health reform in the late 1990s. Ricardo Lagos, who successfully ran for the presidency in 1999, made health reform of his government's most important political projects. His presidential campaign manifesto proclaimed that "inequality in access to healthcare is the worst of Chile's injustices today" (Lagos, 1999). Specifically, Lagos proposed to increase and equalize the generosity of healthcare benefits by introducing a set of explicit guarantees of access for a set of priority conditions across public and private insurers (*Plan de Acceso Universal de Garantías Explícitas*, or Plan AUGE). To finance this expansion of benefit generosity, Lagos proposed to raise taxes and redistribute premium revenues from the ISAPREs to FONASA. The government was able to largely introduce its first proposal of expanding benefit generosity, but had to make serious amendments to its financing proposal, the details of which I will discuss below. Nevertheless, many health and social policy experts consider the reform as a successful step toward universal health coverage (e.g. Bitrán et al., 2010; Pribble, 2013, p. 57). The reform was introduced through a series of laws passed in 2003 and 2004, but it has only been fully implemented since 2013. Public healthcare expenditure significantly increased after the reform, from 2.6% of GDP in 2000 to 4.5% of GDP in 2016 (Figure

[81] Interview with health-sector consultant A (Santiago, 21 November 2017)

15).[82] Conversely, private, out-of-pocket health expenditure fell from a very high starting point of 49% in 2000 to 38% in 2011 (Bitrán, 2013, p. 11). The reform also seems to have led to real improvements in coverage and access, and reductions in hospitalization and death rates (Bitrán et al., 2010).

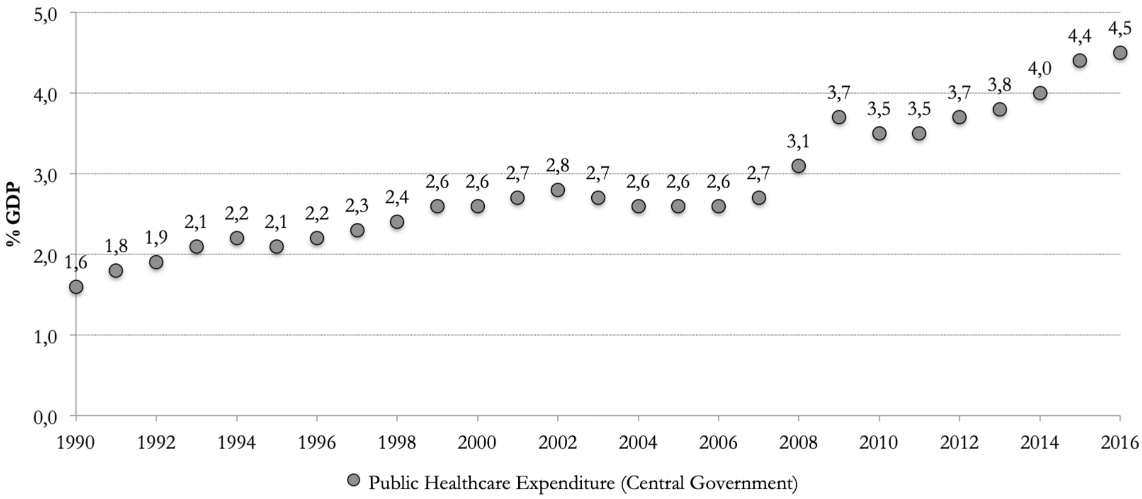

Figure 15: Public healthcare expenditure in Chile, 1990-2016
Source: CEPALSTAT, Public Social Expenditure Database (accessed 18 March 2019)

Existing accounts of the politics of Plan AUGE, Lagos' health insurance reform, have emphasized the roles of electoral competition, public opinion, and financial pressures. Pribble (2013, pp. 48-49) argues that the reform was prompted in part by concerns about the financial architecture of the health insurance system (in which FONASA has to cover the low-income but high-risk population) and its negative implications for the sustainability of public healthcare expenditure. These financial concerns brought the Ministry of Finance on board, an important "veto player" in Chilean social policy-making. Ironically, as I will show, the reform did little to address this financial asymmetry between private and public health insurance funds, as insurance industry opposition forced the government to eliminate the solidarity compensation mechanism that would have limited "cream skimming" by the ISAPREs.

[82] Note that contributions to private and public health insurance funds are both publicly mandated in Chile, but only the spending of the former contributions counts toward "public healthcare expenditure" and thus the size of Chile's welfare state. See Castells (1994) for a seminal discussion of the potential problems of such a narrow definition of the welfare state.

The expansionary dimension of Plan AUGE was caused by increased electoral competition and the growing salience of health policy in public opinion. After the presidential candidates of the left-wing *Concertación* had cruised to comfortable first-round victories in 1989 and 1993, Ricardo Lagos won with only 51% of the vote in the second round of the 1999/2000 election. Moreover, electoral competition between the left and right for the votes of "welfare state outsiders" strongly increased in this 1999/2000 election, thus sharply increasing the political incentives to expand social policy (Garay, 2016, p. 266; see Pribble, 2013, p. 49). The Lagos government chose to concentrate its efforts on health policy, which ranked high among the Chilean public's reform priorities in the early 2000s (CEP, 2000, p. 8). As in Turkey, Chile's medical association, the *Colegio Médico*, strongly opposed the reform, fearing that it would impair doctors' working conditions, and advocated for a much more radical expansion of the public healthcare system (Castiglioni, 2018, p. 17; Pribble, 2013, p. 50).[83] But this opposition from doctors had little effect on the reform outcome, in part because the center-left parties in the *Concertación* had only weak links with corporatist organizations such as labor unions and medical associations (Pribble, 2013).

Despite the social policy literature's serious interest in the politics of Plan AUGE, there has been no systematic analysis of the nature and influence of business interests in the reform process. To be sure, several scholars have acknowledged the powerful and consequential opposition of Chile's private insurance companies, the ISAPREs, to the introduction of the Solidarity Compensation Fund,[84] which I also discuss below. However, these accounts fail to recognize the *multiple* and at times *conflicting* ways in which Plan AUGE affected business interests and how these interests in turn shaped the content of health insurance expansion. In the following, I therefore discuss the interests of not only the insurance industry, but also employers, the tobacco, alcohol, and oil industries, the pharmaceutical industry, as well as the private hospital industry. The analysis shows that powerful business interests did not prevent the expansion (or deepening) of health insurance as such, as it was possible to do so in rather business-

[83] Interview with former deputy health minister (Santiago, 4 December 2017)
[84] The Lagos government's failure to introduce the *Fondo de Compensación Solidario* has been discussed by most analyses of the politics of Plan AUGE (see Dannreuther & Gideon, 2008, pp. 855-856; Ewig & Kay, 2011, pp. 80-81; Garay, 2016, pp. 278-279; Huber and Stephens, 2012, pp. 181-182; Teichman, 2008, p. 450). Dávila (2005) and Pribble (2013, pp. 50-54) offer the most detailed account of this episode.

friendly manner. But business interests clearly limited the redistributive character and the efficiency of the *Concertación*'s health insurance reform.

5.6.1. Employers, Transnational Corporations, and Revenue-Raising Tax Reform

It was clear from the beginning that health insurance deepening would require additional public funding (Lagos, 1999; 2001; see Espinosa Marty, Tokman Román, & Rodríguez Cabello, 2005, p. 36). In June 2003, the Lagos government therefore first introduced a separate bill to raise additional public revenue to finance the proposed social reforms (BCN, 2003). The government proposed to temporarily raise Chile's value added tax (VAT) rate from 18% to 19%,[85] and to also increase excise taxes on a series of consumption goods harmful to health, namely tobacco, alcohol and diesel (BCN, 2003, pp. 5-6, *Mercurio*, 25 April 2003). Naturally, employers and producers opposed these proposed tax increases. Chile's peak employer association, the *Confederación de la Producción y del Comercio* (CPC), met with the Lagos government in an effort to prevent the proposed 1% VAT increase, suggesting that additional public revenue could be raised through higher growth alone (*Nación*, 5 June 2003). *Chiletabaco*, the Chilean subsidiary of British American Tobacco (BAT), which controlled 95% of the Chilean market at the time (UPI, 16 January 2003), came out strongly against the proposed new tobacco tax, arguing that it would lead to an "unconstitutionally" high tax level and lower tobacco industry investments in Chile (BCN, 2003, p. 21-22; *Mercurio*, 1 July 2003). These employer and producer interests in not raising tax rates were represented in Congress by the right-wing *Alianza* and especially the Independent Democratic Union (UDI) party, whose core constituency is business and who is furthermore ideologically opposed to a higher tax share (BCN, 2003, p. 124). Ultimately, in July 2003, the Chilean Congress passed the temporary 1% VAT increase (made permanent by the subsequent Bachelet government), but eliminated the proposed excise tax increases (Law 19.888). Hence, the tobacco, alcohol and oil industries avoided higher (specific) taxation, but employers and all producers had to accept a 1% higher VAT. Chilean employers therefore had to pay a certain price for the Lagos government's deepening of health insurance. This is in contrast to Turkey,

[85] The government initially wanted to raise the VAT permanently (Espinosa Marty et al., 2005, p. 37).

where health insurance expansion did not lead to any news costs for employers, given the Turkish government's emphasis of cost containment and efficiency enhancement.

While the 2003 VAT increase clearly was not in the interest of Chilean employers, I would argue that it was nevertheless the *most business-friendly* way of raising the additional revenue needed for the deepening of universal health insurance. Two relatively obvious alternative financing options were notably not even considered. First, the Lagos government could have raised health insurance premiums, in particular employer contributions. Health insurance in Chile is financed by a mandatory payroll tax of (only) 7%, with zero employer contributions. In comparison, Turkey's universal health insurance is financed by a payroll tax of 12.5% (7.5% paid by employers), while Uruguay levies a payroll tax of 8-13% (5% paid by employers). Second, the Lagos government could have also raised Chile's corporate income tax, one of the lowest in Latin America. Both options were strongly opposed. New employer contributions to health insurance as well as higher corporate income tax rates would have been highly progressive and would have directly reduced corporate profit margins. Tasha Fairfield (2015) has demonstrated that Chile's powerful business community effectively kept such tax increases of the political agenda: "Executive-branch authorities anticipated that tax increases would stimulate costly, coordinated opposition from business and the right, and when it appeared that sufficient votes could not be secured from among the institutional senators and/or the ranks of the right, reforms were dismissed as infeasible" (Fairfield, 2015, pp. 81-82). In fact, the Lagos government's VAT increase was only possible because of the support of two such (conservative-leaning) institutional senators, a legacy of Chile's 1980 military constitution. Similar research on Chilean pension politics suggests that employers strongly oppose any employer contributions to social security (see Chapter 6). In general, Chile's business community and pro-business think tanks, such as *Libertad y Desarollo*, strongly prefer indirect taxation, arguing that it does not distort markets and does not create disincentives for employment creation. In contrast, the VAT increase was strongly criticized by the political left as being highly regressive in nature (*Mostrador*, 6 June 2003), a criticism Ricardo Lagos and several left-wing senators had themselves made in earlier years (BCN, 2003, pp. 55, 200). Members of the health reform team stated that the government pursued the VAT increase, because it was seen as the politically most feasible way of raising the necessary revenue.[86] Business representatives confirmed that there was a consensus in the early 2000s that health expenditure had to be increased.[87] In sum, the Lagos government's VAT increase appears to have been the most business-friendly way of raising the additional revenue needed to finance UHI reform. In that sense, the reform was employer-friendly, even if not pro-employer.

5.6.2. The Insurance Industry and Cream Skimming

The Lagos government wanted to further increase public healthcare expenditure and enhance redistribution within the health insurance system by introducing, as part of Plan AUGE (Law 19,966), a risk-profile compensation mechanism between public and private insurance funds (*Fondo de Compensación Solidario*, FCS). In the government's initial proposal (Lagos, 2001), this compensation fund would have pooled 3% of all (public and private) health insurees' mandatory 7% premiums and redistributed them to funds according to risk profiles. Given that Chile's public insurance fund, FONASA, is disproportionately insuring poorer and older citizens with higher health risks, this compensation fund would have resulted in redistribution of premiums from the private ISAPREs to the public FONASA. This compensation mechanism was politically attractive to the left, because it would have allowed the government to further increase public healthcare expenditure without raising taxes for the lower and middle classes, and to re-introduce a redistributive element into Chile's completely individualized social security system. This compensation mechanism would have directly reduced the revenues and profitability of Chile's private insurance providers. Theoretically speaking, the compensation mechanism would have limited, albeit not completely, private health insurance providers' ability to profit from "cream-skimming", the practice to "target lower-cost users of services, recruiting more attractive or profitable clients" (see Gingrich, 2011, p. 10), which had been taken for granted since the establishment of the public-private system in 1981. The private insurance industry therefore fiercely opposed the introduction of this compensation mechanism. According to René Merino, the majority owner of a private insurance fund and long-time president of the health insurance sector's industry association: "We rejected [the Solidarity

[86] Interviews with former executive secretary of presidential health commission (Santiago, 24 November 2017) and former deputy health minister (Santiago, 4 December 2017)
[87] Interview with ISAPRE sector informant (Santiago, 24 November 2017)

Compensation Fund] from day one because it seemed unfair to us having to hand over to the State the money of private insurance affiliates (so that it would end up in the hands of FONASA beneficiaries)" (*Mostrador*, 25 August 2004). Several members of the reform team confirmed that the industry heavily mobilized against the introduction of the compensation mechanism.[88] Another interviewee suggested that the private sector and the political right eventually supported the deepening of universal health insurance (Law 19,966) to prevent the introduction of a compensation mechanism between the ISAPREs and FONASA (Paster, 2013).[89] Chile's right-wing opposition parties, and especially the pro-business UDI, represented the insurance industry's interests and strongly opposed the compensation fund in the Senate (BCN, 2004). Crucially, however, some senators from the Christian Democratic Party (*Partido Demócrata Cristiano*, PDC), the most centrist party of the center-left *Concertación* coalition, including Edgardo Boeninger, which had supported both the VAT increase and new excise taxes on tobacco and alcohol, opposed the introduction of the compensation fund (Pribble, 2013, p. 51). Knowing that it did not have sufficient support in the senate, the governing coalition decided to eliminate the compensation mechanism from its reform bill, to not risk the failure of UHI deepening.[90]

The insurance industry scored a major victory by preventing the introduction of the redistributive "solidarity compensation fund", thereby limiting the reform to be a significant deepening of universal health insurance, but financed by a higher (relatively regressive) VAT. It must be noted, however, that this was not the first-best outcome for the private insurance industry, as the ISAPRE sector had been pushing for a reform that would have expanded the market share of private insurance companies vis-à-vis FONASA. While Chile's pension system was fully privatized during the 1980s, a full privatization of the health insurance system proved unfeasible, not even under a military dictatorship (Castiglioni, 2005). As a result, and unlike Chile's pension funds (the AFPs), private health insurance providers had to compete with a public health insurance fund. ISAPREs' market share grew until the mid-1990s, when it reached about 26%, but

[88] Interviews with former executive secretary of presidential health commission (Santiago, 24 November 2017), former deputy health minister (Santiago, 4 December 2017), and former health minister (Santiago, 10 December 2017)
[89] Interview with former health insurance sector superintendent (Santiago, 4 December 2017)
[90] The government did, however, introduce a much more limited inter-ISAPREs compensation fund (*Mostrador*, 25 August 2004).

decline thereafter. While the health insurance industry had no interest in having to cover the poor, it was eager to attract larger segments of the profitable middle class. In the mid-1990s, the ISAPRE sector therefore developed the policy proposal of a "demand subsidy", according to which the state should reallocate some of the public (supply) subsidies paid to FONASA as a demand subsidy paid to all those who enroll in an ISAPRE. According to industry representatives, this demand subsidy would create a tax-financed incentive to join a private rather than the public health insurance fund, "regulating in this manner the transfer of beneficiaries to the ISAPREs and expanding it gradually until reaching at least 60% of the population" (Caviedes, 1994, p. 112; author's translation). The state, in turn, would then "be able to allocate all of its [remaining] resources and its concern to the [poor] beneficiaries that remain in the public healthcare system, so that those enjoy adequate, decent, and efficient service as long as they cannot access the private system" (Caviedes, 1994, p. 112; author's translation). While the insurance industry frequently pushed for this proposal, it did not gain traction among health reformers and was never introduced.[91] Hence, during Chile's 2003-2004 health reform, the insurance industry managed to prevent the solidarity fund, thus preserving the private sector-friendly status quo, but also failed to achieve the introduction of a demand subsidy, the sector's first-best preference.

5.6.3. Private Hospitals, Pharmaceutical Producers, and Market Expansion

The remaining business sectors, private hospitals (including other private healthcare facilities) and pharmaceutical producers, played less active roles in the political process of health insurance deepening in Chile. Both were not negatively affected by the content of the reform, and may even have anticipated some benefits, motivating them to provide "quiet support" for the reform.

Given that Plan AUGE was primarily a reform of healthcare financing, providers such as private hospitals were not the main focus. But the reform sought to increase access to healthcare services as well as public expenditure, from which private hospitals and healthcare facilities were hoping to benefit. According to a health sector consultant,

[91] Interestingly, however, the Bachelet government subsequently introduced such a demand subsidy in the pension system, known as the *Aporte Previsional Solidario* (APS) (see Chapter 6). A crucial contextual difference was that individuals who did not enroll in a private pension fund remained without any contributory pension coverage, given the absence of a public pension fund, while individuals who did not enroll in a private health insurance fund could fall back on subsidized public health insurance (FONASA).

there was an expectation before the reform that the introduction of service guarantees, together with the insufficient capacity of public hospitals and healthcare facilities, could create a new market, as FONASA would have to contract with private services providers.[92] Indeed, these FONASA "purchases from private" ("*compras a privados*") did grow after the reform, almost entirely in the field of kidney failure treatment through dialysis (Clínicas de Chile, 2009, p. 2). But they remained below expectations from the perspective of private healthcare facilities.[93] In any case, the potential growth of public purchases from private providers was not a dimension of political struggle during the reform process,[94] but it apparently led private hospitals and healthcare facilities to cautiously welcome the heath insurance deepening.

The pharmaceutical industry also quietly supported health insurance deepening. Given that the reform did not introduce stricter pharmaceutical price controls, it did not significantly affect the industry's profitability. Around 85% of pharmaceutical expenditure in Chile is financed privately "out-of-pocket" (*Diario Concepción*, 15 August 2018). Chile's very high "private share" is in stark contrast to Turkey's private share in pharmaceutical financing of only about 10% (IEIS, 2011). The small share of pharmaceutical purchases that is reimbursed by a health insurance in Chile still comes at relatively high prices, given that FONASA and all ISAPREs separately negotiate prices with producers, reducing health insurers' bargaining power.[95] As a result of the state's historically limited direct interest in pharmaceutical prices and health insurance funds' limited bargaining power, pharmaceutical prices are relatively high in Chile, especially those of original medicines (*Diario Concepción*, 15 August 2018).[96] But Plan AUGE did somewhat increase public pharmaceutical expenditure by beginning to reimburse pharmaceutical expenditure for Plan AUGE priority conditions. It thus seems as if the pharmaceutical industry had a moderate first-order preference for health insurance deepening, given that it promised some volume expansion at unchanged prices. Yet, the pharmaceutical industry played no major active role in the political struggle over health insurance deepening, presumably because it was least affected by

[92] Interview with senior health-sector consultant B (Santiago, 6 December 2017)
[93] Interview with senior health-sector consultant B (Santiago, 6 December 2017)
[94] Interview with former health insurance sector superintendent (Santiago, 4 December 2017)
[95] Interview with senior health-sector consultant B (Santiago, 6 December 2017)
[96] Interview with senior health-sector consultant B (Santiago, 6 December 2017)

the Lagos government's reform proposal when compared to employers, tobacco and alcohol producers, private insurance companies, and private hospitals.[97]

In this section, I have analyzed how health insurance expansion in Chile has affected business interests and how organized business has in turn influenced the reform process. I have shown how the organized interests of employers, private insurance companies, as well as the tobacco, alcohol and oil industries significantly changed the content of the Chilean health insurance reform through active lobbying.

5.7. Conclusion

In this article, I have examined the nature and consequences of business interests in health insurance expansion. I have demonstrated that powerful business interests have shaped the formulation and introduction of two major universal health insurance reforms: Turkey's 2006/2008 introduction of universal health insurance, and Chile's 2004 deepening of its extensive but unequal health insurance system. Scholars of health politics in the global South should therefore take business interests more systematically into account.

The analysis of these two country cases allows some more general conclusions about the role of business interests in health insurance expansion. First of all, employers do not seem to be moved by the potential positive effects of greater health insurance coverage on workers' health and thus the economy's human capital stock, a dimension that the World Bank emphasizes in its promotion of universal health coverage (World Bank, 2018). In contrast, and expanding on previous research on employers' financial interests in health reform (Swenson, 2018), employers' interests in health insurance reforms are largely shaped by the way in which reforms are financed. If health insurance expansion does not lead to higher payroll or other taxes, employers are unlikely to oppose it. If raising new revenue becomes necessary, then employers appear to be more willing to accept new indirect taxes rather than new direct taxes. This means that employers are not necessarily antagonists of universal health insurance, but may actually support it (as in Turkey) or only mildly oppose it (as in Chile). While

[97] Currently, the Chilean congress is debating a law to reduce pharmaceutical prices, the *Ley de Fármacos II* (*Estrategia*, 14 March 2019).

accommodating employer interests therefore does not make health insurance expansion impossible, it substantially limits the possibility of a generous and equitably financed health insurance reform.

The interests of provider industries in health insurance expansion are notably different to and often even in contradiction with those of employers. Providers' interests are primarily shaped by the ways in which health insurance reforms alter the size and profitability of provider markets. If health insurance expansion is not tied to a stricter regulation of pharmaceuticals or private hospital services, then these providers may actually welcome expansion of health insurance and, in turn, of their markets (as was the case in Chile). But expansionary health insurance reforms are often tied to stricter price regulations, in order finance at least some of the additional expenditure on health services through a reduction of input prices. The creation of such "efficiency markets" (see Gingrich, 2011) can turn providers into opponents of health insurance expansion (as in Turkey). Naturally, pharmaceutical producers and private hospitals support the expansion of public expenditure on their products and services, but only to the degree that this expenditure goes toward higher profits rather than toward more efficient service provision. It is therefore clearly possible to expand health insurance with support from provider interests, but accommodating these provider interests limits the possibility of cost-efficient and (for patients) generous health insurance reform.

It is interesting that employers and provider industries are in relatively clear (although generally not open) conflict over their preferred health insurance reforms. It therefore seems difficult to design an expansionary health insurance reform that is agreeable to both employers and providers. Overall, my analysis in this article suggests that the accommodation of business interests is no major obstacle to the introduction or the deepening of universal health insurance as such. This supports scholars who have argued that organized business may indeed sometimes support the expansion of public health insurance (Swenson, 2018). This insight is crucial to understand why health insurance expansion has been such a universal trend, even in countries where business sectors are powerful. However, my analysis also shows that seeking business support limits governments' flexibility in introducing universal health insurance that is generous, efficient, and equitable, confirming scholarship more critical of the role of business in health reform (Hacker & Pierson, 2010; Quadagno, 2005). I believe that this insight is crucial to understanding why so many countries are still far away from providing truly universal health coverage to their populations.

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CHAPTER 6:

BUSINESS INTERESTS AND WELFARE STATE EXPANSION IN LATIN AMERICA: CHILE'S 2008 NON-CONTRIBUTORY PENSION REFORM

6.1. Abstract

Since the 1990s, Latin American welfare states have expanded non-contributory social policy, especially non-contributory pensions (NCPs). In explaining this wave of welfare state expansion, existing research has focused on the protagonism of left-wing parties and social movements, while largely disregarding the role of organized business. For the case of Chile's 2008 NCP reform, this article argues that consent from employers and protagonism from private providers was critical for the passing of this major social reform. Business support was facilitated by a conservative-leaning policy network that had designed a policy characterized by moderate, targeted benefits that are financed by the general budget and that further strengthen individual incentives to contribute to the privatized second-pillar pension system. This study demonstrates the need to incorporate business interests in the analysis of welfare state reforms in the global South, in particular by distinguishing the interests of employers and providers, and by focusing on the interaction of organized business with experts in policy networks.

6.2. Introduction

In March 2008, Chile's parliament passed a major pension reform that introduced two new tax-financed pension benefits: a near-universal minimum pension for those without a contributory (private) pension, and a top-up pension for those with low contributory pension entitlements. The reform led to a doubling of public expenditure on non-contributory pensions, from 0.4% to 0.8% of GDP. Welfare state scholars have celebrated the reform as the "most important achievement" (Huber, Pribble, & Stephens, 2010, p. 91) of Chile's left-wing president Michelle Bachelet. It has also been a milestone in the emergence of "basic universalism" (Molina, 2006) in the global South, with Bachelet subsequently appointed to chair the Advisory Group that helped develop the ILO's 2012 Social Protection Floors Recommendation. What may look like the product of left-wing partisan politics was largely formulated by conservative policy experts and adopted with the crucial consent of organized business interests. The reform's conservative policy design, together with a favorable macroeconomic context, led employers to consent to the reform. Chile's private pension funds, a particularly powerful segment of business interests, even actively promoted the introduction of the public top-up pension, which promised to increase demand for private pension plans among the poor.

This finding has significant implications for what we know about the politics of welfare state development in the global South. In particular, it invites us to revisit the important debate on business interests and welfare state expansion (Hacker & Pierson, 2002; Korpi, 2006; Mares, 2003; Paster, 2013; Swenson, 2002), but in the context of Latin America, where the pension privatizations of the neoliberal era created a powerful new interest group of private pension providers, but where (public) non-contributory pensions have nevertheless expanded significantly over the past two decades. The literature on recent Latin American social policy expansion has so far focused on the role of left parties (Huber & Stephens, 2012; Pribble, 2013), and on changing patterns of popular demand for social policy (Holland, 2018; Mares and Carnes, 2014), largely ignoring the critical role of organized business interests in the formulation and adoption of expansionary welfare reforms.

The remainder of this article proceeds as follows. Section 2 discusses existing research on the political causes of Latin America's recent NCP expansion and on the role of organized business in welfare state development. Section 3 discusses the article's research design. Section 4 provides an empirical analysis of Chile's 2008 NCP reform, with particular focus on the roles of organized business and experts in policy networks. Section 5 outlines the implications of this article for broader debates in the literature.

6.3. The Expansion of Non-Contributory Pensions in Latin America

Since the 1990s, low- and middle-income countries in the global South have experienced a wave of expansion in the field of non-contributory pensions (NCPs), a development that has been particularly pronounced in Latin America (Böger and

Leisering, 2018, Figures 1 and 2). NCPs are tax-financed "cash transfers for the old" (Barrientos & Lloyd-Sherlock, 2002, p. iii), also known as "social assistance pensions" or just "social pensions". While some Latin American countries first introduced NCP benefits much earlier, such as Uruguay in 1919 and Argentina in 1948, most countries in the region have introduced or expanded NCP programs since the 1990s (Carnes & Mares, 2014, p. 699).

This Latin America-wide expansion of NCPs has motivated welfare state scholars to study its political causes, not least to assess the future potential of welfare state expansion in other low- and middle-income countries. One group of scholars has emphasized the favorable macroeconomic conditions, such as the 2000s commodities boom, that augmented the capacity of Latin American governments to expand tax-financed social programs (Murillo et al., 2011; see also Haggard & Kaufman, 2008). Other scholars have focused on patterns of public support for non-contributory social programs in Latin America, arguing that growing economic insecurity and informality have increased popular demand for NCPs even among insiders (Carnes & Mares, 2014; Lopez-Cariboni & Menendez, 2018), or that non-contributory cash transfer and health insurance programs are among the few welfare programs that Latin America's poor actually support (Holland, 2018).

Regarding the key political actors of welfare state growth in Latin America—and thus the "supply side" of NCP expansion—research has tended to emphasize the central role of left-wing parties, labor unions, and social movements that together push for social policy expansion against the resistance of right-wing parties, organized business, and higher-income voters. In their seminal analysis of Latin American welfare state development, Huber and Stephens (2012) focus on this balance of class power and argue that left parties in power were central to the strengthening of labor and to the reduction of poverty and inequality. Subsequent studies have expanded on this Latin American power resources theory, arguing that programmatic left parties with strong constituency ties are more likely to produce universalistic social policy (Pribble, 2013), and that the left's struggle for social policy expansion is aided by strong labor unions (Niedzwiecki, 2015) and social movements (Anria & Niedzwiecki, 2016). Some cases of NCP expansion fit well to the expectations of power resources theory. In Uruguay, for instance, the center-right Colorado Party increased the age limit for NCPs from 65 to 70 in 1995, as part of a comprehensive pension privatization, whereas the subsequent left-wing government of the *Frente Amplio* reduced this age limit back to 65 in 2007 (Pribble, 2013, pp. 73-74).

While power resources theory seems apt at explaining important cross-national differences in Latin American welfare state development, its exclusive focus on left parties, labor unions and social movements as protagonists and right parties and organized business as antagonists of welfare state expansion conceals significant nuance, especially regarding the expansion of non-contributory social policy. Why, for instance, have right-wing governments in Colombia and Mexico also expanded NCP programs? And why did Chile's right-wing opposition provide unanimous support to the left-wing government's NCP reform?

To account for such cases, recent studies of the expansion of non-contributory social policy in Latin America have begun to emphasize the role of growing electoral competition between the left and the right (Ewig, 2016), and for the votes of welfare state outsiders in particular (Garay, 2016). Others have emphasized that non-contributory social policy has encountered limited opposition from non-beneficiaries. Holland and Schneider (2017), for instance, argue that the regional expansion of CCTs and NCPs has been possible because the new programs are relatively inexpensive and are institutionally layered on top of existing contributory social insurance programs without altering them. This policy design gave rise to "broad political coalitions", including not only poor beneficiaries, but also the "wealthy, professional middle-class and labor-market insiders" (Holland & Schneider, 2017, p. 993). Taken together, these recent contributions suggest that the Latin America-wide expansion of NCPs since the 1990s has been possible because of support from right-wing politicians and non-beneficiary voters, and that this support is rooted in programs' specific policy design.

These recent studies emphasizing bipartisan political dynamics have critically advanced the literature on the causes of non-contributory social policy expansion. However, this literature still fails to take into account one of the most influential actors in Latin American politics, namely organized business. The few studies that consider this issue question the relevance of NCPs to organized business and, in turn, the relevance of organized business for NCP reforms. For example, Ewig and Kay (2011, p. 86) argue that Chile's "private pension funds did not oppose the introduction of the Basic Solidarity Pension", as it "did not directly affect the system of individual accounts". Similarly, Bril-Mascarenhas and Maillet (2019) assert that NCPs are "an area of pension regulation in which AFPs [private pension providers] are indifferent".[98] Others suggest that organized business interests have been relatively inconsequential for Latin America's recent social policy expansion, with Fairfield and Garay (2017, p. 1882) arguing that business plays only an indirect role for social policy expansion by constraining available tax revenues.

This widespread disregard of the role of organized business in Latin American welfare state expansion since the 1990s is puzzling given the importance of organized business in Latin American politics. As succinctly put by Schneider (2014, p. 20) in a recent critique of political economy research, in "every country of Latin America […] vast, diversified, family-owned conglomerates, best known as business groups, control large swaths of their economies and wield enormous political power. Why, then, does nearly everyone ignore them?" Indeed, recent scholarship has demonstrated that "political systems and practices in Latin America are remarkably accommodating for business interests, especially narrow or individual interests of big business" (Schneider, 2013, p. 148; see also Fairfield, 2015). Business power is particularly high in the field of Latin American pension politics, where a privatization wave in the 1980s and 1990s gave birth to private pension funds as an increasingly powerful new interest group (Madrid, 2003; also see Bril-Mascarenhas & Maillet, 2019; Ewig & Kay, 2011). Given this high degree of power of Latin America's business groups and private pension providers, it is evident that a comprehensive account of the region's recent NCP expansion needs to consider the role of organized business interests in the policy process.

6.3.1. Business Interests and Welfare State Development

In examining the role of business in the expansion of non-contributory social policy in Latin America, a useful point of departure is the literature on the role of organized business interests in the historical development of European and North American

[98] But see Müller (2009), who traces the introduction of Bolivia's NCP program in 1996, arguing that it was a compensatory policy proposed by neoliberal structural reformers, with support from the business community, to deflect opposition to the privatization of the pension system and state-owned enterprises.

welfare states (for a review, see Paster, 2015). The standard view in this literature is that employers generally oppose welfare state expansion, as it increases taxes and decreases labor supply and productivity, thus reducing profitability (Korpi, 1983; see Paster, 2015, pp. 10-11). This view was challenged by scholars who asserted that employers may actually initiate welfare state expansion, in particular businesses that are large, in need of skilled employees, or exposed to international trade (e.g. Mares, 2003; Swenson, 2002). Setting aside the question if business ultimately benefits from a strong welfare state, historical analyses demonstrate that employers seldom actively supported welfare state expansion (Emmenegger & Marx, 2011; Hacker & Pierson, 2002).

This literature on employer interests has also introduced a useful conceptual distinction. According to Korpi (2006, p. 182), one can distinguish three types of actors in the making of welfare policy: "protagonists" set the agenda and initiate welfare state expansion; "consenters" later agree to welfare state expansion as a second-best option; and "antagonists" persistently oppose welfare state expansion. Korpi's contention is that employers may at times be consenters but are unlikely to be protagonists of welfare state expansion. Despite this important insight, Korpi may have thrown the baby out with the bathwater. Although he recognizes that consenters are "*necessary* although not always sufficient *for welfare state development*" (Korpi, 2006, p. 182, emphasis added), he goes on to discount the causal relevance of business consent: "The extent to which such interest organizations become consenters rather than antagonists […] is not critical to analyses of the origins of that expansion" (Korpi, 2006, p. 182). More attentive to the significance of business consent, Paster (2013) argues that employers become consenters in "reformist situations". More specifically, when "other actors promote the adoption or expansion of social programs and these plans appear likely to succeed […] employers will try to limit the reform effort by promoting policy choices that are less costly to them but that still appear capable of winning a majority" (Paster, 2013, p. 418). While a step in the direction of understanding business consent, the types of social policy choices that are acceptable to employers remain unclear. In this article, I demonstrate that favorable fiscal context and conservative policy design help transform employers from antagonists into consenters.

One major shortcoming of the literature on business and welfare state development is its almost exclusive focus on employers. This comes at the neglect of private providers, which include insurance companies, private hospitals, schools and universities, as well as producers of pharmaceuticals and medical technology. There is no reason to assume that the interests of providers regarding welfare state development are the same as those of employers, who relate to the welfare state almost exclusively through payroll and general taxes. The scant literature that empirically studies the reform interests of private welfare providers suggests that they favor privatization and retrenchment. Financial sector organizations supported pension system privatizations across Latin America (Kay, 1999, pp. 410-412). In the case of European pension policy, the private insurance industry has been one of the main supporters of "partial pension privatization" (Naczyk, 2013, p. 442), which may be expected given that privatization would "increase demand from households for their old-age savings products" (Kemmerling & Neugart, 2009, p. 163). While these empirical accounts are convincing, they all focus on the retrenchment of public welfare provision. Given that public provision is the antithesis of private provision, the private insurance industry's preference for less public and more private pension provision is rather predictable. However, as I demonstrate in this article, private welfare providers may support higher public welfare spending, provided that it finances more private welfare provision.

If support from organized business for welfare state expansion is closely linked to policy design, as argued in this article, then attention needs to be paid to the actors who formulate policy, namely experts in policy networks. Yet, there is no consensus on how experts and policy networks relate to business interests in Latin American policymaking.[99] Some scholars emphasize the structural dependence of experts and technocrats on business interests. In the case of Chilean pension policy, for instance, it has been argued that the selection of experts put in charge of the 2008 reform's policy design was strongly influenced by business interests (Bril-Mascarenhas & Maillet, 2019, pp. 17-18). Others have emphasized the autonomy of experts and technocrats from business in Latin American policymaking, suggesting that "proximity" between economic experts and business should be mistaken for "dependence" (Dargent, 2015, p. 30). In Chilean pension policymaking, too, there can be little doubt about the proximity of pension system experts on the one hand and the interests of private pension funds and business groups on the other hand. In fact, this policy field has arguably been dominated

[99] For a review of policy network analysis, see Rhodes (2006). For applications to policymaking in Chile, see Bull (2008) and Mizala & Schneider (2019).

by a policy subsystem—or Chilean-style "iron triangle"—formed by (i) government bureaucrats at the Ministry of Finance (the "Hacienda") and the Pension Superintendency, (ii) private pension funds and their industry association, as well as (iii) predominantly conservative pension system experts in academia and think tanks. Studying the interactions between these groups is therefore crucial for understanding how business interests shape welfare policy design.

6.4. Research Design

To investigate the role of business interests in NCP reform, I focus on the case of Chile. To reiterate, theories of NCP expansion that focus on the protagonism of left-wing parties and social movements easily explain cases where these protagonists were strong, such as Argentina, Bolivia, Ecuador, and Uruguay. But they struggle to explain cases where these progressive protagonists were probably too weak to pass NCP reforms on the basis of their own power resources, such as Colombia, Chile, Mexico, or Peru. To develop my argument that Latin American NCP reforms were actually agreeable to organized business, and that this business consent allowed countries with weak progressive protagonists to also pass NCP reform, I conduct a case study of Chile's 2008 NCP reform. Chile is a good case to develop this theory given the historically high power of business in post-Pinochet Chilean welfare politics. For instance, Chilean employer and provider associations were able to prevent major social reforms in the fields of health and pension policy (Ewig & Kay, 2011), labor law (Frank, 2002), and tax policy (Fairfield, 2015).

One particular methodological problem that studies of business interests in welfare reform face is the "problem of preferences" (Hacker & Pierson, 2002), referring to the difficulty of determining "whether a particular policy stance reflects a genuine preference or reluctant acquiescence in light of a weak political position" (Hacker & Pierson, 2002, p. 285). Studying the case of Chile provides some leverage over this problem. Theoretically, "reluctant acquiescence" by business and thus preference misrepresentation is more likely in periods of low business power, such as the 1930s United States. In contrast, Chile during the 2000s—before the 2008/2009 financial crisis and the emergence of anti-neoliberal social movements and more radical left-wing parties in the 2010s—is a case of high business power, constituting a least likely case of preference misrepresentation by organized business.

The methodological challenge implied by the possibility of preference misrepresentation can also be addressed at the level of data collection and analysis, in particular by examining "how actors' expressed preferences vary across strategic contexts—such as across time and audiences" (Brookman, 2012, p. 84). Accordingly, I have collected and examined a range of sources, including not only statements by business associations in expert and parliamentary committee hearings, but also previous and internal statements by business and pro-business think tanks, going back to the 1980s. The article also draws on 21 semi-structured interviews with policymakers, business representatives, and economic experts, conducted between November 2016 and December 2017. Based on this data, I conduct a qualitative, within-case analysis of Chile's 2008 pension reform. In particular, I process-trace the formulation and adoption of the reform's NCP component, in order to establish a causal connection between the active role of conservative policy networks, consent by organized business to the conservative policy design, and the adoption of expansive NCP reform.

6.5. The Politics of Chile's 2008 Non-Contributory Pension Reform

Contemporary Chilean pension politics must be understood against the backdrop of a distinct policy legacy. Chile's previous public PAYG pension system was privatized in 1981, during the military dictatorship of Augusto Pinochet. While the reform was a large-scale privatization, which created mandatory private pension funds (*Administradoras de Fondos de Pensiones*, AFPs), it did maintain two state-financed pension benefits. First, dating back to 1975, the Assistance Pension (*Pensiones Asistenciales*, PASIS) provided a means-tested minimum pension of 37.412 CLP, or 32% of the minimum wage, in 2003 (Arenas, 2005, p. 108).[100] Besides its relatively low amount, one key limitation of the PASIS benefit was that the state provided only a limited amount of new PASIS pensions each year, which gave rise to waitlists and made the program effectively non-universal. Second, the state provided a minimum pension guarantee (*Pensión Mínima Garantizada*, PMG) to all those who contributed to the

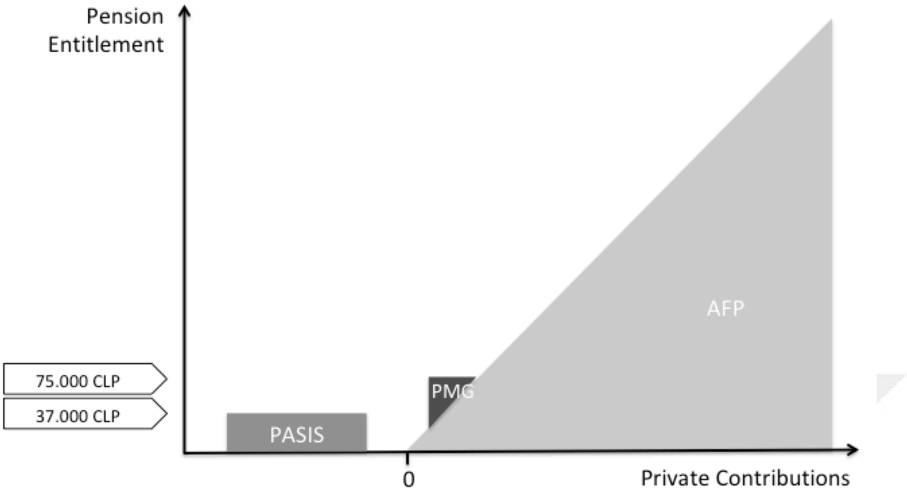
[100] Chile's statutory minimum wage was 115.648 CLP in 2003.

private pension system for at least 20 years. The value of the PMG was 75.211 CLP, or 65% of the minimum wage, in 2003 (Arenas, 2005, p. 108) and the state would finance beneficiaries' pensions at the PMG level after their accrued private savings were used up. One major shortcoming of the PMG program was that only few Chileans qualified for it, as the great majority of AFP affiliates that achieved a contributory pension of less than the PMG had not made contributions for at least 20 years.

After Chile's democratic transition in 1989, the economic and social system created under military rule was initially largely maintained, but reform pressure rose in the 2000s. After pension reform had been considered but eventually not pursued under the administration of Ricardo Lagos (2000-2006), it became one of the key issues of Bachelet's 2005 presidential campaign. During a television debate, Bachelet announced that a large-scale pension reform would be her first legislative project to confront social inequality, and that she would make the PASIS program a "universal right" (CNN & Canal 13, 2005, p. 3). In her campaign manifesto, Bachelet (2005, p. 30) specifically committed to three overarching reform objectives, namely (1) increasing the density of contributions to the contributory private pension system, which she acknowledged as the ultimate key to higher pensions; (2) reducing discrimination within the pension system against women and low-income workers; (3) and increasing the financial return on pension savings by reducing administrative costs and increasing competition among pension funds. In particular, Bachelet committed to "restructure and consolidate" the pension system's "solidarity pillar", whose task it would be to guarantee a minimum standard of social security.

After Bachelet's second-round victory against Sebastian Piñera in January 2006, she assembled an expert commission, known as the Marcel Commission, to develop a detailed reform proposal based on her general reform guidelines. Based on the commission's proposal, the government prepared a draft bill, which after changes was passed by Congress in January 2008. Law 20.255 introduced two new NCP benefits: The *Pensión Básica Solidaria* (PBS), a minimum pension of 75.000 CLP; and the *Aporte Previsional Solidaria* (APS), a non-contributory top-up benefit (linearly decreasing from 75.000 CLP) for pensioners with contributory pension entitlements up to 255.000 CLP. Both the PBS and the APS are targeted at the poorest 60% of the population. Figure 16 graphically summarizes Chile’s non-contributory pension systems before and after the 2008 reform.

(a) before 2008 reform



(b) after 2008 reform

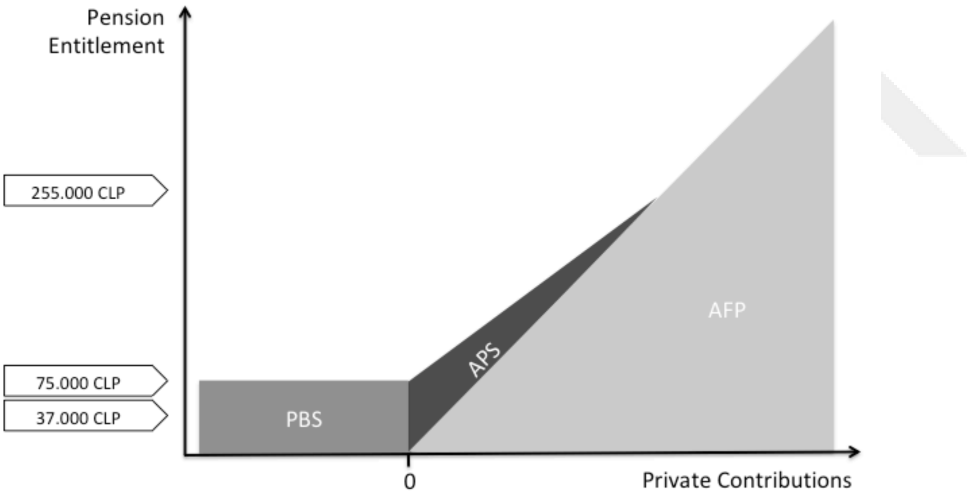


Figure 16: Chile's pension system before and after the 2008 NCP reform
Source: Author’s elaboration [101]

The 2008 reform significantly increased the coverage of NCPs in Chile. The coverage of the PASIS program had evolved from 0.31 million in 1990 to 0.45 million in 2007. In contrast, the new PBS (0.58 million) and APS (0.75 million) programs covered a total of 1.33 million people in December 2015 (CCP, 2017). The reform also led to a

[101] Figure 16 (a) shows the last amounts of PASIS and PMG before the passage of the reform, while Figure 16 (b) shows the initial amounts of APS and PBS introduced by the reform (even if implemented gradually).

significant increase in public expenditure on NCPs. After public expenditure on NCP programs (i.e. PASIS, PMG, PBS, APS) had remained relatively stable between 0.25% and 0.4% of GDP over the 1990-2007 period, it increased from 0.36% of GDP just before the reform in 2007 to 0.79% of GDP when the reform was fully implemented in 2012, implying a public expenditure increase of 0.43% of GDP due to the reform. Figure 17 shows that PBS expenditure increased initially but fell again thereafter, and that the lion share of the expenditure increase comes from the APS program.

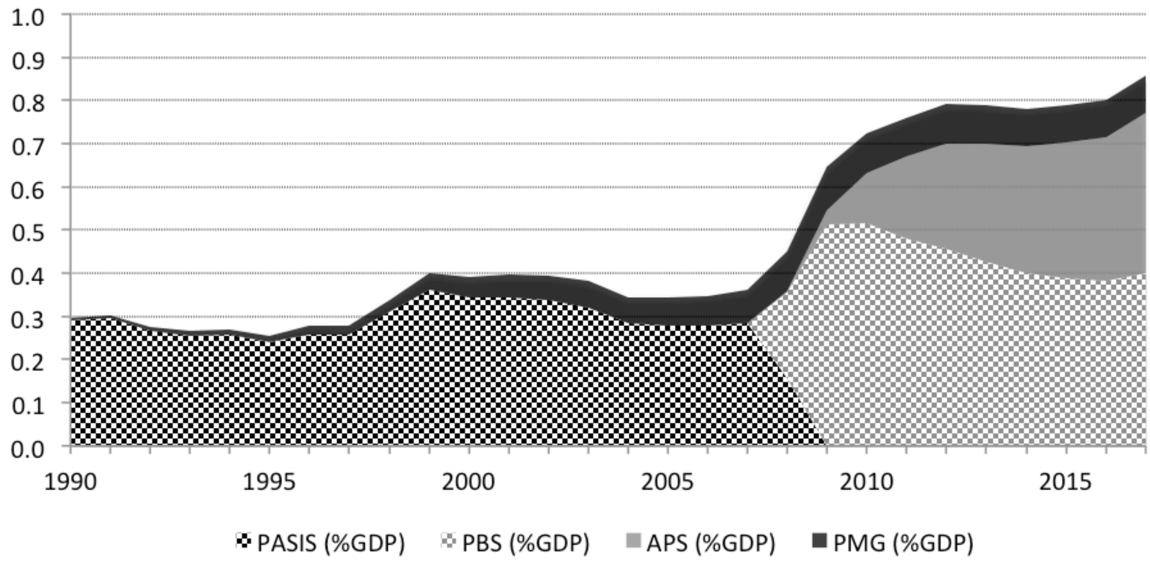


Figure 17: Public NCP expenditure in Chile, 1990-2017
Sources: Banco Central (2018), CCP (2017), DIPRES (2018)

Although I agree with the view that the reform "constituted an important move toward noncontributory basic income security" (Huber and Stephens, 2012, p. 181), it is important to note that the policy design of the reform was rather conservative. Following Bachelet's 2005 campaign promise to make the PASIS program a "universal right" and to create a "solidarity pillar" that guarantees a minimum standard of social security (CNN and Canal 13, 2005, p. 3), a variety of policy designs were possible. The government could have proposed a truly universal basic solidarity pension, paid to all Chileans on the basis of citizenship. For example, the left-wing economist Manuel Riesco had developed a proposal of a public solidarity pension, of initially 100.000 CLP per month, that would cover 85% of the elderly (CAPRP, 2006b, p. 68). Instead, the government's bill proposed a means-tested basic pension of 75.000 CLP, targeted at the poorest 60% of the population.[102] The government could have furthermore proposed to finance the expanded first-pillar pensions through an additional income tax or social security contribution rather than through the general budget, which would have made the reform more redistributive.

To politically explain the passage of Chile's 2008 NCP reform, Huber and Stephens (2012, p. 181), develop a partisan account, according to which Chile's NCP reform was driven by the ascendance of left-wing parties, in particular the presidencies of Ricardo Lagos (2000-2006) and Michelle Bachelet (2006-2010). In contrast, Garay (2016) argues that the introduction of the PBS was instead caused by an increase in the electoral competition for the votes of welfare state outsiders between left and right parties. Garay demonstrates that electoral competition for outsider votes, after being very low during the 1990s, significantly increased in the 2000s, and she calculates that in the January 2006 presidential run-off election between Bachelet and Piñera "close to 60 percent" of outsider districts experienced electoral competition. She thus argues that "Fearing electoral defeat [...] Bachelet initiated social policy expansion to ensure the support of outsiders and the continuity of the Concertación in office" (Garay, 2016, p. 297).

It is true that Bachelet's NCP reform received broad support from the right-wing opposition. Bachelet's final bill, with NCP reform as its main component, was approved with unanimous bipartisan support in the House of Deputies in January 2008, *i.e.* with the support of all right-wing congressmen (BCN, 2008, p. 2719). The Senate had previously approved the bill on 9 January 2008 (BCN, 2008, p. 2553), after the Senate's joint Finance and Labor and Social Security committee had not only left intact the government's proposed NCP reform, but had unanimously agreed to increase the eligibility threshold for the APS benefit from CLP 200.000 to 255.000 (BCN, 2008, p. 1732). This support of the right-wing opposition is significant, because it arguably would have had the power to seriously challenge the NCP reform bill. By January 2008—in contrast to Garay's (2016, p. 286) depiction—the ruling left-wing *Concertación* no longer had a majority in the Senate, after the Senators Fernando Flores

[102] Given that the minimum wage stood at 135.000 CLP in 2006-2007, the government's proposal corresponded to 56% of the minimum wage, while Riesco's proposal corresponded to 74% of this amount.

and Adolfo Zaldívar had left their parties and realigned with the right-wing opposition. It was this new alliance of the right-wing *Alianza* with Flores and Zaldívar that, controlling 19 of the Senate's 38 seats, on 9 January 2008 eliminated the pension bill's most controversial component, the creation of a public pension fund (BCN, 2008, p. 2593). Arguably, these 19 Senators would have had the votes to challenge NCP reform. Instead they unanimously approved it.

This raises the question why Chile's right-wing opposition lent its crucial support to Bachelet's NCP reform, which many analysts have considered a partisan issue. I agree with Garay (2016) that electoral competition played an important role. After all, poor voters, the primary beneficiaries of the PBS and APS benefits, turned into an increasingly important constituency of the right-wing *Alianza* during the 2000s. As Luna (2010, p. 336) demonstrates, in the 2001 and 2005 elections, the right-wing UDI was "the fastest growing political party among the country's poorest [bottom 10%] districts". At the same time, the density of AFP contributions among the poorest 10% of the Chilean population was only 1.1% in the early 2000s (Arenas, 2005, p. 99), meaning that the poorest 10% of the population was set to gain most from NCP expansion.

While the right's electoral calculations certainly played an important role in motivating its support for the government's NCP reform, this account ignores the existence of significant constraints on the right's policy positions. It misses the fact that the *Alianza*—as well as the more conservative forces within the *Concertación*, namely the Christian Democratic Party (PDC)—were able to support the government's reform proposal, because the NCP component of the bill had the consent of organized business, a powerful actor in Chilean politics.

6.5.1. The Centrality of Business Consent for Reform Passage

The disregard of the role of organized business in existing explanations of Chile's 2008 NCP reform is striking, given the consensus on the high power of Chile's business sector in general (Fairfield, 2015; Madariaga, 2017; Schneider, 2004, Silva, 1996) and over pension policy in particular (Bril-Mascarenhas & Maillet, 2019; Ewig & Kay, 2011). While it is beyond the scope of this article to discuss in detail the power sources that Chilean business has over pension policy, I begin this section by introducing three of the most relevant sources of instrumental power, namely business cohesion, partisan linkage, and technical expertise (see Bril-Mascarenhas & Madariaga, forthcoming).

Chile's business sector is among the most cohesive and well-organized in Latin America (Fairfield, 2015, pp. 73-75; Schneider, 2004, p. 152), which strengthens the business sector's position in bargaining with policymakers and reinforces the legitimacy of the business position by making it appear more universal (Fairfield, 2015, pp. 38-39). Chile's business sector is led by CPC (*Confederación de la Producción y del Comercio*), an economy-wide employers association, as well as SOFOFA (*Sociedad de Fomento Fabril*), the association of manufacturing industry, while Chile's private pension funds are organized in the sectoral association AAFP (*Asociación Gremial de Administradoras de Fondos de Pensiones*) and are also dominant in the FIAP (*Federación Internacional de Administradoras de Fondos de Pensiones*), the Santiago-based international association of pension providers.[103] Both employer and provider associations have largely acted in unison with regard to Bachelet's pension reform proposal. In the case of pensions, cohesion also has a strong material dimension. Private providers naturally support the privatized pension system, as it is the *sine qua non* of their business activity. For employers, the private pension system is a major source of capital and credit. By the 2000s, "AFPs have become the most important minority shareholders in most of Chile's listed corporations, and a major source of debt financing for public and private companies" (Iglesias, 2000, p. 113). The AFPs are therefore both a significant owner and creditor of Chile's general business sector, which enhances the cohesion between employers and providers.

The power of employers and providers over pension policy is also based in a strong partisan linkage to Chile's right-wing parties. Organized business is the core constituency of UDI and, to a lesser extend, RN (Luna, 2010). One dimension of this linkage is financial. Figure 18 shows that in 2005 and 2009 UDI and RN received the largest amounts of so-called reserved campaign contributions, which are usually made by business groups and wealthy individuals (Luna, 2010, p. 341). Another dimension is personnel. A large number of UDI and RN party leaders have held top positions in the private sector, in particular the financial sector (Giraudy, 2015). This link is particular

[103] Interview, FIAP informant, 17 November 2017

clear in the case of private pension providers. Between 1999 and 2014, AAFP was led by Guillermo Arthur, cofounder of UDI in 1983 and labor minister under Pinochet (1988-1989).

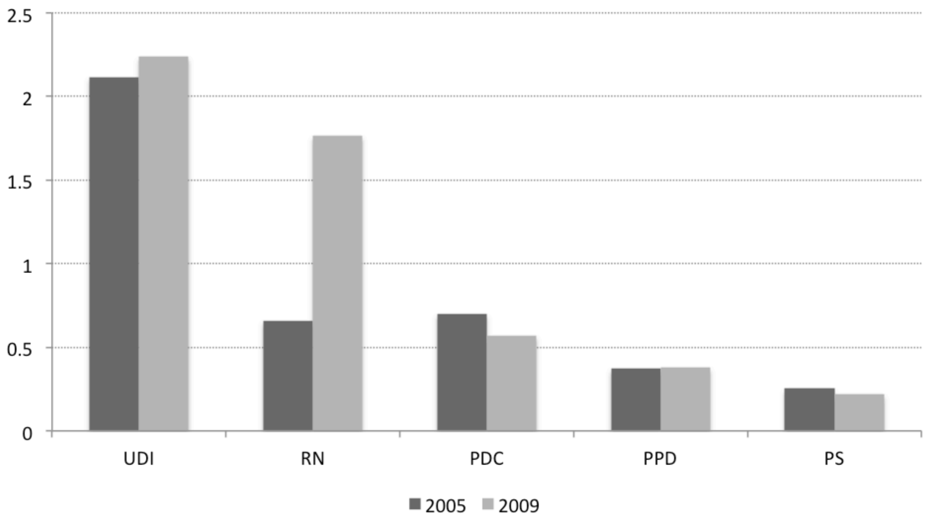


Figure 18: Reserved campaign contributions to Chilean political parties (million USD)
Source: Giraudy (2015: p. 95)

A third key channel of business power over pension policy has been the private sector's technical expertise, which is rooted in the private ownership of pension funds and the control of think tanks. In the field of pensions, the three most influential think tanks have been CEP, LyD, and CIEDESS. CEP and LyD work across policy areas. CEP, for instance, was led and financed, from 1987 to 2015, by Eliodoro Matte Larraín, longtime chairman of the Matte group, Chile's third-largest business group. CIEDESS is a more specialized social security think tank. It is operated by the Chamber of Construction (CChC), one of Chile's best-organized and most influential sectoral business associations, which also owns 40% of the (large) pension fund AFP Habitat. CIEDESS has the capacity to "crunch numbers" and prepare complex technical reports, and is often commissioned by business associations as well as state institutions. The business sector's technical expertise in the field of pension policy led to its substantial representation in the Marcel Commission. Out of the 15 commission members, three had been working directly for a private pension fund (Axel Christensen, Martín Costabal, Augusto Iglesias), while two had been working for business-affiliated think tanks (Harald Beyer, Rossana Costa).

Given these levels of cohesion, technical expertise, and partisan linkage, it appears that Chile's employers and pension funds would have had the power to derail Bachelet's NCP reform. As a matter of fact, this is exactly what occurred with regard to another component of the 2008 pension reform package, namely the proposed creation of a public pension fund, which was strongly opposed by AAFP and FIAP and eventually eliminated from the bill by the right-wing opposition in the Senate. NCP reform, in contrast, passed Senate unanimously. What then were the interests of employers and providers regarding NCP reform? And what role did these interests play in the reform process?

Drawing on Korpi's (2006) terminology of business actors as protagonists, consenters, or antagonists, the remainder of this section discusses the positions and interests of organized employers and providers regarding NCP reform, distinguishing in particular their positions regarding the PBS and the APS programs. Employers were primarily concerned with the potential fiscal effects of an NCP reform, while providers were more concerned with its implications for privatized second-pillar pensions. However, the reform's conservative policy design and the macroeconomic context at the time neutralized these concerns, giving rise to broad consent by organized business. In the case of the APS benefit, private providers even acted as protagonists (see Table 8).

Table 8: The roles of organized business interests regarding Chile's NCP reform

	Employers (CPC, SOFOFA)	**Providers (AAFP, FIAP)**
Minimum Pension (PBS)	Consenters	Consenters
Demand Subsidy (APS)	Consenters	Protagonists

Source: Author's elaboration

The main concern of organized employers with NCP reform was its potential cost and financing. For instance, CPC argued that NCP benefits should be financed by the state's general budget and not by additional mandatory contributions or a redistributive "solidarity fund" (CAPRP, 2006b, p. 210). CPC also emphasized that the reform should involve neither increases in (employer or employee) contributions nor increases in taxes (CAPRP, 2006b, p. 216). Similarly, Chile's manufacturers association, SOFOFA, emphasized that the poor should be helped by the state, but that it was "most important

[…] to facilitate and incentivize [private] saving", so as to "minimize the fiscal burden" (CAPRP, 2006b, p. 156). In particular, SOFOFA argued that the level of the new non-contributory pensions should only rise as more fiscal resources become available over time due to the decreasing transition cost. During a later hearing in the House Finance Committee, CPC again emphasized the importance of "maintaining a fiscal equilibrium" given the planned introduction of new social assistance pensions, noting that "it is imperative not to give in to pressures to raise the [PBS]" (BCN, 2008, pp. 527-528).

Favorable macroeconomic context and conservative policy design helped countervail employers' fiscally-centered opposition to the reform. The years leading up to NCP reform were in fiscal terms among the best in Chilean history (a trend that was reversed by the 2008 financial crisis). The government's budget surplus steadily rose from 2.1% in 2004 to 8.8% in 2007. Capitalizing on these surpluses, the Lagos administration had, in 2006, introduced a Pension Reserve Fund, which annually receives between 0.2% and 0.5% of GDP to serve as a supplementary funding source for NCP expenditure. The 2000s were also an inflection point for public pension expenditure specifically. The 1981 reform had required the Chilean state to shoulder the massive transition cost implied by pension privatization: annually 4-6% of GDP during the 1980s and 1990s. Yet, by the mid-2000s, this cost was projected to steadily recede over the 2010-2050 period (Arenas, 2005), freeing up resources for higher NCP expenditure without the need to increase taxes. These trends allowed the Bachelet government to present its reform proposal as inexpensive if not fiscally neutral. This suggests that a key mechanism that links fiscal policy space and welfare expansion is via the facilitation of business consent. Counterfactually speaking, if NCP reform had required increases in taxes or social security contributions to finance additional expenditure of 0.4% of GDP, employer organizations would have likely opposed the reform.

It is important to emphasize that Chilean employers, in line with power resources theory, were no protagonists of the 2008 NCP reform. Employer association leaders were mostly silent on NCP reform during the 1990s, apparently of the opinion that the existing PASIS and PMG programs were sufficient. For instance, in a 1995 book edited by CEP, José Antonio Guzman (CPC president, 1990-1996) emphasized that the existing PMG benefit, as a support measure "only for the most needy", was a correct expression of the "subsidiary role of the state" (Guzman, 1995, p. 222). However, when Lagos and Bachelet began working on NCP reform in the 2000s, employers consented given the favorable macroeconomic conditions at the time and the reform's conservative policy design.

While employers were primarily concerned with the cost of NCP reform, Chile's providers of private contributory pensions were more concerned with the design of the reformed NCP benefits and their implications for second-pillar pensions. During a congress hearing on the draft bill, in August 2007, the president of AAFP, Guillermo Arthur, mentioned the "strengthening of non-contributory pillar" and its "better integration with the contributory (AFP) system" as the number one "positive aspect" of the draft bill (BCN, 2008, p. 511). While the pension fund sector merely consented to the introduction of the PBS, it acted as a protagonist with regard to the reform of the PMG and the eventual introduction of the APS program.

For the pension fund sector, a reform of the PMG program was relevant for its potential to incentivize lower-income groups to contribute more regularly to their respective pension fund, thus increasing "contribution density".[104] Initially, that is before and during the consultations of the Marcel Commission, private providers supported the idea of introducing a gradual PMG (BBVA, 2006; CAPRP, 2006b, pp. 248, 440). And this was despite the fact that it was clear that this would increase take-up and fiscal cost of the program (BBVA, 2006, p. 86). After the Marcel Commission had dropped the idea of a gradual PMG in favor of a gradual demand subsidy (APS), private providers supported that idea just as strongly. A good indication that private providers had a pre-strategic preference for the introduction of the APS benefit was that during a congressional hearing, the AAFP's president, Guillermo Arthur, closed his testimony by proposing that APS benefits should be introduced *less* gradually than the government itself had proposed (BCN, 2008, p. 515).

Further evidence for the protagonism of private providers comes from an AAFP report (Paredes & Iglesias, 2004), which examines policy options to increase incentives for independent and informal-sector workers to make regular pension contributions. The

[104] Interview, AAFP informant, 23 November 2016

report discusses a gradual PMG, pointing out that this option had first been proposed by the pension fund sector in 2001 and 2002 (Paredes & Iglesias, 2004, p. 62, fn. 57). The report suggests that a gradual PMG would be effective in incentivizing continuous contributions and would have only moderate fiscal cost. Remarkably, the report also discusses the idea of a demand subsidy, as eventually introduced in 2008, which it considers as potentially more effective than a gradual PMG, but which may not be "an easy political sell", as it was "probable that some groups would argue that workers should not be subsidized to buy a program from a private provider and that, in consequence, they would use the opportunity to argue that subsidized independent workers should instead be affiliated with […] a public pension fund" (Paredes & Iglesias, 2004, p. 59).[105]

This broad support by employers and providers was also reflected in the work of business-affiliated think tanks. CIEDESS, LyD and CEP all brought up the same issues: New NCP benefits should be financed through the general budget and should be incentive-compatible. A CIEDESS informant emphasized that organized business would never propose to raise new taxes to finance additional expenditure for higher PBS and APS benefits. Instead, increases should always be financed through the reorganization of public finance and by "spending less on ineffective programs". The same informant also emphasized the importance of incentive compatibility, arguing that the level of APS eligibility should always rise together with the level of the PBS benefit, in order to "maintain incentives to contribute".[106]

A LyD informant made clear just how acceptable the 2008 NCP reform was for organized business, telling me that: "If we decide to introduce solidarity to the pension system, then this [pointing at a graphical illustration of the PBS and APS benefits] is the way to do it".[107] This view was not new among the right and the private sector in Chile. In a 1988 book edited by CEP, a right-wing social security regulator and two business executives responded to criticisms that Chile's privatized pension system was unsolidaristic, arguing that, if one's aim was to help the chronically poor, "the most

[105] Chile's private health providers (ISAPREs) have long but unsuccessfully promoted the idea of a demand subsidy that would permit the poor to use private health providers (see Caviedes, 1994).
[106] Interview, CIEDESS informant, 5 December 2017
[107] Interview, LyD informant, 6 December 2017

appropriate way to achieve this is to increase the amount of the [PMG and PASIS benefits], instead of infringing upon the efficiency of the pension system by trying to pursue two different purposes with a single instrument" (Gaete et al., 1988, p. 54).

While employers, providers and their allied think tanks did not actively push for NCP reform, they had a clearly preferred policy design should the government decide to reform NCPs, namely a tax-financed expansion of targeted and relatively low non-contributory benefits that are "incentive compatible", so as to maintain or even increase individual incentives to contribute to the private pension system. Given the clear consent by organized business together with its high political power—in particular in early 2008, when the left had lost its Senate majority—, one can conclude that business consent was central to the passage of Chile's landmark NCP reform.

6.5.2. Facilitating Business Consent: Conservative Policy Networks

Given the broad consent that organized business gave to NCP reform, one may be tempted to assume that business directly influenced the conservative policy design of the reform, be it through lobbying or neo-corporatist arrangements. Instead, business support occurred more after the fact, and the conservative policy design of Chile's NCP reform was the result of the relatively conservative policy networks that were empowered to develop the reform's design. Specifically, the fiscal conservatism of the reform (key to facilitating employer consent) was shaped by fiscally conservative bureaucrats in Chile's Ministry of Finance, while the conservative design of benefits and the focus on incentive compatibility (key to facilitating provider consent) was shaped by a conservative public-private policy network. These policy networks were dominated by a variety of conservative economic experts, some technocrats with direct political power, others academics at universities or think tanks with more indirect influence; some from the center-left government's own more conservative wing, others directly associated with the right-wing opposition.

The first major policy network involved in the elaboration of the reform's policy design was largely public and hierarchical, situated within and around Chile's Ministry of Finance, the "Hacienda". At the center of this network (and of the policymaking process at large) was Alberto Arenas, Budget Director in the Ministry of Finance (2006-2010) and member of Bachelet's Socialist Party. Arenas had long studied Chile's pension system, going back to his PhD dissertation, which he had written under the supervision of Carmelo Mesa-Lago, one of Latin America's most distinguished social security experts, at the University of Pittsburgh. The second key person in this network was Mario Marcel, Arenas's former mentor and predecessor as Budget Director (2000-2006), who eventually became the president of the 2006 Marcel Commission. Also a Socialist, Marcel had a strong reputation as a fiscal conservative. He had been a key figure behind the introduction of Chile's fiscal rule, and during his tenure as Budget Director, the Hacienda also introduced the above-mentioned Pension Reserve Fund. The business community clearly welcomed Marcel's key role in the policy process. As one AAFP informant put it, "when we heard that Mario Marcel was in charge, we were very happy. We knew this would be a reasonable process".[108] Another AAFP informant pointed out that the Marcel commission was "a success", because Marcel had previously worked in the Hacienda, which was viewed as a safeguard against any radical changes.[109] The key role of these two fiscally conservative technocrats helped to credibly reassure organized business, and employers in particular, that the proposed NCP reform would be fiscally "responsible". And indeed, it was this policy network around Arenas and Marcel that, in interaction with President Bachelet, decided on several basic parameters of the NCP reform, including the maintenance of fully-funded second-pillar pensions, a commitment to the "fiscal sustainability" of the reform, and the financing of the reform by general tax revenue – all supported by organized business.

While these Hacienda-based fiscal conservatives made key decisions with regard to (limited) cost and (indirect) financing of the reform, it largely left open questions of benefit design: How should the new solidarity pension look? This issue was delegated to a second policy network, including many prominent conservative economists and social security experts, several of whom with a background of working for or with Chile's pension fund industry. This policy network was institutionally represented in the Marcel Commission, but also included other conservative experts that were not formal commission members, most notably Guillermo Larraín (PDC member and Pensions Superintendent, 2003-2006) and Salvador Valdés (UDI-allied economics professor at

[108] Interview, AAFP Informant, 8 August 2008 (conducted by Jennifer Pribble)
[109] Interview, AAFP informant, 23 November 2016

Catholic University, and member of CEP), who were key protagonists in the design of Chile's NCP reform. While Mario Marcel presided over the Marcel Commission, which gave the Hacienda significant overview and control, the critical issue of NCP benefit design appears to have been decided by the commission, in particular by its working group on NCP reform, which was headed by Harald Beyer, academic director of CEP.

When the Marcel Commission began discussing the policy design of NCPs, it could draw on a rich body of research and concrete proposals. These proposals had been developed during the Lagos presidency (2000-2006), which had originally planned to introduce a reform bill but later abandoned the idea (CAPRP, 2006b, p. 88). These proposals had been developed by conservative economic experts and were concerned more with the reform of the PMG than with the reform of PASIS. Many of these proposals were presented and discussed at a November 2004 seminar on "Challenges of the Chilean Pension System: Competition and Coverage", jointly organized by the Pension Superintendency and CEP. They all displayed fundamental support for Chile's private second-pillar pension system and identified increasing the density of private contributions as the key challenge to increasing the coverage of the pension system. To achieve this, these proposals focused on a reform of the PMG, as to create stronger incentives for private contribution, in particular for informal workers.

The proposal of a gradual PMG was developed in detail by the Pension Superintendency, which from 2003 to 2006 was under the leadership of Guillermo Larraín, a member of the PDC (the most centrist and economically liberal party within the center-left *Concertación*), who had previously, from 2000 to 2003, been Director of Research at BBVA Provida, one of Chile's pension funds. Under Larraín, the Pension Superintendency developed a concrete proposal of a gradual PMG, which after an initial level of 10 contribution years would reach a higher level each 2.5 additional contribution years. In his 2006 presentation to the Marcel Commission, Larraín pointed out that each of these steps would have an "incentive effect" for workers to make regular pension contributions or to pressure their employers to make them. In this way, a gradual PMG would "generate a positive culture of responsibility and involvement with the pension system" (CAPRP, 2006b, p. 92; also see Berstein et al., 2005).

At the same time as Larraín and the Pension Superintendency developed the proposal of a gradual PMG—already an economically liberal proposal, which had the support of private providers (Paredes & Iglesias, 2004)—, the conservative pension expert Salvador Valdés developed a competing proposal of a gradual demand subsidy. Valdés, a *Católica* economics professor, also affiliated with CEP, first outlined this idea in a paper jointly written with Harald Beyer (CEP's academic coordinator) and later specified it for CEP's presentation to the Marcel Commission in 2006 (Beyer and Valdés, 2004; CAPRP, 2006b, pp. 227-232). While Valdés was a strong supporter of Chile's private pension system, he was also a vocal critic of the "bad design" (CAPRP, 2006b, p. 229) of the PASIS and PMG programs, which created disincentives to contribute and were not sufficiently targeted at the poor. On these grounds, Valdés also criticized the Superintendency's proposal of a gradual PMG, as it would supposedly discriminate seasonal workers over regular employees and would provide weak contribution incentives for the very poor (who may not expect to complete even 10 full years of contributions). Instead, Valdés proposed a gradually receding subsidy that would top up (and therefore incentivize) any contributions made until a certain maximum level of pension entitlements (Valdés proposed 250.000 CLP per month "or more"). Hence, the motivation for Valdés' proposal was to improve the design of publicly financed NCPs as to make them both more efficient in poverty alleviation (through more rigorous targeting) and more "compatible" with the private contributory system by "creating incentives so that [even] an extremely poor affiliate contributes" (Beyer & Valdes, 2004, p. 3).

The Marcel Commission eventually adopted Valdés's proposal of a gradual demand subsidy and of phasing out the PMG program. This choice was aided by the fact that Mario Marcel had chosen Harald Beyer to head the commission's working group on NCP reform.[110] This does not mean that all the conservative experts in the Marcel Commission were in perfect agreement with the commission's final NCP proposal. For instance, Harald Beyer, Rossana Costa and Augusto Iglesias penned a dissenting opinion on the commission's NCP proposal, in which they argued that targeting of the NCP benefits should be even more rigorous by requiring a household-level rather than individual-level means-testing (CAPRP, 2006a, p. 169). LyD's Costa later criticized

[110] Interviews, conservative economic expert B, 14 November 2017; conservative economic expert C, 26 November 2017

that the commission's proposed value of the PBS benefit was set too high, which could create "a disincentive to contribute" (New York Times, 2006). While these conservatives may have wanted stricter means-testing and a lower level of the PBS, they were in full support of the design of the APS program, which was directly based on a proposal of a CEP- and right-wing opposition-affiliated economic expert, and which an AAFP report had previously considered as a preferred policy instrument, but as a difficult "political sell" to the left (Paredes & Iglesias, 2004).

It is therefore understandable that conservative experts endorsed the APS program. Their, at least tacit, support for the PBS program is a bit more puzzling. However, given the Chilean right's historical concern with (extreme) poverty eradication, conservatives actually turned out to be ideologically relatively open to the idea behind the PBS program. When explaining their in-principle support for the PBS program, several conservative experts pointed out to me that the PBS was actually nothing new, but just "a new name" for the already existing PASIS program. Indeed, as early as in October 1973 the military government had initiated a poverty eradication plan. In a first step, the National Planning Office (ODEPLAN), in collaboration with Catholic University, began developing a "Map of Extreme Poverty", which was supposed to inform the regime's policy interventions. The first concrete policy innovation of the plan was the introduction of the PASIS program in 1974/1975 (Soms Garcia 2010: 68-69). One conservative expert pointed out that the military government did not introduce PASIS because of a concern with public support or social unrest, but because it provided a "moral high ground" for the right, who had long criticized the left for their "elitist" social welfare program "that did not really reach the poor".[111] Against this historical backdrop and policy legacy, it is intelligible why during the 2000s many of Chile's conservative economics experts did not seem to perceive the principle of state-led poverty eradication and in particular the specific instrument of a relatively low, means-tested non-contributory pension as foreign to their ideology.

This ideological openness of Chile's conservative economics experts toward NCPs was further aided by dominant new international policy ideas on the topic. One technocrat pointed out that the World Bank's three-pillar model, as developed in its 1994 report

[111] Interview, conservative economic expert A, 14 November 2017

"Averting the Old Age Crisis" (World Bank, 1994), had provided a conceptual framework for the "legitimate combination" of a fully-funded second pillar with a state-financed first-pillar.[112] While the report left open how exactly the non-contributory public pillar should be designed, it provided a clear framework and rationale for the combination of a privatized second pillar and a public first pillar – which is exactly what Chile adopted with its pension reforms of 1981 and 2008.[113]

This section has demonstrated that the 2008 reform's conservative design and, in turn, business support for the reform were rooted in the conservative-leaning nature of the policy networks in charge of drafting the reform. The question remains why these networks were constituted as conservative as they were. There are several potential explanations. If one assumes more a moment that the Bachelet government would have actually preferred passing a more progressive reform (e.g. an unconditional minimum pension of 100,000 CLP per month), it is possible that organized business directly influenced the constitution of these policy networks, that the government chose conservative policy networks freely but in the anticipation of business opposition to more progressive policy designs, or that the "available" social security experts just happened to be more conservative. It is, of course, also possible that the *Concertación*'s own Third Way ideology actually favored a more conservative policy design. Future research will have to answer this question empirically, with a focus on the preferences and decision-making processes that led to the nominations of, for example, Alberto Arenas as Budget Director, Mario Marcel as president of the Marcel commission, and Harald Beyer as head of the NCP working group. However, it is clear that business consent was crucial for the passing of the reform and that business consent must be understood in the context of the conservative policy networks that developed the reform.

6.6. Conclusion

Based on a case study of Chile's 2008 NCP reform, this article has investigated the role of organized business in recent Latin American welfare politics. The account

[112] Interview, conservative economic expert B, 14 November 2017
[113] Chile's conservative economic experts may in fact have helped shape the World Bank's multi-pillar framework. In the ten-author team that wrote "Averting the Old Age Crisis" two were Chilean, namely Klaus Schmidt-Hebbel and Salvador Valdés (World Bank, 1994, p. xv).

demonstrates that the passing of this key reform depended as much on the support of organized business as it did on the initiative of an electorally and ideologically motivated left-wing government, permitting three general conclusions.

First, this article has shown that Chilean employers, together with business-affiliated think tanks, were important consenters to NCP expansion. This confirms theories that employers are unlikely to initiate expansive welfare reforms (Korpi, 2006). Yet, where Korpi and others focus on distinguishing protagonism from "mere" consent, this article suggests that understanding the difference between employer consent and antagonism may be even more important for explaining actual welfare reform outcomes, arguing that policy design and fiscal context are central in turning employers from antagonists into consenters. Chilean employers' primary concern regarding the expansion of NCPs was about its potential consequences for social security contributions and taxes. The reform's conservative policy design alleviated these concerns. Targeted and relatively low benefits promised to contain the overall cost of NCP expansion. This cost, in turn, would be covered by the general budget (rather than new social security contributions) and a pension reserve fund, which minimized the degree to which employers had to pay for extended benefits. The extremely favorable macroeconomic context in 2007 also contributed to muting employer opposition. A budget surplus at historically high levels, together with the decline of the government's transition-induced pay-as-you-go liabilities, freed up resources and created the promise that NCP expansion could be financed without the need for any additional taxes. This advances theories that link fiscal policy space with social policy expansion (Haggard & Kaufman, 2008) by suggesting that good economic times politically enable social policy expansion by muting business antagonism.

Second, this article has also provided evidence that private providers may have a pre-strategic preference for NCP expansion. This suggests that the literature's skeptical view on business protagonism in welfare state expansion may have been driven by its focus on employers (Korpi, 2006; Paster, 2013). In contrast to the cost-side concerns of employers, providers are more affected by the specific design of welfare benefits. Accordingly, Chilean providers' primary concern regarding NCP reform was about its implications for contributions to the private pension plans under their management. They consented to the PBS because it was low enough as to not seriously disincentivize private contributions, and they were actually early supporters of the demand subsidy idea behind the APS benefit, as it promised to expand the market for private pension plans to low-income sectors. Examining provider interests in a context of welfare state expansion allows the conclusion that providers may indeed have a first-order preference for welfare state expansion as long as public social expenditure is used to finance or incentivize private provision. By implication, providers are likely to oppose expansive welfare reforms that limit private provision. This finding is particularly relevant in Latin America, where pension and health system privatizations have given rise to influential provider associations.

Third, this article has demonstrated the central role of conservative economic experts, and therefore conservative policy networks, in facilitating business support for NCP expansion. This analysis confirms the applicability, to the case of NCP reform, of the literature that emphasizes the central role of "technocrats" (Dargent, 2015) and "policy networks" (Mizala & Schneider, 2019) in Latin American policymaking. More specifically, my analysis qualifies recent theories that posit that homogeneity of policy networks (or "technical teams") as such drives sectoral differences in welfare expansion (Castiglioni, 2018). My analysis suggests that Chile's 2008 NCP reform passed because the policy network that designed it was homogenously *conservative*. If, in contrast, this policy network had been homogenously progressive (e.g. led by Manuel Riesco, Andras Uthoff and experts from the union-associated think tank *Fundación SOL*), the resulting reform proposals would most likely have been strongly opposed by organized business and never have passed Congress. This does not mean to suggest that conservative policy networks (or business consent for that matter) generally lead to more welfare state expansion. However, in contexts where organized business is powerful, such as Latin American pension policy, conservative policy networks may facilitate the business consent needed to pass reforms.

These conclusions suggest that the literature's previous focus on the protagonism of left parties, labor unions and social movements in Latin America's recent wave of social policy expansion may not have been incorrect but critically incomplete. Given the influential role of business in Latin American politics (Schneider 2004, 2013) and the legacy of welfare state privatization in the region (Madrid 2003), the roles of organized employers and providers should receive more explicit attention in the analysis of Latin

American welfare politics. This insight hopes to motivate further research on the role of business interests in welfare reforms in Latin America and the broader global South. For instance, have business interests played any active role in the well-documented diffusion of Conditional Cash Transfer programs, the poster child of "neoliberal welfare"? Similarly, have interests of employers and providers, say, in healthier workers or bigger health markets, contributed to the recent global expansion of universal health insurance? If the material presented in this article is of any indication, then incorporating business interests may be central to explaining these recent trends in welfare state expansion in the global South.

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CHAPTER 7:

CONCLUSION: LESSONS FROM TURKEY AND CHILE

This dissertation has examined the politics of welfare state development in the global South, in particular in the two emerging welfare states of Turkey and Chile. This concluding chapter provides a summary of the dissertation's two main contributions, discusses how these relate to the existing literature, and outlines future avenues for research.

7.1. The Uneven Nature of Welfare State Development in the Global South

The first major contribution of this dissertation is the documentation and conceptualization of *uneven* welfare state development in the global South. I have demonstrated across multiple welfare policy areas in Turkey and Chile that the 2000s—the peak of the ostensible "social turn" in the "policy orientation" of developing and emerging economies (UNRISD, 2013, p. 1)—have simultaneously witnessed elements of welfare state expansion, maintenance, and even retrenchment. To substantiate this conclusion, Table 9 summarizes the development during the 2000s of the social policy areas that I have examined in this dissertation in the cases of Turkey and/or Chile. Given that I did not examine all of these policy areas for both countries, some of the table's cells are completed based on the existing literature.

The table indicates that welfare state development has been profoundly uneven in social neoliberal Turkey, where the Islamic, center-right AKP, in power since 2002, has expanded the welfare state in some policy areas (e.g. healthcare), mostly maintained it in others (e.g. non-contributory pensions), and even retrenched it in several yet other policy areas (e.g. contributory pensions, labor market regulation, and "social policy by other means"). The analysis in this dissertation suggests that the uneven nature of Turkish welfare state development was in important parts rooted in the ideology and the uneven preferences of the AKP. In other words, the AKP did not attempt to expand the Turkish welfare state across the board, but failed to do so due to external constraints.

Rather, the AKP government actively pursued expansion in health policy and social assistance, but sought retrenchment in contributory pensions, labor market regulation, and forbearance toward squatting. Here it is important to recall that the AKP enjoyed absolute parliamentary majorities throughout the 2000s, minimizing the need for domestic political compromise. However, some of Turkey's retrenchment efforts during the 2000s were at least facilitated by external pressure. The retrenchment of agricultural state support and contributory pensions were both key demands from the International Monetary Fund (which had significant leverage over Turkey in the early 2000s) and the business community. Both of these reforms were pursued in the name of fiscal prudence and macroeconomic stability, which ranked very high among the Turkish government's and bureaucracy's priorities, especially during the early and mid-2000s (see Öniş & Güven, 2011). In sum, then, Turkey's uneven welfare state development since the 2000s appears to be directly linked to the "mixed" social policy ideas of the AKP.

Table 9: Development of selected policy areas in the 2000s, Turkey and Chile

Policy Area	**Turkey**	**Chile**
Social Policy by Other Means	*Retrenchment* of agricultural subsidies in 2002 and of state support for informal housing in 2004 (Ch. 4)	*Maintenance* of state support for street vending (see Holland, 2017)
Social Assistance	*Expansion* of conditional cash transfers in 2004 (Ch. 3, 4)	*Expansion* of targeted family benefits in 2004 (see Pribble, 2013)
Health Policy	*Expansion* of health insurance coverage in 2008 (Ch. 3, 5)	*Expansion* of health insurance coverage in 2004 (Ch. 5)
Pension Policy	*Retrenchment* of contributory pensions in 2008 (Ch. 5), and *maintenance* of non-contributory pensions (see Öktem, 2018)	*Maintenance* of contributory pensions, and *expansion* of non-contributory pensions in 2008 (Ch. 6)
Labor Market Regulation	*Retrenchment* of labor market regulation in 2003 (Ch. 3)	*Maintenance* of labor market regulation (see Posner, 2017)
Tax Policy	*Retrenchment* of (progressive) direct taxes, and *expansion* of (regressive) indirect taxes (Ch. 3)	*Maintenance* of (progressive) direct taxes (Ch. 5), and *expansion* of (regressive) indirect taxes (see Fairfield, 2015)

While welfare state development was profoundly uneven in Turkey, Table 9 shows that in social democratic Chile, too, welfare state development was uneven during the 2000s. The center-left *Concertación* government, led by the subsequent Socialist Party presidents Ricardo Lagos and Michelle Bachelet during the 2000s, successfully expanded the welfare state only in some policy areas (e.g. non-contributory pensions and health insurance), but largely maintained it in important other policy areas (e.g. contributory pensions and labor market regulation). My analysis suggests that uneven welfare state development in Chile was primarily the result of political constraints. Overall, the Socialist Party (PS) and the Party for Democracy (PPD), the two left-wing parties within Chile's center-left *Concertación* party coalition, as well as Presidents Lagos and Bachelet, supported a broad and comprehensive expansion of the welfare state. They attempted expansionary reforms of the contributory pension system and of the Labor Law, but they were unable to introduce these reforms in the face of strong opposition. In contrast to the political dominance of Erdoğan's AKP in Turkey, Chile's left-wing presidents had no left-wing majorities in parliament and therefore needed to attain bipartisan support. First of all, in the *Concertación* party coalition, the PS and the PPD were allied with the Christian Democratic Party (PDC), which had been a staunch opponent of the Pinochet dictatorship and supports welfare state expansion to a degree, in particular in health policy, but which is also more economically liberal then the PS and PPD. In a sense, the PDC's welfare state preferences are not unlike those of the AKP's social neoliberalism, a mix of statist, liberal, and socially conservative views. Beyond its own coalition, which enjoyed minimal or no parliamentary majorities during the 2000s, Chile's left-wing presidents also had to seek support from Chile's economically extremely liberal right-wing parties.[114] Crucially, as I argue in Chapters 5 and 6, this opposition of right-wing (and centrist) parties to expansionary social reforms was directly shaped by their strong ties to the business sector. In sum, the political need to compromise with centrist and right-wing parties was the primary reason why Chile's left-wing presidents during the 2000s could only achieve a partial and uneven expansion of the welfare state.

This account of uneven welfare state development in Turkey and Chile qualifies and complements existing accounts of emerging welfare states, which largely focus on describing and explaining the expansion of "non-contributory social policy". For

[114] Political scientists have documented that Chile's peculiar "binomial" electoral system, a legacy of the Pinochet dictatorship, was designed "to benefit the right" (Polga-Hecimovich & Siavelis, 2015). While this biased system was replaced by a proportional representation system in 2015, it helps explain why Chile's left-wing presidents during the 2000s did not enjoy stronger parliamentary majorities and, in turn, could not pass some of the expansionary social reforms they pursued.

instance, Carnes and Mares (2014, p. 695) describe “the recent rise in non-contributory social insurance”, while Garay (2016, p. 2) documents a “dramatic expansion of social policy for outsiders”. As became clear from my review of the literature in Chapter 2, the majority of existing studies on welfare states in the global South focuses on describing and explaining the development of non-contributory social programs, in particular conditional cash transfers (CCTs), non-contributory pensions (NCPs) and non-contributory health insurance—exactly those social programs that have witnessed most expansion. However, beyond these non-contributory social programs, welfare state development has been much more uneven. Importantly, I do not mean to challenge the literature’s assessment that there has been substantial expansion of non-contributory social policy in the global South. But I do want to complicate such analyses, arguing that significant and systematic processes of welfare state maintenance and retrenchment have occurred in parallel to elements of expansion currently emphasized in the literature.

I am also not the first to point out that development can be uneven. Indeed, my account of uneven welfare state development in the global South bears similarities to other accounts of economic and social development. Richard Doner, for instance, studies the institutional and political causes of uneven economic development. Specifically, he employs the term “uneven development” to refer “to the fact that many middle-income, developing countries, such as Thailand, succeed at structural change but not, or much less, at upgrading” (Doner, 2009, p. 64). According to Doner, the institutional and political challenges of uneven economic development, that is, of moving from diversification to upgrading, is largely what constitutes the so-called “middle-income trap” (Doner, 2009, p. 276). Doner’s account of unevenness is therefore mostly a sequential one, that is, his focus is on the unevenness of development over time. In a contribution that is probably the most similar to my own account of uneven welfare state development, Alisha Holland and Ben Ross Schneider seek to explain “uneven social policy-progress” by distinguishing two different “reform types”, dividing “reforms into ‘easy’ (or ‘exuberant’) and ‘hard’ (or ‘deep’) redistribution” (Holland and Schneider, 2017, p. 989). They argue that non-contributory social policies, in particular conditional cash transfers (CCTs) and non-contributory pensions (NCPs), have been “easy” to introduce, as they faced only limited opposition. My analyses of Chile’s non-contributory pension reform (in Chapter 6) and of Turkey’s and Chile’s health insurance reforms (in Chapter 5) confirm and extend this argument, by emphasizing the limited opposition from organized business and the political right to *specific designs* of such policies.[115]

7.2. The Causes of Welfare State Development in the Global South

The second major contribution of this dissertation regards the causes of *uneven* welfare state development in the global South. The dissertation provides new evidence to evaluate several existing theories (which I have reviewed in Chapter 2) and it introduces the role of organized business interests into the study of welfare state development in the global South.

First, the research in this dissertation broadly confirms theories of welfare state expansion that emphasize the importance of electoral competition (Garay, 2016; Pribble, 2013). Indeed, my interviews with policy-makers all suggest that the three major expansionary social reforms examined (Chile's 2004 health reform, Turkey's 2006 health reform, and Chile's 2008 pension reform) were all motivated by the electoral calculations of governments highly concerned about their prospects of re-election. Given that Turkey had been an electoral democracy since 1983 (after three-year military rule) and Chile since 1990 (after 17-year military rule), this underlines that formal democratization alone is likely insufficient in explaining welfare state expansion (see Ewig, 2016).

However, my research also suggests that electoral competition itself may be insufficient in explaining welfare state expansion. Garay (2016) argues that Chile's left-wing government introduced health reform in the early 2000s just after electoral districts with many low-income voters had become competitive. In Turkey, as I detailed in Chapter 5, elections were highly competitive throughout the 1990s, and most political parties began to promise the expansion of health insurance. Yet, no party managed to introduce it, due to frequently changing coalition governments. In other words, there may have been "too much" electoral competition in Turkey during the 1990s.

[115] For another account of "uneven social policy expansion", see Castiglioni (2018).

Second, my dissertation also broadly confirms theories that emphasize the importance of state actors or experts in policy networks for welfare state development (Dargent, 2015; Martínez Franzoni & Sánchez-Ancochea, 2016; Mizala & Schneider, 2019). While my research suggests that such state actors may not be the ones with the power to initiate welfare state expansion, they can have important influence on the specific design of expansionary social reforms once electorally minded politicians have decided to pursue them. In Turkey, a statist health minister and health reform team initially designed an expansionary health insurance reform that limited participation by private insurance firms and private hospitals. In Chile, a pension policy network dominated by fiscally conservative bureaucrats and conservative, neoliberally minded economists designed an expansionary non-contributory pension reform that arguably emphasized the incentive compatibility of new benefits more than their generosity or universality. Hence, in both Turkey and Chile, policy networks shaped the specific design of social reforms, thereby either triggering business opposition (as was the case with Turkey's and Chile's health reforms) or facilitating business consent (as was the case with Chile's pension reform).

Third, this dissertation speaks to existing accounts of the role of party politics or partisanship in welfare state development. These existing accounts argue that left-wing parties, in particular those that are programmatic and have strong constituency ties (e.g. Uruguay's *Frente Amplio*), are most likely to expand redistributive and universalistic social policies (Huber & Stephens, 2012; Pribble, 2013). My analysis of social policy initiatives by Ricardo Lagos and Michelle Bachelet in Chile seems to confirm this view. However, in both Chile and Turkey there are several non-left parties that nevertheless supported *some* types of welfare state expansion. The literature on welfare state development in the global South has paid relatively little attention to such "heterodox", apparently often religious parties. First and foremost, the Turkish AKP combines classic liberal-conservative views with more welfarist-Islamic views.[116] This ideology has clearly informed the AKP government's emphasis on poverty alleviation and social

[116] Tellingly, the AKP is a successor party of the Islamist "Welfare Party" (*Refah Partisi,* RP), which had emphasized themes of "social justice, redistribution, and heavy state intervention" (Gumuscu & Sert, 2009, p. 963; see Öniş, 1997). While the AKP split from the Welfare Party in order to develop an economically more liberal party platform, important elements of the Welfare Party's emphasis on social justice and redistribution were carried over to the AKP.

services, expanding both non-contributory health insurance and other social assistance programs. Similarly, the Chilean PDC is a major part of the center-left Concertación coalition and has acted as an internal “veto player” on several social policy initiatives. Not unlike the AKP, the centrist and Christian Democratic PDC has supported the expansion of health insurance and social assistance, but has also pushed for more market- and business-friendly policy designs. As I have demonstrated in Chapter 6, even the Chilean right-wing party UDI, known to represent the interests of the business community, does not oppose all kinds of welfare expansion. Instead, UDI’s ideology also has a religious component and the party has historically emphasized poverty-alleviation policies and has thus lent its support to Chilean left-wing presidents who sought to expand means-tested social pensions or health insurance. As I already suggested in the previous section, it appears that these unorthodox and “mixed” welfare state ideologies of parties such as the AKP in Turkey and the PDC and UDI in Chile played a key role in the uneven development of the welfare state of both countries. By and large, the expansionary welfare reforms that were passed in both countries were either introduced by or were agreeable to these unorthodox center-right or centrist parties.

Future research needs to examine the distinct effect of such parties on welfare state development, just as scholars working on postwar European welfare state expansion had to grapple with the “distinctive welfare state project” of Christian Democratic parties (Huber, Ragin, & Stephens, 1993, p. 712). The majority of scholars that posit the centrality of partisanship and scholars that have questioned it have drawn their conclusions from Latin America, where parties and party ideologies are relatively similar to those in postwar Europe. Beyond the Islamic AKP in Turkey (see Buğra & Keyder, 2006) or the Christian parties PDC and UDI in Chile (see Luna, Monestier, & Rosenblatt, 2013), future research should further broaden the scope of empirical analysis and examine the welfare state ideologies of other “pro-poor” political organizations that are clearly different from social democratic or socialist parties. For instance, scholars could look at the conservative-liberal *Thai Rak Thai* in Thailand (Selway, 2011), the populist-nationalist PDI-P in Indonesia (Aspinall, 2014), and even at the Iranian state’s Islamic-nationalist ideology (K. Harris, 2017), all of which have pursued significant expansionary social reforms.

Fourth, this dissertation also provides clear confirmatory evidence for theories that link welfare state expansion to good macroeconomic times and governments' fiscal capacity. All major expansionary social reforms in Turkey and Chile that I examined were passed between 2003 and 2008, that is just before the outbreak of the global financial crisis. Good economic times allowed Turkey and Chile to expand public healthcare and social assistance. As I demonstrated in Chapter 6, strong economic growth was not just important in boosting available fiscal revenues, but also in diluting opposition from organized business and the political right.

Relatedly and most importantly, my dissertation newly introduces the role of organized business interests into the study of welfare state development in the global South. Curiously, scholars have paid very little attention to the role of business in social policy reforms in developing and emerging economies. This common disregard of the interests and power of organized business is puzzling given their importance in many developing and emerging economies (see Schneider, 2013), often with the power to act as significant "veto players" during welfare reform efforts. In a notable exception, Fairfield and Garay (2017, p. 1882) argue that business plays only an "indirect role" in social policy expansion by constraining available tax revenues. My analyses of health and pension reforms in Turkey and Chile (Chapters 5 and 6) suggest that a variety of different business sectors are quite involved and have clear interests vis-à-vis such social policy reforms. To be clear, I agree that all of the (successful and failed) expansionary social reforms discussed in this dissertation were ultimately motivated by a combination of "welfarist" party ideology and "pressure from below", in particular by politicians anticipating electoral gains. Hence, I do *not* argue that organized business actively pushed the Turkish or Chilean government to expand public healthcare or pensions programs. However, once the Erdoğan, Lagos, and Bachelet governments embarked on expansionary welfare reform, organized business interests became central, but so far largely disregarded, political actors.

In Turkey and Chile, employers shaped not only the extent (as suggested by Fairfield and Garay, 2017) but also the redistributive quality of available revenues, pushing government toward financing expansion through (regressive) general indirect taxes or, ideally, cuts to other government programs, rather then through higher income taxes or new social security contributions. At the same time, transnational industries, such as the tobacco and alcohol industries, persuaded governments not to finance expansion through higher specific indirect taxes on their sectors, which would not only raise revenues but also reduce future cost. In contrast, private welfare providers (such as pension funds, health insurance companies, private hospitals, and pharmaceutical producers) all supported an expansion of public social expenditure *as long as* higher public expenditure went at least in part toward higher private welfare provision and was not tied to stricter regulation of private providers. For that reason private providers became key actors in shaping the nature and the design of expansionary welfare reforms. For instance, Chile's private pension funds lobbied for and supported the expansion of non-contributory social pensions through the introduction of the *Aporte Previsional Solidaria* (APS), a top-up pension benefit that functions as a demand subsidy and incentivizes independent and lower-income workers to make regular contributions to their (private) pension fund.

Future research on the causes of welfare state expansion in the global South should pay much closer attention to the roles played by organized business. My research in this dissertation suggests that the global spread of non-contributory pensions and health insurance has been facilitated by consent from business actors. Future research should further test this hypothesis by examining business preferences vis-à-vis other expansionary reforms of non-contributory health insurance, e.g. in Thailand and Mexico, and of non-contributory pensions, e.g. in Ecuador and Peru. Future research should also examine what role, if any, business interests have played in the global spread of conditional cash transfer programs. Lastly, studies could examine if unsuccessful expansion in "hard" welfare policy areas, such as unemployment insurance, labor regulation, or contributory social security, were due to business opposition.

In the context of the theoretical literature on business interests and welfare state expansion (Hacker & Pierson, 2002; Swenson, 2002), this dissertation underlines the importance of multi-sectoral analysis. Most previous studies have analyzed the preferences of "business" or "capitalists" with an empirical focus *only* on employers. However, as I have shown, employers have very specific interests in the welfare state and they are primarily just concerned with social policy's financing side. A few studies have begun to examine the social policy preferences of the financial sector, but they have tended to focus on insurance firms and pensions funds' support for retrenchment efforts (Naczyk, 2013). While the financial sector may well prefer the retrenchment of public welfare *provision*, my research suggests that it may actually support the expansion of public welfare *expenditure*, as a way to finance more private provision through public expenditure. In sum, to understand the preferences of "business" in welfare state development, it is crucial to distinguish and empirically examine the preferences of all relevant business sectors. The result may well be, as I showed in Chapter 5, that some business sectors oppose expansionary social reforms, while others support it. An important question for future research is therefore why some business sector achieve more influence in welfare reforms than others.

7.3. Future Research Avenues

Summing up, this dissertation has inquired into the nature and causes of the rise of two leading emerging welfare states in the global South: Turkey and Chile. I have argued that welfare state development in Turkey and Chile has been distinctly *uneven*, and that party ideologies and business interests have played important roles in this uneven development of Turkey's and Chile's welfare states since the 2000s. Beyond the issues already discussed above, there are several fruitful avenues for future research.

A key question regarding many of the existing theories is if and how they travel beyond the countries and regions based on which they were developed. This seems especially relevant for theories that emphasize partisanship. The majority of scholars that posit the centrality of partisanship and scholars that have questioned it have drawn their conclusions from Latin America, where parties and party ideologies are relatively similar to those in postwar Europe. Yet, beyond Latin America expansionary social reforms have been promoted by a variety of pro-poor political organizations that are clearly different from social democratic or socialist parties, such as the Justice and Development Party in Turkey. Scholars will have to better incorporate the roles of these non-left but reformist parties. Research needs to examine these parties' distinct effect on welfare state development, just as scholars working on postwar European welfare state expansion had to grapple with the distinctive role of Christian Democratic parties.

Furthermore, scholars should continue to theorize the roles of business interests and power in processes of welfare state change in the global South. In the literature on advanced welfare states, there is a long-standing debate regarding the question if and under what conditions business may support expansionary social reforms. In this dissertation, I have provided an empirical basis for a similar discussion about the politics of welfare state development in the global South. But beyond the cases of health and pension reforms in Turkey and Chile, examined in this dissertation, we still lack systematic answers to the question if organized business in the global South has tended to oppose or support the recent expansion of non-contributory social policies and what kind of social policies it has advocated for.

More generally, scholarship on welfare state development in the global South would benefit from a consolidation of existing theories and an increased focus on theory testing. While this may be natural for a young field, most studies focus on theory development and introduce ever new independent variables. Only regarding the impact of democracy has there been more sustained focus on theory testing across a broad range of countries and policy areas. Many other theories and findings still remain under- or untested. To illustrate this point, let's consider Huber and Stephens' (2012) influential argument that the strength of left political parties is a key determinant of more redistributive social policy. Many subsequent studies have built on this theory and either accepted or rejected its validity. But there is a real lack of studies that empirically test left power theory and its scope conditions.

Looking forward, it appears that the current juncture provides fruitful opportunities for testing some of the central theories of welfare state development in the global South. First, the next decade of social reforms in leading emerging welfare states such as Brazil, Chile, South Africa, Taiwan, Turkey, and Uruguay, will give scholars a clear indication if uneven welfare state development in the global South is only a temporary or a more lasting ("sticky") phenomenon. Second, the end of the global commodities boom in the mid-2010s and the concomitant economic slowdown in many emerging economies will put to a test those theories that stress the role of macroeconomic performance and fiscal capacity. Third, Latin America's recent right turn, which led to right-wing parties winning back the presidency in Argentina, Brazil, and Chile, presents a real test for partisan theories. Fourth, recent processes of democratic reversal in countries such as Turkey, Thailand, Bolivia, Hungary and Poland provide scholars with an unfortunate opportunity to test and specify the impact of political regime type on welfare state development. While these recent developments may be unwelcome, they are likely to provide new insights into the politics of welfare state development.

7.4. References

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