Downloaded from UvA-DARE, the institutional repository of the University of Amsterdam (UvA)
http://dare.uva.nl/document/128623

File ID	128623
Filename	Chapter 8: Accounting for industrial peace in neo-liberal environments
Version	Final published version (publisher's pdf)

SOURCE (OR PART OF THE FOLLOWING SOURCE):

Type	Dissertation
Title	“Three views of a secret” : containment of industrial conflict in neo-liberal environments
Author	R.G. Koçer
Faculty	Faculty of Social and Behavioural Sciences
Year	2009
Pages	X, 313

FULL BIBLIOGRAPHIC DETAILS:
http://dare.uva.nl/record/299163

Copyright

It is not permitted to download or to forward/distribute the text or part of it without the consent of the author(s) and/or copyright holder(s), other then for strictly personal, individual use.

UvA-DARE is a service provided by the library of the University of Amsterdam (http://dare.uva.nl)

Chapter 8

Accounting for Industrial Peace in Neo-Liberal Environments

Overview

In this study I tried to fill a gap: there is no theoretical framework in the literature, which would allow us to comprehend the decline in industrial conflict in many countries and sectors since the early 1980s, that is, during the ascendancy of neo-liberalism. The existing conflict theories mainly belong to the pre-1980 period and the recent scholarship seems to have abandoned the study of conflict due to disappearance of mass industrial action. However, as I demonstrate in chapter 3, industrial relations always generate conflict between employers and workers. Therefore, peace cannot be taken for granted. It is something that needs to be explained.

In chapter 1, I show that the reality generated by or associated with neo-liberalism, that is, the neo-liberal environment, contains three generic empirical features (government interventions under the conditions of democracy or democratization, the simultaneous existence of organized and unorganized industrial relations, some reactions against neo-liberalism), which allow to make many (equally valid) potential explanations for the relatively peaceful industrial relations that characterize the post-1980 period in many countries. Thus, industrial peace in neo-liberal environments is a puzzle, which calls for serious contemplation. In order to solve this puzzle I constructed the following preliminary theoretical proposition:

Capitalist states, under the conditions of democracy or democratization, must balance accumulation and legitimation but neo-liberalism promotes the use of strategic instruments of the state to favor accumulation. It also opposes the extensive delegation of accumulation /legitimation dilemma to organized industrial relations. However, neo-liberalism cannot be implemented without generating legitimation crisis which forces capitalist states to deviate regularly from neo-liberalism. The outcome would be industrial peace resulting from the exportation of industrial conflict into the realm of politics with detrimental implications for consistent pursuit of neo-liberalism.

This argument is constructed by using a single case (i.e., Turkey) but by appealing to a common principle, which applies to all capitalist states at least under the conditions of democracy (i.e., tackling the accumulation/legitimation dilemma). Therefore, it has the potential to be used as a general theoretical proposition that can be applied to other cases in order to account for industrial peace prevailing in neo-liberal environments[252] .

In this final chapter, after summarizing the findings of this study by briefly reconstructing the dilemma theory, I will address some possible objections and point out some themes that may be explored by further research and allow dilemma theory to be applied to other cases.

Summary

Neo-liberalism is a political project which, in any context it is implemented, initiates a dynamical process with three empirical characteristics: i) interventions of governments which, under the conditions of democracy or democratization, enact some neo-liberal measures that are designed to create and sustain free markets, ii) co-existence of and possible interactions between organized and unorganized industrial relations iii) reactions of the society, international actors or various classes which try to resist neo-liberal measures. One may observe these characteristics that constitute the neo-liberal environment in various contexts such as sectors, countries or continents. The historical record reveals that, regardless of the context, neo-liberal environments (not neo-liberalism!) are conductive to industrial peace. Hence is the question scrutinized in this study: *what is the source of the relative industrial peace in neo liberal environments*?

Before constructing a theoretical proposition that may shed light on this question, however, one should test some of the potential explanations that can be deduced from the existing conflict literature in order to reduce the complexity. This would clarify what exactly needs to be theorized about the source of industrial peace in neo-liberal environments.

---

[252] Indeed it is shown in Koçer R.G., and Visser J (2009) that both the dilemma theory and the analytical instruments developed for its operationalization are applicable to at least one more neo-liberal environment: the USA.

Organized industrial relations

One possible line of thinking as to the source of industrial peace is provided by Clegg who attributes the primary role in containment of conflict to collective bargaining (Clegg 1976). Given that, despite all the setbacks, organized industrial relations characterized by collective bargaining is part of any neo-liberal environment, it is to scrutinize the role of collective bargaining in containment of conflict. Indeed, new institutionalist literature indicates that one should not consider institutional stability as the outcome of inertia. Institutions continue to exist because they serve certain actors and beyond the appearance of continuity they may change radically in subtle ways in accordance with the interests of these actors. Thus, in order to use Clegg's theory to account for industrial peace, it is necessary to scrutinize processes which may transform the purpose of collective bargaining under the conditions of neo-liberalism. In this respect, the partnerships between employers and trade unions deserve a special attention. For in neo-liberal environments where neither the state nor employers consider trade unions as crucial actors, establishing partnership with employers often becomes imperative for trade unions. It is quite likely that such partnerships would be employer dominated. They would, while containing industrial conflict, allow manipulation of collective bargaining in accordance with the employers' interests. One may call this the neo-liberalization of collective bargaining and deduce a hypothesis: *industrial conflict in organized industrial relations is contained by the neo-liberalization of collective bargaining, that is, the manipulation and coordination of collective bargaining by employer dominated partnerships.*

However, one may also consider the collective bargaining just as an intervening variable and may focus on the possibility of political exchange between the organized labour and governments in the political arena as the main mechanism for the containment of conflict in organized industrial relations (Pizzorno 1978). The core of the political exchange argument is that as the labour is provided with the opportunity to solve the important issues in the political arena, the need for using industrial action as an instrument of pressure would decline. This line of thinking usually attributes a crucial role to the leftist governments and assumes the existence of strong labour organizations. However, there is no consistent relation between governments' ideological orientations and conflict patterns especially during the last two decades of the 20th century marked by the ascendancy of neo-liberalism. In fact, in the same period

strong labour organizations have become a rarity in many countries. Thus, the idea of political exchange does not provide an alternative hypothesis to account for the industrial peace in neo-liberal environments. Fortunately *opportunist cycles school* provides another way of looking at the idea of political exchange (Nordhaus 1975, Tufte 1978): regardless of their ideological orientations and without the pressure of labour organizations all governments try to manipulate the organized industrial relations prior to elections in order to attract votes. Given that the majority of electorate would consist of wage earners, one may expect governments to be more receptive towards demands of wage earners prior to elections and to use the power of the state to intervene in organized industrial relations in their favor. From these insights one may deduce another hypothesis: *Industrial conflict in organized industrial relations is contained by the pro-worker interventions of the democratic state (which is sensitive to societal reactions) in the bargaining and its coordination.*

Turkey's metal sector, which accommodates a very large component of organized industrial relations offers appropriate empirical conditions for examining these two hypotheses, which may be posed as competing alternatives for the sake of analytical clarity.

In Turkey, the shift from the strategy of import substitution into export-oriented growth in accordance with neo-liberalism occurred between 1980 and 1983 under military dictatorship, which fundamentally restructured the institutional and legal landscape and suspended the democracy. As a part of this restructuring organized industrial relations in Turkey witnessed two major changes: First new laws were enacted which gave complete freedom to employers to choose the bargaining mode, and, second, some government controlled coordination instruments are established in order to use public wages and minimum wage to send wage signals to the private sector that are lower than the market clearance value so as to allow employers to determine the wages in accordance with their needs.

Under these conditions, a partnership based and employer dominated sectoral bargaining system emerged in the metal sector. In this system one of the trade unions, Türk-Metal, cooperated with the employers' organization MESS so as to allow collective bargaining system to serve employers' interests. This partnership involved the suppression of workers' demands by Türk-Metal and the intimidation of other trade

unions by the MESS, and allowed the MESS to set the wage pattern for the entire sector while preventing industrial action. Besides the partnership in coercion between the MESS and Türk-Metal, there were several other factors in this system which helped containment of conflict such as the task classification system, high-bargaining level, relatively better-off position of metal workers and special treatment of public enterprises affiliated with the MESS. However, these factors were effective so long as the power distribution between employers and workers remained unaltered and the position of the metal sector in the entire political economy was stable, that is, wages in other sectors were low. These two external conditions, however, were to be satisfied by governments: first, by retaining the pro-employer legal framework, and second, by the persistent use of coordination instruments for sending deliberately low wage signals. The first governments of the neo-liberal period, which were unaccountable in democratic terms due to restrictions imposed by the military, actively provided this external support.

However, from 1987 onwards a new variable entered into the equation: democratization. As the restrictions imposed by the military were gradually lifted the politics became an increasingly competitive field. Consequently, the resentment created by low wage policy in public enterprises triggered wildcat industrial actions in the public sector. These were encouraged by the opposition politicians and approved by the society. In other words, the full-fledged pursuit of neo-liberalism has created a *de facto* alliance between all wage earners. Democratization allowed this alliance to revolt against the government and articulate its resentment through political mobilization of collective action potential embedded in organized industrial relations. Consequently, the government was compelled to convert the neo-liberal coordination mechanism of the public sector into a gentleman deal arrangement: from 1990 onwards, the public sector wage norms would be jointly determined by governments and the peak labour organization TÜRK-İŞ. Thus, public sector would no longer send deliberately low wage signals to the rest of the organized industrial relations.

The metal sector bargaining system was seriously influenced by the political mobilization triggered by democratization and the emergence of the gentleman deal arrangement. Direct state intervention in favor of workers, wide scale industrial actions, unprecedented wage increases, mass disaffiliation of middle size firms, and the loss of the

relatively better-off position of metal sector in the political economy were the implications of the democratization process on this bargaining system. Although in the long run the metal sector bargaining system remained employer dominated, metal workers started enjoyed better conditions compared to the 1980s thanks to the indirect impact of the new gentleman deal arrangement in the public sector.

The events of the late 1980s clearly revealed that the employer dominated and partnership based bargaining system in the metal sector could prevent mobilization of metal workers so long as they were isolated from public workers and not encouraged by wide spread societal resentment. However, it was beyond the power of metal sector bargaining system to cope with industrial conflict when it appeared as a part of large scale societal protest. In other words, social peace was to be ensured for employer dominated bargaining system in the metal sector to function. This shows that some of the immediate complementary factors (such as low wage signals) required from governments by employer dominated bargaining systems may be sacrificed for the sake of preventing wide ranging societal resentment which proved to be fatal for such systems. The policy mix, which ensured this outcome, was allowing pro-worker signals to be sent into organized industrial relations by the new gentleman deal arrangement, while enforcing the pro-employer legal framework introduced during the military dictatorship period. All governments after the democratization of the late 1980s persistently pursued this policy, which (together with the privatization of public enterprises) gradually shrank the relative size of organized industrial relations without provoking the involved workers as happened in the 1980s. Obviously, this was a kind of balancing policy: keeping organized industrial relations small and employer dominated (by enforcing the neo-liberal laws) without allowing workers to be too much strained (through the wage signals sent by the gentleman deal arrangement) in order to prevent them from using their collective action potential for political mobilization. In other words, entirely pro-employer and neo-liberal government policies (i.e., enforcing pro-employer laws and sending low wage signals) of early 1980s were proved to be infeasible under the conditions of democratization.

This empirical analysis shows that although employer dominated bargaining systems (i.e., the neo-liberalization of collective bargaining) appear to be crucial in containment of industrial conflict, the functioning of these systems under the conditions of democracy appears to be

possible only if governments make some pro-worker interventions in organized industrial relations, which would prevent political mobilization of workers. Therefore, the second hypothesis, which focuses on the role of the state provides a better explanation for containment of industrial conflict in organized industrial relations.

This shows that a theory of containment of conflict in neo-liberal environments should explain the role of the state in organized industrial relations: why do all governments regardless of their differences persistently pursue the same 'policy of balance'?

Now, let us move to the other field of industrial relations in order to clarify what exactly needs to be theorized there.

Unorganized industrial relations

Kelly, by introducing the feeling of injustice into the lexicon of the conflict theory, provides a new perspective to look at the conflict dynamics in the era of neo-liberalism, where collective bargaining and trade unions are not always relevant (Kelly 1998). This approach considers workers' ability to attribute the blame of an unjust situation to an agency, for example, to employers, rather than to structural conditions as the prerequisite of industrial conflict: as long as some leaders at workplace level convert the perception of injustice into the group cohesion, industrial action may be ignited without trade unions. If one considers the feeling of injustice as relevant not only for workers but for all actors that are present in neo-liberal environments, then one may develop two hypotheses as to the source of industrial peace in unorganized industrial relations.

Firstly, Kelly's concept of injustice may be utilized in line with the idea that in the age of neo-liberalism non-state actors (NGO's and international networks) are the main agency behind the reactions against neo-liberal measures (Munck 2004). Thus, conflict in unorganized industrial relations may be contained by non-state actors' reactions, which are triggered by the injustices they observe. Against this background, one may claim that these new actors may correct the most excessive injustices and in this way prevent the conflict potential from being ignited. The question is that whether corrective mechanisms such as private labour regulations initiated, enforced and/or monitored by non-state actors can really contain industrial conflict in unorganized industrial relations. Obviously, in order to consider non-state actors

responsible for industrial peace, one should establish the degree to which they operate without being involved in intended or de facto partnerships with public authorities. Having all these in mind one can deduce the following hypothesis: *industrial conflict in unorganized industrial relations is contained by the correction of injustice by non-state actors, that is, NGO's, consumer groups and international networks.*

Secondly, Kelly's concept of injustice may also be utilized by appealing to the idea that the reaction against the neo-liberal measures may be in the form of societal response. This idea allows to reveal how exactly the elections (or democracy), which is present in neo-liberal environments, might influence the conflict dynamics in unorganized industrial relations by affecting the choices of governments and the public: in order to sustain industrial peace, the feeling of injustice perceived by worker-voters who are employed in unorganized industrial relations must be manipulated by some mechanisms so as to prevent the blame of injustice from being attributed to immediate employers. Instead, such mechanisms should render the governments directly or indirectly responsible for the injustice. Thus, if one can reveal the institutional mechanisms which lead to the attribution of the blame of injustice to the state rather than to employers, then one may claim that this mechanism reduces conflict potential by motivating workers to tackle the injustice not at the workplace by confronting with their immediate employers, but in the political arena as voters by making demands from the state. This idea may be briefly put as a hypothesis: *industrial conflict in unorganized industrial relations is contained by direct or indirect attribution of the blame of injustice to the state rather than employers (i.e., exportation of conflict into the realm of politics).*

In order to examine these two hypotheses one should study workplace level dynamics in a sector where unorganized industrial relations are dominant and the codes of conduct as the main corrective instrument of non-state actors are prevalent. Of course, it is also essential to see whether workers' attribution of the blame to the factors that are controlled by governments plays a role in containment of conflict. The clothing & textile sector in Turkey provide appropriate empirical circumstances.

This sector is characterized by the extensive use of subcontracting. The main reason is reducing labour costs by benefiting from the mix of informal and formal employment relations in the sector which constitute

a continuum of five points: 1) *complete informality*: no social security and registration for workers 2) *partial informality*: a portion of the workforce remains unregistered 3) *reduced formality*: all workers are registered but a certain amount of their wages is paid without any record in order to reduce employers' share in the social security premiums. 4) *complete formality but no collective bargaining*: all workers and their wages are entirely registered but they are not allowed to unionize. 5)*complete formality and collective bargaining*: all workers and their wages are entirely registered and they are allowed to unionize. The vast majority of the workers in the sector are employed in lower levels of formality at points 1,2 and 3, which do not allow them to be entitled for retirement and severance payments. As one moves down in the formality continuum, labour costs and employment security decrease, while the likelihood of wildcat industrial action increases. This means that the combination of minimum wage, long-term employment and social security decreases the propensity of conflict.

Minimum wage is of crucial importance: at point 5 it is the wage at workplace level collective bargaining but supplemented with fringe benefits and social security, at point 4 it is the common wage but combined with social security, at point 3 it is the officially paid wage which can be occasionally exceeded at the expense of employment security, and finally, at point 1 and point 2 it is the lighthouse wage, which is taken as the reference during wage determination processes. Given these different roles played by minimum wage, one may argue that governments as sole determiner of the minimum wage, are present in unorganized industrial relations at all levels of formality.

In this environment, the feeling of injustice among workers is generated by four problems: first, the majority of workers are employed at points 1 and 2 in the formality continuum under very poor health and safety conditions. Second, through the entire sector, with exception of point 5, working hours increase well above the official limit of 45 hours per week and extra work quite often remains unpaid. Third, majority of workers do not accumulate any rights for retirement or severance payments. Finally, workers lack any continuous and recognized collective representation, thus, wage and effort bargaining is largely determined by employers. All these problems increase in their magnitude and prevalence as one moves down in the formality continuum. The likelihood of wildcat industrial action, too, increases as one goes down, that is, as the entitlement to retirement and severance payments

disappears the propensity of conflict increases. Obviously, being excluded from the possibility of security in old age and sickness generates feeling of injustice in unorganized industrial relations.

In order to tackle these problems, non-state actors hope to accomplish "climatic change" in the sector by using the codes of conduct: the higher working standards as the condition of being connected to global production chains would be 'injected' into the system through foreign subcontract deals (between famous brands and local firms) and smuggled further via domestic subcontract relations (between first subcontractors and sub-subcontractors). Consequently, production will start to move from low to high positions in the formality continuum with the result that working conditions would improve and the likelihood of wildcat industrial action would decrease.

The detailed analysis of three textile & clothing firms shows that climatic change that might be triggered by codes of conduct is likely to create two-tier micro industrial relation systems: while in the first-tier there would be workers who are employed by the first subcontractor of famous brands, the second-tier would be formed by workers of sub-subcontractors. First-tier workers would enjoy collective bargaining and entirely formal employment thus, they will be qualified for retirement and severance payments. Second-tier workers would be excluded from collective bargaining but they, too, would be formally employed and thus, they would also be entitled to social security. Therefore, the second-tier would be placed at point 4 of the continuum. Consequently, the second-tier would be a minimum wage environment with healthy working conditions, entirely paid extra working hours but, of course, without collective representation. Obviously, such micro systems keep unorganized workers unorganized in order to ensure that organized workers remain organized but they still generate peaceful industrial relations. Because the combination of minimum wage, long-term employment and social security decreases the conflict propensity. However, the emergence of two-tier-micro systems is conditioned by many factors. The best combination of conditions is this: a partly foreign owned and entirely export oriented supplier establishes subcontract links with a small number of main firms, which offer long term partnership and adopt multi-stakeholder type codes of conduct while aiming to sell their final products in places where the consumer sensitivity for workers' conditions is high, and then, a non-opportunistic trade union organizes the supplier's factory.

From these findings one may argue that, under certain (limited) conditions, new non-state actors, by creating two-tier micro systems through implementation of codes of conduct, may indeed correct some injustices generated within unorganized industrial relations and thereby contain industrial conflict. However, this would be an erroneous conclusion.

Because, what codes of conduct actually do is to move workers from conflict prone positions such as points 1, 2 and 3 into a conflict-averse position, that is, point 4 in the formality continuum. However, codes of conduct neither generate nor influence the most crucial components of the combination, which makes position 4 less prone to industrial conflict, that is, minimum wage, long-term employment and social security. Although the two-tier systems created by codes of conduct make these conditions available for those workers placed in the second-tier, it is the state, who determines the exact content and meaning of these conditions. Therefore, the peace in these two-tier systems is essentially generated by government policies as to the minimum wage and the way in which workers interpret them. For after a firm moves to position 4, the employer appears as if s/he provides the best possible conditions by offering workers long term employment on minimum wage, which guarantees social security and severance payments. It is clear to workers that it is the government, who determines the minimum wage not their employers, and their conditions may improve further if the minimum wage increases. Consequently, for those workers employed in position 4 the blame of injustice is directed to the government rather than their immediate employers. Interview evidence suggests that in response to this pressure, governments, adjust minimum wage in accordance with the 'populist' impulses prior to elections in order to gain electoral advantage. Thus, even in those limited circumstances in which non-state actors appear to be generating industrial peace by enforcing their codes of conduct, this outcome in fact results from an implicit partnership between non-state actors and the state: non-state actors move the workplaces into position 4, but it is the state who renders this position conductive to industrial peace by absorbing (and responding to) the blame of the injustices workers feel.

Moreover, one can see that what determines the intensity of conflict and resentment in the remaining positions of unorganized industrial relations (i.e. positions 1,2, and 3) is again the policy of governments regarding the minimum wage. For given the various

functions performed by minimum wage at these formality levels (especially the lighthouse function) which employ large number of workers, complete disregard of workers' interests in minimum wage determination would feed the societal resentment while causing excessive friction between workers and employers. Both of these outcomes are detrimental for political stability and, as revealed during the late 1980s, even the most neo-liberal governments cannot afford to ignore them. However, governments cannot just increase the minimum wage. This would damage the logic of unorganized industrial relations, which is based on decreasing labour costs as one goes down in the formality continuum. The preservation of this logic is vital for many firms operating in or benefiting from the unorganized field. Thus, governments, regardless of their political orientations, are obliged to pursue a policy of balance: managing the feeling of injustice by careful manipulation of the minimum wage so as to prevent resentment in the society and excessive friction (between employers and workers), while not damaging the logic of unorganized industrial relations. Thus, not only at position 4 but also in the remaining positions in unorganized industrial relations, it appears to be the management of the feeling of injustice by governments through the politics of minimum wage[253], which plays the main role in containment of conflict.

This analysis shows that, under certain conditions, non-state actors by using the private labour regulation may force firms to shift their position in unorganized industrial relations (i.e., creating two-tier micro systems), and in this way, may decrease the conflict propensity. However, in the last analysis, what contains industrial conflict, even in those circumstances where private labour regulation appears to be effective, is the careful management of the feeling of injustice by governments through minimum wage, which renders the realm of electoral politics relevant for the expression of grievances. Thus, the second hypothesis, which emphasizes the role of the state provides a better explanation for containment of industrial conflict in unorganized industrial relations.

---

[253] It is crucial to recall that minimum wage has always been too low from the perspective of ensuring minimum living conditions for a single person. As mentioned in previous chapters, governments' assumption is that more than one individual in a household should be working on minimum wage to ensure subsistence. However, it is the extent to which the various functions that minimum wage assumes within unorganized industrial relations are influenced by the level of minimum wage that determines the impact of minimum wage on the resentment in society, and, in this sense there is low and high minimum wage.

This shows that a theory of containment of conflict in neo-liberal environments should also explain the role of the state in unorganized industrial relations: why do all governments carefully manage the feeling of injustice generated within unorganized industrial relations instead of adopting an entirely pro-employer or pro-worker policy?

Dilemma Theory

The preceding findings show that governments play a crucial role in containment of industrial conflict both in organized and unorganized industrial relations: they try to *prevent political mobilization within the organized field by separating it from politics* and *manage the resentment within the unorganized field by using the politics of minimum wage.* The inquiry suggests that these 'balance' policies should not be influenced by the differences between ruling parties. These observations clarify what exactly needs to be theorized about the source of industrial peace in neo-liberal environments to attain a general theoretical proposition: why is it important for governments to contain industrial conflict? Why do they need to pursue the same balance policies regardless of their differences? These questions require seeking a meta-principle of the state, which remains equally binding for all governments as the basis for a general theory.

O'Connor argues that any capitalist state must undertake two potentially contradictory tasks: ensuring accumulation of capital while legitimizing this process for those who are not capable of accumulating capital (O'Connor 1973). It is only temporarily possible to sacrifice accumulation for the sake of legitimation or legitimation for the sake of accumulation, most of the time these tasks must be balanced. Consequently, the state, regardless of the ideologies of ruling political parties, permanently faces the problem of maintaining the balance between accumulation and legitimation. This can be considered the meta-principle of the state. Accordingly, if one reduces political economy into a game between three generic actors – 'employers', 'workers' and 'the state' – one expects employers to prefer and press for increased state support for accumulation, and workers, unless mobilized for radical change, to demand legitimation.

The state may cope with the dilemma of accumulation/legitimation by delegating it to organized industrial relations in which labour and capital collectively undertake the legitimation task by engaging in collective bargaining. However, in organized industrial relations

employers and trade unions, when they fail to agree, may still ask for the state intervention. Unexpected economic fluctuations, which cannot be controlled by any actor, would increase the likelihood of such impasses. In such circumstances, the organized labour may politicize its demands by using the mobilization capacity it acquires. This may seriously undermine the political stability.

On the other hand, the state will be directly held accountable by those who are placed in unorganized industrial relations for their circumstances. Thus, the feeling of injustice generated at workplace level is likely to be a political issue. However, in unorganized industrial relations the lack of mobilization capacity limits the occasions, which may explicitly reveal the politicization. In this respect, election periods would be very crucial for they would allow the only legal collective action capacity acquired by those who placed in unorganized industrial relations, that is, the right to vote, to be exercised in order to react to the way in which the accumulation-legitimation dilemma is handled by the state.

Against this background, neo-liberalism may be perceived as a political project which promotes the idea of favoring accumulation at the expense of legitimation. It is also a reaction against the strategy of extensive delegation of the accumulation/legitimation dilemma to organized industrial relations which limits the state's freedom of choice for altering the existing accumulation/legitimation regime. Thus, neo-liberalism motivates governments to use their strategic instruments, especially the legal means, to shrink organized industrial relations while imposing accumulation bias into the political economy by using pivotal wages (such as public sector wages and minimum wage) and macroeconomic measures.

However, under the conditions of democracy the persistent pursuit of neo-liberalism would trigger legitimation crisis in two different ways: Firstly, if the marginalization of organized industrial relations is not sufficiently rapid or the state tries to impose accumulation bias without shrinking organized field, then at some point collective action capacity of workers may be mobilized against the accumulation bias and lead to simultaneous paralysis of the economy and politics. This may be called the *explicit crisis* of neo-liberalism. Secondly, if or after the field of organized industrial relations is marginalized, the resulting expansion of unorganized industrial relations would compel the state to use its

strategic instruments in order to prevent the feeling of injustice among workers to be permanently directed to employers which may hamper production and lead to accumulation crisis. Consequently, the way in which these instruments are used would be politicized and thus, incumbent governments would have to take reactions of the electorate (majority of which would be employed in unorganized industrial relations) rather than the neo-liberal prescriptions into account when they make decisions regarding the manipulation of unorganized industrial relations. This may be called the *implicit crisis* of neo-liberalism. Although the state may prevent recurrence of explicit crisis by shrinking the organized field, there is no way of avoiding implicit crisis.

This framework, that is, the *dilemma theory*, suggests that containment of industrial conflict should be explained by referring to the emergence of explicit and/or implicit crisis of neo-liberalism and the resulting legitimation decisions of the state, which is permanently involved in tackling the accumulation/legitimation dilemma. This implies that in any political economy the initiation of neo-liberal project is likely to trigger the following sequence: *a period of accumulation bias*, *emergence of explicit and/or implicit crisis* and *shift into legitimation bias.*

It is possible to operationalize this framework by creating a two dimensional space by plotting the changes in the GDP as indicator of economic conditions against the changes in a pivotal wage, which is controlled by governments and has a pattern setting influence (on either organized or unorganized industrial relations) as the indicator of governments' choices. In this space, if x = y is defined as the ideal line created by ideal balance points, then the distance between actual and ideal points may be called as *legitimation level*. The slope of the least squares line, which is fitted to a set of actual points in this space, may be called as *mean actual balance*. These two variables would allow interpreting the choices of the state in terms of accumulation and legitimation.

One may apply these tools to the case of Turkey by using public wage as the pivotal wage for the organized, and minimum wage as the pivotal wage for the unorganized field. The outcome of the analysis made on this basis indicates that the pursuit of neo-liberalism during the 1980s implied imposition of accumulation bias into the entire industrial relations and the marginalization of the organized field, that is, a clear break from the legitimation oriented import-substitution strategy of the

1970s. The result was simultaneous emergence of the explicit and implicit crisis: the undermined position of collective bargaining rendered the realm of politics relevant for organized industrial relations and finally triggered industrial actions against government. On the other hand, the expansion of unorganized field, too, constrained governments' choices due to increasing importance of this subfield for politics. Consequently, in the beginning of the 1990s governments deviated from the neo-liberal course and imposed legitimation bias into both fields of industrial relations by using the pivotal wages and making necessary institutional changes. Obviously, these events comply with the sequence of accumulation bias - explicit & implicit crisis - legitimation bias[254].

The analysis also shows that, the resentment of those workers who were employed in unorganized industrial relations could not be discarded permanently even during the initial years of neo-liberalism. The government during the 1980s preferred to impose legitimation bias into unorganized industrial relations in the elections years, while imposing accumulation bias into organized industrial relations instead of pursuing the neo-liberal agenda consistently by imposing accumulation bias into both of these fields. Thus, since its inception neo-liberalism has been facing the implicit crisis. Finally, it is also shown that due to its expansion, the unorganized field has become more important for electoral politics, and thus, the magnitude of implicit crisis increased forcing governments to impose higher levels of legitimation bias into unorganized industrial relations after 1990.

The analysis also reveals that the contraction of economy leads to pro-employer stand, and expansion of economy leads to pro-worker stand both in organized and unorganized industrial relations. This means that when there is economic crisis, governments sacrifice legitimation for the sake of accumulation. However, if economic crisis coincides with elections the choice, at least within the unorganized field, is the opposite: adopting a pro-worker stand and preferring legitimation. This shows that the implicit crisis of neo-liberalism is capable of overruling the dictates of

---

[254] It is worthwhile reiterating that this confirmation is not an example of applying a theory to empirical conditions from which it was derived at the first place. For, as mentioned in chapter 7, the dilemma theory is devised by using the qualitative evidence provided by chapter 5 and chapter 6, and it is confirmed by the quantitative data, which is not used in previous chapters. Thus, it is developed by using one data set and it is confirmed by using another data set. Hence its validity is confirmed at least in the case of Turkey.

economic circumstances. Moreover, the redelegation of accumulation/legitimation task to collective bargaining after the explicit crisis of late 1980s proved to impose an overall legitimation bias into the system regardless of economic circumstances.

These findings substantiate the dilemma theory and imply that unless democracy is curtailed and collective bargaining is entirely banned, it is not possible to impose accumulation bias into industrial relations persistently as envisaged by neo-liberalism.

One may argue that the dilemma theory offers an explanation for the crucial role played by the state both in organized and unorganized industrial relations. Therefore, it allows us to comprehend the source of industrial peace in neo-liberal environments: Capitalist states, under the conditions of democracy or democratization, must balance accumulation and legitimation, but neo-liberalism promotes the use of strategic instruments of the state to favor accumulation. It also opposes the extensive delegation of accumulation /legitimation dilemma to organized industrial relations. However, neo-liberalism cannot be implemented without generating legitimation crisis which forces capitalist states to deviate regularly from neo-liberalism. The outcome would be industrial peace resulting from exportation of industrial conflict into the realm of politics with detrimental implications for consistent pursuit of neo-liberalism.

Discussion and Some Ideas for Further Research

As it stands here dilemma theory is just a preliminary theoretical proposition developed by examining a single case. Similarly, the analytical framework, too, is applied to a single political economy. Therefore, both the proposition and the analytical instruments need to be further inquired, tested and developed. In order to facilitate further inquiry and for the sake of clarification, in this last section of the dissertation I address five of the potential objections which might be raised against the dilemma theory, and I point out some of the themes that may be explored by further research.

Persistence of neo-liberalism

The first possible objection is this: dilemma theory claims that in the realm of industrial relations, governments cannot implement neo-liberal policies without creating conditions which would lead to regular

deviations from neo-liberalism. Either explicit crisis or implicit crisis would force governments to impose legitimation on industrial relations contrary to the requirements of neo-liberalism. Does this mean that neo-liberalism has been or will always be abandoned in all contexts in which it is implemented?

The answer is negative: No, what is claimed by dilemma theory does not imply that neo-liberalism would be entirely abandoned, nor does it mean that governments would cease to subscribe to the idea that free markets are the ultimate solution for economic growth. What is argued here is that, due to democratic accountability of governments, there will be regular deviations from the policy of sacrificing legitimation for the sake of accumulation. This is especially true in the case of implicit crisis that results from the expansion of the unorganized field and the attribution of the blame of injustice to governments. Here, the deviations from neo-liberal course are likely to be coupled with general elections. Hence is the regularity. For governments cannot ignore the feeling of injustice generated in the realm of unorganized industrial relations prior to elections and it is also likely that adopting purely employer friendly (and detached) posture would be detrimental for accumulation in the long run due to increasing resentment in the society. Therefore, governments would use their strategic instruments (pivotal wages, laws and perhaps the management of macro-economy) so as to regularly impose legitimation on industrial relations. On the other hand, in the case of explicit crisis, which results from political mobilization of collective action capacity in organized industrial relations because of the resentment created by the neo-liberalization of collective bargaining, the deviations of governments from the neo-liberal course may be sporadic rather than regular. However, as mentioned above, the recurrence of explicit crisis is avoidable, but so long as democracy is retained, the recurrence of implicit crisis is inevitable. Because, trying to avoid the explicit crisis (by shrinking the organized field) triggers and exacerbates the implicit crisis. Thus, the deviations from neo-liberalism, too, are expected to recur.

This implies that governments, by imposing legitimation on unorganized industrial relations, are likely to deviate from the neo-liberal course regularly, but this does not mean that they would also deviate from the neo-liberal discourse. Indeed, one may expect the deviation from neo-liberalism in practice to be accompanied by more intensive use of the discourse of neo-liberalism so as to avoid losing the support and

confidence of employers. Moreover, after a period of legitimation, governments are likely to return to the neo-liberal course to ensure accumulation and satisfy employers but not indefinitely: the next period of elections would remind them their dependence on societal approval. Therefore, unless analytically examined, the deviations from neo-liberalism may be invisible at first glance. So if I reiterate the answer: dilemma theory does not imply that neo-liberalism cannot be implemented; it claims that neo-liberalism cannot be consistently and persistently implemented, and, this ensures the industrial peace. To identify deviations, however, one may need to examine the political economy that is under scrutiny carefully without being influenced by the persistence of the neo-liberal discourse.

Of course, these arguments should be verified by application of dilemma theory to other neo-liberal environments, which allow direct use of the analytical instruments as they are presented here. In this respect, countries which have minimum wage regulation and public sector with pattern setting influence can be explored without any major modification of the dilemma theory. Latin American countries (Brazil, Chile, Uruguay, Bolivia, Honduras, and Mexico) are likely to provide appropriate empirical circumstances. Of course, in such applications one should not only examine the deviations from the neo-liberal course, but should also scrutinize the way in which these deviations are obscured by the persistent subscription of governments to the neo-liberal discourse.

Deterioration of workers' conditions

The second possible objection to the dilemma theory is this: If there are regular and inevitable deviations from the course of neo-liberalism which result in legitimation decisions, how can we account for the deteriorating conditions of workers, for example, in terms of wages in some neo-liberal environments? How can this ensure industrial peace? This question may be answered by appealing to two types of relativity that is likely to shape the perception of workers. First of all, as Tufte (1978) argues, the (worker) voters are inclined to evaluate their conditions from a short term perspective: the changes in the conditions are labelled as improvement or deterioration in accordance with workers' latest experience, not by comparisons with the best times that they have ever lived. Therefore, the fact that what looks like an improvement in the short term may not compensate for the long term losses, may not concern (worker) voters due to the short term focus in

their perception. Secondly, workers may evaluate the changes in accordance with the prevailing economic conditions: thus, during a period of economic crisis or stagnation, a government decision which keeps their real wages constant or leads to a relatively small decline may be perceived as legitimation (as envisaged in the analytical model) despite the fact that this actually means deterioration. Thus, when evaluating the legitimation decisions of governments, one should avoid thinking that workers would perceive the impact from a long term and objective perspective by taking into account the highest purchasing power ever attained and by disregarding the prevailing economic circumstances[255]. Finally, at least in the case of Turkey, one should recall that legitimation does not directly result from the increase in the pivotal wages, but from the subsequent dynamics triggered by this increase[256]. Therefore, the exact magnitude of legitimation may be much larger than as it can be read from the changes in the pivotal wages.

All this shows that when examining a neo-liberal political economy in order to identify what counts as legitimation, one should avoid using measures like long term changes in the purchasing power but instead, should focus on the perception of workers as to the alterations in pivotal wages under given circumstances from a short term perspective. Moreover, it is also necessary to take into account the processes triggered by government decisions in organized and unorganized industrial relations so as to see the exact magnitude of legitimation that is generated indirectly. Thus, the fact that in some neo-liberal environments workers' conditions may be judged to be deteriorating from an objective perspective does not necessarily undermine the dilemma theory.

However, these arguments still hint a theme which may be explored by further research: If what matters for workers is short term improvements and they tend to forget their long term losses, then one may argue that the correct strategy for implementing neo-liberalism is to create two simultaneous trends in workers' conditions: one trend should be with short-wave-length marked by upward (legitimation) and

---

[255] Indeed, the idea that workers' expectations are shaped by the conditions prevailing in the labour market at the date of their first entry seems to lend support to both of these relativity arguments (see Kelly 1998:99).

[256] Due to, for example, the lighthouse role assumed by the minimum wage any increase in this pivotal wage provides workers leverage for their wage demands.

downward (accumulation) movements in workers' conditions, the other trend, however, should be with long-wave-length marked by constant downward (accumulation) movement. The alternating short-wave trend should be embedded in the constant long-wave trend so that downward movements in the short-wave trend should gradually create and sustain the constant downward movement in the long-wave trend[257]. In this way regular legitimation decisions of the short-wave trend would obscure and ensure the gradual imposition of accumulation in the long term. Perhaps this is the way in which neo-liberalism is implemented and industrial peace is retained in practice. An inquiry, which would examine this hypothesis should also answer the following question: is there any threshold point where the upward shift in the short-wave trend would impose an upward shift to the long-wave trend so as to suspend the neo-liberalism completely?

Controversial nature of the Democracy factor

The third possible objection is about the democracy factor, which is crucial for the dilemma theory. According to the dilemma theory, what forces governments to respond the explicit or implicit crisis of neo-liberalism by regular deviations from neo-liberal course is the democratic accountability. As demonstrated in chapter 1, neo-liberal project is quite often accompanied or followed by the process of democratization or it is implemented in established democracies. Indeed, the co-emergence/co-existence of neo-liberalism and democracy/ democratization is claimed to be not mere coincidence: the international capital requires democratic harmony and people under the conditions of neo-liberalism demand democratization (Laothamatas 1997:7, Udayagiri and Walton 2003:318, Munck 2002:18, Cook 1998:315). Thus, neo-liberalism triggers or paves the way for the process of democratization. Obviously, in this study I did not thoroughly examine this claim. Instead, after providing historical evidence for the proximity between the neo-liberal project and the process of democratization in many countries, I classified the factor of democracy/democratization as one of the constituting components of neo-liberal environments. However, I acknowledged that the usual

---

[257] What I mean is a shape like this: where the short term wave gradually creates the long term trend. Here it is useful to note that the method of filtering out fluctuations from a time series in order to reveal the trend may preclude the comprehension of how neo-liberalism persists if it is used in the analysis of main indicators (such as purchasing power) of a political economy. For this would obscure the short-wave length, which is crucial for legitimation.

understanding of the term democracy is too vague to be useful mainly because of the implicit ideal type that associates the democracy with the forms of governance in Western Europe and North America. This implicit reference prevents us from acknowledging the developments (however small they may be) in other countries. Thus, I used the technical & relative definition proposed by Storm: according to this approach, civilian governments with executive powers, regular competitive elections, and, the freedom of speech and association should be considered as benchmarks of democracy. Consequently, any improvement in these conditions should be considered as process of democratization in relative terms (Storm 2008). The dilemma theory is constructed against this background.

Obviously, one may simply reject the claim that democracy and neo-liberalism co-existent or co-emergent phenomena. However, if this basic claim is contested then the burden of proof lies with the protagonist: s/he should, by referring to all the cases cited in chapter 1 (Chile, Mexico, Taiwan, Indonesia, Singapore, South Korea, Argentina, Brazil, Turkey etc), show that the processes that lead to democratization are independent from or unrelated to the processes triggered by neo-liberal project. However, even if one succeeds in proving the irrelevance of the emergence of democracy and pursuit of neo-liberalism, this does not disprove the dilemma theory: so long as democratization renders governments sensitive for societal demands, regular deviations from neo-liberalism would be inevitable. This would still allow explaining industrial peace by the dilemma theory. However, in this case dilemma theory would be based on a lucky coincidence of two trends in history. Yet, this does not undermine the importance of, and the need for, further research on the nature of the link between neo-liberal project and democratization.

On the other hand, one may, without rejecting the claim of co-emergence/co-existence of neo-liberalism and democracy, object the technical & relative definition proposed by Storm. It is possible to argue that not all improvements in the core components identified by Storm would allow the society to pressure governments for legitimation. Thus, although democratization may indeed be triggered by the neo-liberal project, the resulting changes may not be substantial or sufficient to force governments to take the implicit or explicit crisis into account when they tackle accumulation/legitimation dilemma. Political systems may remain virtually unaccountable but, due to the technical & relative definition that

is used here, they may still count as systems, which experience a process of democratization. If this is the case, can we still expect dilemma theory to be valid? If not, how can one account for industrial peace that may be prevailing in such systems? This is a fair point to be taken into account. Thus, the possible definitions of democratization should be explored by further research to obtain criteria that would more precisely identify the conditions and institutions, which would render governments accountable. Obviously, if such a definition is found and can be operationalized, then it would be essential to rectify the dilemma theory accordingly.

Finally, one may claim that perhaps democracy (however it is defined) is not a necessary condition for the emergence of explicit or implicit crisis of neo-liberalism[258]. Given that even for the absolute rulers with no accountability it was difficult to implement widely unpopular policies consistently (see Schumpeter 1943:241), one may argue that deviations from neo-liberalism may be inevitable in all neo-liberal environments regardless of the presence or absence of the democracy factor. Perhaps even dictatorships would be forced to deviate from free market policies in order to respond latent resentment in the society. This line of thinking points out a country like China as the possible case for further research.

Operationalization of the accumulation/legitimation dilemma

The fourth possible objection may be against the new variables that are used in this study, that is, legitimation level and mean actual balance, which are generated by plotting changes in the pivotal wages against the changes in the GDP. One may argue that these two measures can only be used if pivotal wages such as minimum wage and public wage exist and are important in a political economy as primary strategic instruments of the state. Moreover, one can also claim that these variables are incapable of capturing the impact of some other factors such as welfare benefits. In fact, all these are valid points to be taken into account and to be explored by further research.

However, I argue that not in terms of their exact definition (that is Euclidian distance between actual and ideal points in the case of

---

[258] Obviously, this also means that neo-liberalism may be implemented without being accompanied by democratization. This would imply that there is no relation between the process of democratization and the project of neo-liberalism.

legitimation level and the slope of the least square line in the case of mean actual balance) but in terms of what they try to capture the variables that are developed in this study are robust. For in order to analyze a political economy in terms of accumulation and legitimation, it is necessary to capture decisions at a moment (which is used as the temporal unit of analysis) and trends during a period so as to observe (and distinguish) the momentary decision and cyclic movements in legitimation. I think, the variables that are developed here are in this sense useful and they may be further developed to capture the impact of some other factors such as welfare benefits.

Moreover, I also argue that at least one dimension of the analytical space which is used for creating the new variables, that is, changes in the economic conditions, too, is to be considered robust. For, as mentioned in this study, the functioning of economy in its entirety remains elusive and it is beyond the absolute control of any actor. Thus, economic circumstances provide the stage where the decisions as to the legitimation and accumulation have to be taken. Although one may disagree with the use of changes in the GDP as the indicator of economic circumstances, it remains imperative for any analytical model, which aims to capture the way in which accumulation/legitimation dilemma is handled, to include a variable that would reflect changes in economic circumstances. It is needless to mention that this variable must be considered stochastic.

Influence of other actors on legitimation

Finally, it is also possible to object the implicit assumption as to the relation between the state and governments, which underlies the dilemma theory and the analytical instruments that are created for its operationalization. As repeatedly mentioned in previous chapters[259], in this study government is defined as the body that runs the state and makes decisions on its behalf, whereas the state is defined as "the set of organizations invested with the authority to make binding decisions for people and organizations juridically located in a particular territory and to implement these decisions using, if necessary, force" (Rueschemeyer & Evans 1985: 46-47). However, one may argue that governments cannot run the state in its entirety alone and some other actors, too, may be quite influential in the way in which accumulation/legitimation dilemma is

[259] See footnotes 26, 34, 58, 69, 154, and 238.

handled. For example, independent central banks may have substantial influence as they adjust interest rates or control the money supply. Similarly, one may also argue that the judiciary which is almost always independent from ruling governments may also be capable of imposing legitimation or accumulation bias into industrial relations by consistently adopting certain interpretations of laws when examining the disputes between employers and workers. Finally, one should also take into account the possible influence of the international actors such as IMF and World Bank in the way in which governments handle the accumulation/legitimation dilemma.

Indeed, these examples point out an interesting research question that may be answered by further research: to what extent some independent actors within the state apparatus such as central banks and judges or some international actors such as IMF and World Bank may impose accumulation and/or legitimation bias into industrial relations by using the instruments at their disposal?

Epilogue

All these five (and other possible) objections together with the questions, which require further inquiry clearly indicate that dilemma theory is a preliminary construct to be further developed. However, I sincerely hope that it provides at least a starting point for the examination of the source of relative industrial peace prevailing in neo-liberal environments.