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Neoliberal restructuring in Turkey: From state to oligarchic capitalism

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MPIfG Discussion Paper 10/7

Neoliberal Restructuring in Turkey
From State to Oligarchic Capitalism

Roy Karadag



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Abstract

How have neoliberal reform policies changed Turkey's political economy? The aim of this paper is to counter claims of convergence towards a liberal capitalist order. Given the historical dynamics of the political embeddedness of Turkey's economy, after 1980, transformations in the state and the economy institutionalized the erosion of Turkish state capitalism. Due to the consolidation of new elite cartels, political fragmentation, and continuing systemic corruption involving networks comprising political and economic elites, what emerged as a result of restructuring is an oligarchic form of capitalism. It is currently undergoing further institutional changes, the outcome of which will depend closely on the power resources and strategies of the incumbent moderate Islamist Justice and Development Party.

Zusammenfassung

Welche Folgen hatten die neoliberalen Reformen nach 1980 für die politische Ökonomie der Türkei? Der Autor argumentiert gegen weitverbreitete Annahmen einer weltweiten Konvergenz hin zu liberalen kapitalistischen Ordnungen. Zwar wurde das Ende des türkischen Modells des Staatskapitalismus von den neoliberalen Strukturanpassungsprogrammen herbeigeführt, jedoch verhinderten die spezifischen Dynamiken der politischen Einbettung der türkischen Wirtschaft einen Übergang zum liberalen Kapitalismus. Vielmehr hat sich eine oligarchische Variante herausgebildet, deren besondere Merkmale politische Fragmentierung, geringere infrastrukturelle Staatsmacht und systemische Korruptionsverflechtungen zwischen politischen und ökonomischen Eliten sind. Die Wirtschaftsreformen der regierenden moderat islamischen Partei für Gerechtigkeit und Entwicklung sind somit auch kritisch zu bewerten, denn sie wirken nicht losgelöst von Machtansprüchen und -interessen.

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1 Introduction

For more than three decades, countries around the world have been coping, more or less effectively, with pressures to establish a market-based economy. Transformations in the current age of neoliberalism challenged the Fordist growth models of the post-World War II era and put an end to Keynesian economic policies in both industrialized and late developing countries. The end of the Bretton Woods international financial architecture and the oil price revolutions in the 1970s set the stage for the translation of neoclassical ideas into the economic policies known as “Reaganomics” and “Thatcherism” in the 1980s and into the discourses and practices of the international financial institutions (IFIs). We may go so far as to conclude that the phase of “embedded liberalism” (Ruggie 1982) was succeeded by an era of embedded neoliberalism in which the contradictions of global capitalism are veiled by the hegemonic ideology of individual freedom and prosperity, reminiscent of the first “Age of Capital” (Hobsbawm 1975) in the nineteenth century.¹

In contrast to the challenges facing the capitalist democracies of the West, these changes exerted much higher adaptation pressures on late developing countries. The high interest-rate policy of the United States further aggravated the foreign debt problems of most developing countries. In the early 1980s, the IFIs began to enforce structural adjustment programs which were designed not only to overcome the short-term financial crises of those countries, but also to initiate systemic changes towards export-oriented and market-based economic orders. The policies bundled in the so-called “Washington consensus” (Williamson 1990) were intended to liberalize inward-oriented economies, with the intended effect that the rules and mechanisms of world market competition would finally erase the efficiency-inhibiting measures of the state.

However, as can be seen three decades after that shift began, neither in industrialized Western OECD countries nor in late developing countries did these globalization pressures lead to the expected result of convergence towards a liberal market economy. The countries affected did not resort to the economists’ standard responses of state withdrawal and market liberalization. On the contrary, even though the pressures on national economic models are obviously present, the results of the reform paths actually pursued are much more divergent than neoclassical economists could have imagined. The reasons for this divergence are many and arise from specific political, socio-economic, and cultural contexts.

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1 Ruggie himself foresaw the neoliberal emergence when he concluded that “the foremost force for discontinuity at present is not ‘the new protectionism’ in money and trade, but the resurgent ethos of liberal capitalism” (1982: 413).

Accordingly, the explanation presented here is a historical-institutionalist account of Turkish capitalism. I argue that what emerged in Turkey's twentieth-century capitalist development was a state capitalist economic order, institutionalized and controlled by new nationalist state elites in the 1920s and 1930s. Similar to other late developers, the state bureaucracy operated as the original source of capitalist accumulation. Through top-down structured corporatist arrangements, linked to the new variety of ethno-nationalist identities, state elites sought to maintain social control in a rapidly changing and industrializing socio-economic environment. The inherent dynamism resulted from the introduction of representative, electoral-democratic institutions that slowly undermined the position of state elites.

Efforts by "Kemalist" elites to regain control of the political process and economic developments did not manage to reshape the national arena. The political and economic crisis dynamics of the late 1970s were resolved by the decision, backed by the Turkish Armed Forces, to dismantle the state capitalist framework and to introduce liberal economic restructuring reforms. However, if we must interpret the post-1980 transformations, we can conclude that those reforms resulted in the emergence of what is here labeled "oligarchic capitalism." The fragmentation of the political arena, the end of corporatist social control, and the establishment of new, closed elite political business cartels that capture the state represent the crucial elements of oligarchic dynamics that have undermined state power and institutional trust.

The outcome of neoliberal restructuring experiments, therefore, depends crucially on preexisting and changing power structures and relations in the course of state transformations. These recent changes have to be framed within a historical-institutional explanation of where these power structures and change dynamics come from. In this paper, based on arguments concerning the political embeddedness of economies, they are linked to the emergence and erosion of Turkey's state capitalist model. Only by depicting historically grown power structures is it possible to assess the impact of the most recent phase of financial regulation under the moderate Islamist Justice and Development Party, led by Prime Minister Recep Tayyip Erdoğan.

In Section 1, the analytical category of state capitalism will be outlined and applied to the Turkish context. In Section 2, I will trace the post-1980 neoliberal restructuring measures, with a strong focus on the existing power constellations and their impact on reform policies. Finally, in Section 3, I will present some concluding remarks on the Turkish reform trajectory and refer to the importance of power politics as a determinant of institutional reform which explains the establishment of oligarchic capitalism in Turkey.

2 Turkey's state capitalist foundations

What are the appropriate analytical tools for understanding the recent politico-economic transformations experienced by Turkey, in particular, and by late developers, in general? How can we grasp the specific linkages between state and capital in these countries and the institutional changes that have occurred in the context of the global prescriptions of neoliberalism?

There are numerous conceptualizations by economists and social scientists that capture these economic realities in late developing countries. However, these approaches differ concerning the persistence and structural nature of rents as against profits. To explain the inefficient economic processes created by the state, neoclassical economists start from the proposition that

rent is that part of the payment to the owner of resources over and above that which those resources could command in any alternative use. Rent is receipt in excess of opportunity cost. (Buchanan 1980: 3)

Thus, rent, as excessive income, results from any type of state intervention that distorts otherwise freely functioning markets. The first creation of a rent situation becomes a sort of original sin as it unfolds its pernicious effects on the incentive structure of entrepreneurs. Not (productive) profit-seeking, but (unproductive) rent-seeking becomes the rule, where rent-seeking “is designed to describe behavior in institutional settings where individual effects to maximize value generate social waste rather than social surplus” (Buchanan 1980: 4). The notion of “deadweight loss” is of great importance as it captures those financial and organizational resources that are invested in lobbying and contributions to politicians but get lost, as not all rent-seekers can be rewarded. Subsequently, in the world of a neoclassicist, “rent seeking activity is directly related to the scope and range of governmental activity in the economy, to the relative size of the public sector” (Buchanan 1980: 9). Thus it follows that deregulation, liberalization, and privatization measures will surely eliminate such rent-seeking activities.²

Contributions to the debate written within the new institutional economics paradigm come closer to real-world phenomena, as the type and design of political institutions play a decisive role in economic outcomes. For North and others, the solution to the *commitment problem* is crucial. This problem is expressed in the assumption that “any government strong enough to define and arbitrate property rights is also strong enough to abrogate them for their own benefit” (Haber/Razo/Mauro 2003: 2). The state and asset holders are opposed to one another. The former needs financial resources, acquired by taxing the asset holders, in order to finance its organizations – especially the military. Asset-holders want their incomes safeguarded from confiscation, which has been a constant temptation for rulers throughout history. “In short, governments face a dilemma: if they do not find a way to tie their own hands, they will not have sufficient resources to

2 For an overview of neoclassical and rival rent-seeking approaches, see Khan (2000).

insure their own survival” (ibid.). From these premises follows Olson’s (1993) famous tripartite typology of states (roving banditry, stationary banditry, and limited government), proposed in order to explain the developmental differences between countries.

Within this framework of transaction economics, such concepts as *crony capitalism* (Kang 2002) and *vertical political integration* (Haber/Razo/Mauro 2003) were developed to explain the predominance of corruption and particularistic state–business relations in late developing countries. However, as Douglass North himself admits, contrary to

the political framework of representative government ... it is more difficult to model the political process in third world polities where corruption, bribery, and Mafia-like extortion tend to be the order of the day. Modeling the actual structure as it in fact works in such polities has increasingly occupied the attention of political economists in recent years, but we are some distance from having good working models. (2005: 55)

That is why a power-centered, historical-institutional framework is presented here in a bid to understand what political factors and historical dynamics have shaped Turkish economic reform processes since the early 1980s. For this, we have to differentiate between alternative capitalist orders and identify the factors reproducing it, as well as the catalysts of institutional change.

To understand how Turkey’s capitalism is politically embedded,³ we begin with Max Weber’s concept of political capitalism, or “politically-oriented mode of profit-making.” Weber himself reserved this subtype of capitalism to describe traditional economies outside Western Europe, where rational capitalism emerged instead.⁴ In political capitalistic orders, profits are made through predatory action, force and domination and “through unusual deals with political authorities.” Nevertheless, Weber relied on this typology merely to underline the uniqueness of the Western European path towards rationalization in the economy⁵ and used the example of the “politically oriented mode of profit-making” as a residual category for other world civilizations.

However, political capitalism is valuable as an *analytical heuristic* to identify stylized differences between Western liberal and non-Western forms of capitalist orders in order to capture phenomena of rent-seeking, patronage, favoritism, and systemic corruption

3 As conceptualized by Zukin and DiMaggio, political embeddedness entails “the manner in which economic institutions and decisions are shaped by a struggle for power that involves economic actors and nonmarket institutions, particularly the state and social classes” (1990: 20).

4 In my view, this is why “[p]olitically oriented capitalism’ or ‘political capitalism’ is one of Weber’s most interesting concepts, and although it is often referred to in the secondary literature, it has been little explored and even less used in substantive analyses” (Swedberg 1998: 48). In his analysis of the Philippine banking sector, Paul Hutchcroft (1998) is one of the few scholars to directly apply this concept.

5 See also Weber’s famous words which illustrate his obsession with this question: “*Why solely in the Occident has a rational capitalism based upon profitability developed? ... Somebody has to explore this question*” (cited in Swedberg 2003: 62; emphasis in original).

among contemporary late developers (and post-communist countries, such as Russia and the Central Asian republics). We may start with the notion that, in these economies, entrepreneurs operate in a context of politically-induced uncertainty as the state and political institutions are used as tools of profit-making by actors who, *de facto*, are not bound by formal institutional settings. Subsequently, economic actors abide by the rules of politicized business making and engage in corrupt activities that undermine the formal rule-setting and distributive roles of economic institutions.⁶

Rather than asking how to get rid of “the grasping hand of the state,” we should ask who controls the state, where these groups and actors come from, what their sources of social and political power are, and for what purposes they use it. In the Turkish context, we have the highly particular case of state–capital linkages in which, since the early twentieth century, the modern state has created and spawned a totally new Turkish-Muslim bourgeoisie. In doing so, the state far surpassed the roles ascribed to it within the new institutional economic framework (institutionalizing private property and formally free labor) to establish a capitalist order. The highly politicized nature of primitive accumulation created different boundaries and interactions between state and capital, public and private. The sphere of economic power – symbolized in the Western trajectories by the victorious and politically consolidating capitalist classes – was dominated by the new national state and its infrastructural power to regulate and control social relations.⁷

State capitalism differs from the liberal capitalist variety because of the lack of effective forms of political contestation. Contrary to the Western trajectory, there are no similar representative institutions in which the capitalist classes may organize their interests *vis-à-vis* the rulers to consolidate their position and possibly gain political and cultural hegemony through access to societal and state institutions. Thus, power – including the power to accumulate – originates in the state apparatus, and state elites use their infrastructural power to decouple economic development and political liberalization. Where these factors occur together (state power, lack of representative institutions), state capitalism emerges and reproduces itself.⁸ Beyond these materialist bases (des-

6 For an overview of the variety of interactions between formal and informal institutions among late developing countries see, among others, Helmke and Levitsky (2006) and Lauth (2000). See also Johnston (2005) on divergent “syndromes” of corruption in a global perspective.

7 Infrastructural power is defined by Michael Mann as “the capacity of the state to actually penetrate civil society and implement its actions across its territories” (2008: 355). For an overview of the applications and different understandings of the term, see Soifer (2008), who differentiates between several dimensions of infrastructural power, that is, the state’s capabilities, weight (in terms of identity-building), and territorial reach.

8 The prime example of this order is contemporary China, where the state has liberalized economic institutions, created new fields of commodification and marketization, and promoted market-liberal accumulation opportunities. Even so, the political and discursive control mechanisms of the ruling party have been uncontested, as the state/party elites did not give up the corporatist framework, to prevent possible elite and societal ruptures. China is a successful case of economic modernization without political democratization.

potic power), order is maintained by the imposition of state corporatist arrangements (Schmitter 1974) that are closely linked to the state's ideological repertoire – that is, the discursive constitution of nationalist identities through which state elites generate political legitimacy.

The emergence and erosion of state capitalism

To repeat, state capitalist economic orders are characterized by the predominance of state over business elites who, in this institutional setting, lack the proper organizational resources to counter state power and are tied to the politico-bureaucratic elites through corporatist mechanisms and relationships based on personal trust. How did this order emerge? What historical factors were decisive in the Turkish context? In more concrete terms, how could a nationalist economic setting become institutionalized after the Ottoman state had lost most of its governing capacities? Furthermore, what accounts for the internal ruptures and the erosion of the state capitalist order?

In the Turkish case, the incorporation of the Ottoman Empire into the capitalist world market in the nineteenth century had a destructive impact on the socio-political configurations of a tribute-based mode of production. The European colonial powers created and politically safeguarded new capitalist classes (mainly Christian and Jewish minorities), while continuously undermining the regulatory capacities of the Turkish Muslim state bureaucracy. This bifurcation of the Ottoman ruling classes into two distinct groups, with different economic interests, consumption patterns, and lifestyles (see Göçek 1996) engendered – with the rise of the ideology of nationalism among the Ottoman minorities – disintegrative pressures. The Ottoman Empire was stuck between the aggressive and expansionist Russian and Habsburg Empires and nationalist liberation movements which, together, led to the secession of all of its European provinces before World War I. These military campaigns constantly overburdened the Empire's financial capacities. Because the state bureaucracy could not tax the new capitalist classes, it became bankrupt in 1876, and in 1881 the Ottoman Public Debt Administration, a semi-public consortium of European banks, virtually took over the Ottoman financial apparatus and perpetuated the crisis of the so-called “sick man of Europe.”

The reaction against these violent transformations in the Ottoman political economy was set in motion during and after World War I. The nationalist Committee for Union and Progress (CUP) seized power in 1909, with the main aim – in the economic sphere – of establishing a Turkish Muslim bourgeoisie as the socio-economic basis of the new Turkish nation. The virtual annihilation of the Ottoman Armenian population during the war and the subsequent emigration of the Greeks paved the way for “Turkification” economic policies.⁹ Given the shortage of goods during the war, new Turkish

9 “The bourgeoisie of the Ottoman Empire ... was not national and therefore could not be trust-

entrepreneurs with close ties to the CUP replaced the Armenian commercial groups and profited enormously from their control over black market activities, war material provisioning, and transportation.¹⁰ These alliances proved very useful during the War of Liberation (1920–23) as they secured the financing of Mustafa Kemal’s military campaigns.¹¹ With the defeat of the Greeks and the establishment of the Turkish Republic in 1923, this politicized pattern of primitive accumulation was further consolidated. The Izmir National Economic Congress defined the property rights regime and the role of the state in the economy. Given the capital shortage of the new entrepreneurial core, the state was designed to directly assist private entrepreneurs. The new state banks fulfilled the role of “midwifery” (Evans 1995) for private capital by transferring huge investment sums into the hands of entrepreneurs, especially in the newly set-up industrial facilities.¹² However, the criteria for obtaining access to these rent channels were based not only on ethnic and religious identity, but also on personal linkages and patron–client relations between politicians and businessmen.¹³ Within these exchange networks, the

ed. For this reason a new class of entrepreneurs had to develop from among the Moslem population who had so far been confined to posts in the military-civilian bureaucracy and to tilling the land” (Keyder 1987: 62).

- 10 “As belligerence and mobilization continued, political control over the distribution of food-stuffs and military material increased, and within this war economy, political privilege came to make even more of a difference in terms of mercantile profit. ... Since means of transport were scarce, political favourites who could obtain the use of a railway freight car became instant magnates” (Keyder 1987: 62). See also Ahmad (1980) on the attempts of the CUP to control local black markets.
- 11 “Especially in the urban areas, the allocation mechanism was openly political. Those burghers who rallied to the nationalist cause ... (these were usually the same individuals that had benefited from CUP policies of nationalization) were the prime beneficiaries. This was the first instance of a *symbiotic relationship* between the new state and the native bourgeoisie” (Keyder 1987: 82; emphasis added).
- 12 Berberoğlu (1982: 25–26) emphasizes the transfer of state resources into private hands in the case of the sugar industry: “The first sugar factory was built in Alpullu, Thrace, with such extraordinary concessions as a 25-year monopoly in the five provinces in the vicinity, exemption from the Consumption Tax for 18 years, exemption from the Land Tax for 10 years on the lands on which the beets were grown for the factory, free construction land for the factory up to five hectares, exemption of the factory personnel from the payment of Income Tax for 10 years, etc. The entrepreneurs of the Alpullu sugar enterprise included deputies in the GNA [Grand National Assembly] and Istanbul merchants, who influenced the IB [Business Bank] into providing 68% of the capital and the ZB [Agricultural Bank] 10%, leaving only 22% to be supplied by themselves. Thus, the first and major sugar industry in Turkey was created by state funds for the profit of private interests.”
- 13 “The officially promoted private bank (İş Bankası), which represented the central intelligence behind private capital, remained vigilant in safeguarding the areas of activity which were thought to be the domain of the industrial bourgeoisie. ... In 1930 its participation in national industry had grown to 50 per cent of all national banks and by 1937 it held 38 per cent of the deposits in national banks. İş Bankası provided a smooth interface between industrialists and the bureaucracy. Its board of directors consisted of thirteen deputies, and its links with public banks and state enterprises were intricate and strong. Industrialists regarded the bank as their platform when bargaining had to be carried out with the bureaucracy. The boards of directors in all the firms in which the bank held shares included high level bureaucrats and deputies. It was almost impossible to imagine a large manufacturing firm without such participation by the

political patrons dominated, due to their uncontested position and their control of rent distribution after the decline of the Christian commercial bourgeoisie.

The political context of primitive accumulation in Turkey was shaped, therefore, by a powerful nationalist state bureaucracy that had at its disposal enormous political and economic resources to restructure society and economy. Turkey represents a somewhat unique case of late capitalist development because the state elites created a national bourgeoisie from scratch, thereby seriously weakening the organizational capacities and social status of this bourgeoisie. As Buğra puts it,

in the Republican period, therefore, the state also contributed to the creation of private wealth through selectively used mechanisms of reward and punishment. Turkish businessmen carrying these birth marks could have little claim to moral and legal arguments to face any challenge from different societal actors or from the state authority itself. There has been little autonomous moral basis or legal framework to be used for the justification of business activity. (1994: 51)

This pattern of state–business interactions persisted afterwards, although under different circumstances, as the new element of effective electoral politics was introduced, which ended the Republican People’s Party’s (RPP) hegemony.

The liberalization of the political process took place after World War II. Until that point, the RPP had been continuously losing its legitimacy as the only motor of political and economic development. Previous attempts to establish an opposition party as an institutionalized channel of social protest were quickly abandoned. After World War II, however, the government gave in to US demands to install multi-party politics, which led to a landslide victory for the opposition Democratic Party (DP) in 1950. Although the DP – and especially Prime Minister Adnan Menderes – was committed to the demands of private business, the policy process was still characterized by the rules of rent-seeking and distribution of favors to friendly businessmen. This “liberal interventionism” (Buğra 1994: 121) did not create a context of high institutional trust and certainty for all economic actors alike.

The same applies to the official policy of state-planned industrialization after the military coup in 1960. The Turkish Armed Forces installed the most liberal and participatory constitution in Turkish history in order to prevent the monopolization of political power in the hands of one party. Even so, the new rules of parliamentary representation and electoral politics did not bring about political stability in the intended fashion. On the contrary, they severely weakened the regulatory capacities of the state bureaucracy, which had become increasingly politicized along social and ideological cleavages in the course of the deepening of the import-substituting industrialization (ISI) model. These

bureaucratic class. In 74.2 per cent of all firms established between 1931 and 1940 (and still surviving in 1968) the founding entrepreneurs were bureaucrats. This high figure was partly due to the bureaucracy’s growing share in national income and the opportunities it had enjoyed in public contracts and land speculation in the growing capital city. It mainly indicates, however, the currency which political influence enjoyed during the period” (Keyder 1987: 106).

industrialization policies entrenched the position of those business elites that had profited from their access to state resources. The crucial resources for economic success in the 1960s and 1970s were import licenses for raw materials and investment goods. Turkey's markets were controlled by the new manufacturing giants that soon started to diversify their activities into unrelated areas. These family business groups thus formed the core of the elite constellations in this phase, with the state bureaucracy being reduced to a mere financier of economic activities. The family holdings kept their organic links both to the political elites and the military. The centrality of political finance in the overarching framework of political clientelism and favoritism seemed only to reinforce the position of the oligarchs.¹⁴

In the 1970s, however, new, antagonistic class relations emerged and started to undermine corporatist state–labor relations and to weaken the position of the oligarchs as the main beneficiaries of the ISI growth model. Also, new social conflicts broke out, along the lines of ethnicity (Kurds) and religion (Islamists), which hitherto had been suppressed by the Kemalist state bureaucracy. The economic and financial crises in the second half of the 1970s, which were caused by the decrease in remittances from Turkish migrants in Europe and the oil price revolutions, further added to the radicalization tendencies. Outbreaks of political violence between nationalists, on one side, and socialists, Kurds, and Alevites, on the other, obstructed the control strategies of political and business elites alike. The reluctant adoption of an IMF structural adjustment program (January 24, 1980) further frustrated most parts of Turkish society. Finally, the Turkish Armed Forces intervened (September 12, 1980) by dissolving the parliament, the political parties, trade unions, and civil society organizations and by banning the party leaders from re-entering politics. The only societal organization to be exempted from these repressive measures was TÜSİAD, the family holdings' business organization. Thus, oligarchy was saved from societal interference by the military. It paved the way for the transition towards an export-oriented industrialization (EOI) model in which the position of the oligarchs was to remain untouched.

In short, the state capitalist model was eroded due to the internal contradictions stemming from a combination of statist attempts to obtain social control and democratic institutions, through which new social cleavages were articulated. Full-fledged contestation led to an erosion of state corporatism, while at the same time creating a context of excessive patronage and favoritism. Bureaucratic elites were replaced by new political

14 However, the newly obtained political powers rendered the family holdings far from autonomous. In the words of former TÜSİAD chairman Ali Kocman, “in this country our philosophy has always been that of taking the ‘Papa State’ (*devlet baba*) as paramount, refraining from challenging it, and of pursuing an economic policy, not in spite of, but with the ‘Papa State’. ... Hesitancy on the part of the members of the private sector to run for public office stems from the philosophy of not challenging the ‘Papa State’, from the belief that the state would not bode well for them. Let me give you an example. Today in Turkey every businessman thinks that even if he had not done anything illegal, the state, if it chooses to, may find a pretext and crush him,” cited in Heper (1985: 103; emphasis in original).

and economic elites who stood at the center of these networks of privilege. The chronic capital shortage in the second half of the 1970s only exposed the lack of regulatory capacities of the fragmented state. The decision to adhere to the IMF structural adjustment program was one way out of the state capitalist order.

3 Neoliberal restructuring, state transformation, and oligarchic capitalism

Trade liberalization – bifurcation of political power

After the military coup d'état and the return to parliamentary politics in 1983, Prime Minister Turgut Özal could finally use the new political space to realize his liberal economic visions. In particular, these visions included liberalizing Turkey's foreign trade in favor of an EOI model, similar to the industrial policies of the East Asian developmental states (Evans 1995; Öniş 1991). After overcoming the resistance of the Turkish armed forces and President Kenan Evren during the election campaign, winning 45.2 percent of the popular vote, he immediately started to deepen the policies of foreign trade liberalization which he had already addressed as leader of the technocratic cabinet before 1983. Furthermore, he initiated the capital account liberalization program, which also foresaw the privatization of state-owned enterprises (SOEs) as soon as 1984. Other policies included fiscal austerity measures, such as reductions in public spending and the introduction of VAT in 1985.

In particular, in order to guarantee a smooth transition towards EOI, the Motherland Party (MP) government relied on financial incentives for exporting companies (for example, tax rebates, as well as preferential loans and credits of the newly established Eximbank). The core of this restructuring process, however, was the promotion of industrial exports through so-called *foreign trade companies*. These companies, most of which belonged to the family-run holding companies, were provided with various incentives and subsidies in order to support the cost-intensive transition to an export-led economic order.¹⁵ That Turkey managed to increase its exports from 2.9 billion US dollars (1980) to 12.9 billion US dollars (1989) within a decade is a major indicator of the success of this transition. Furthermore, the share of industrial goods relative to total exports rose from 36.0 percent to 78.2 percent during these years. These successes were accompanied by increasing growth and decreasing inflation rates until 1987. Even though these developments did not solve the country's problem of structural indebtedness, IMF Special Drawing Rights (1.5 billion US dollars until 1984) and World Bank Structural Adjustment Loans (4.7 billion US dollars until 1985) guaranteed Turkey's access to international capital markets.

15 This export-incentive regime consisted of exemptions from import duties, the financial transaction tax and VAT, reductions in corporate income taxes, preferential loans, energy subsidies, transport premiums, and tax rebates (Schubert 1996).

On account of these economic restructuring measures, Turgut Özal is still hailed as the first Turkish politician to introduce market principles that would ultimately reduce the role of the state in the economy. However, contrary to such idealistic appraisals, which focus on his economic farsightedness and ideological background (Acar 2002), in my view, Özal's impact was far weaker than is often assumed and he – in common with political elites before and after him – did not give up his discretionary allocation capacities. The liberalization of Turkey's foreign trade and current account did not lead to the emergence of a liberal economic order because the political and economic rules of the game did not change. What did make a difference, however, was the fact that Özal had at his disposal enormous discretionary powers in a political field that was void of political competitors.

What was the political context and what changes are responsible for this type of economic restructuring? When Özal came to power in 1983, all former party elites were already banned from the political arena.¹⁶ In addition, the armed forces violently suppressed trade unions and leftist groups in order to safeguard the unpopular reform measures in the face of bottom-up pressures. Özal was able to rule with a high degree of autonomy, in relation to both potential competitors and the discontented working classes that had to bear the social costs of the restructuring measures, in terms of rising unemployment and falling net wages. He took advantage of this not only to implement the necessary institutional reforms, but also to entrench himself (and his relatives) politically.

This strategy proved successful due to the distribution he was able to exercise vis-à-vis the prominent family holding companies that were dependent on the export incentives mentioned above. These incentives proved to be an effective power tool in the hands of a Prime Minister who had no competitors to fear and could enrich his relatives as well.¹⁷ There were, indeed, many instances in which Özal used export and other incentives in order to sanction non-compliant holding companies. Even though the family holding companies could have used their business organization TÜSİAD as a bargaining tool with Özal, they complied with his divide-and-rule strategy and informal type of governing when it came to obtaining access to state resources.¹⁸ In the words of Ayşe Buğra,

16 However, these party elites could still rely on their networks and organizational resources and tried to establish alliances behind the scenes, more often than not with the help of relatives. For example, the wife of former Prime Minister Ecevit, Raşan Ecevit, played a prominent role in those years.

17 “One of these cases had to do with the decrease from twenty-five to fifteen cents of the payments made to a particular fund by the exporters of dried figs. The decision for this change was taken at the end of the export season for this commodity, and the only person likely to benefit from it was a particular exporter who still had a certain amount of this export commodity to be shipped abroad. This exporter happened to be a close friend of the Minister of Finance, the future father-in-law of Turgut Özal's son” (Buğra 1994: 152).

18 According to Gülfidan (1993: 73), “rather than informing the government of their demands through the Association they belonged to, TÜSİAD's members developed ‘particularistic’ ties with the party elites, which in turn meant clientelism, pure and simple.”

the state was important because businessmen were in a position to watch every single move of policymakers in order to be able to form at least a vague idea about the highly unpredictable changes in the values of the key macroeconomic indicators. Therefore, the state formed, more than ever, the center of the businessman's daily concerns. (Buğra 1994: 146)

Nonetheless, these family business groups were no mere victims of an alien political apparatus: they themselves constituted the core of this regime and profited heavily from these resources, some of which could be directly linked to the MP.¹⁹ Also, these economic elites were themselves involved in illegal activities with a view to profiting from the export and investment incentive regimes²⁰ that were insufficiently monitored, as formerly powerful state agencies had lost the appropriate capacities.²¹

Furthermore, in order to provide patronage funds for the MP and its broad constituencies, Özal set up extra-budgetary funds that were supposed to benefit those who had lost out due to neoliberal reforms, mainly through the massive expansion of housing and infrastructure investments (Buğra 2003, 2007). However, these attempts to monopolize political and economic resources could not be upheld over the long term. In the second half of the 1980s, the MP increasingly lost much of its appeal, as could be seen in the results of municipal elections. Even the public expenditure increases after 1987 could not alleviate the welfare-reducing effects of neoliberal reforms, and the former political elites could capitalize on this growing dissatisfaction. Özal knew he could not resist popular demands for the return of the old party elites. He called for a referendum, in which a narrow majority (50.2 percent) of the population agreed to the lifting of the ban and early parliamentary elections. The MP won 36.3 percent of the national vote and an absolute majority of seats in parliament. Özal himself used this majority to be elected State President in 1989, while the decline of the MP could not be stopped. In

19 See Arat (1991: 144): "When the Motherland Party under Mr Özal came to power in 1983, TÜSİAD was particularly receptive. The Prime Minister, himself earlier a TÜSİAD member, had twenty ministers in his Cabinet, of which sixteen had worked in the private sector. The Ministers of Justice, Finance and Customs and a Minister of State had close ties with Enka Holding Company, and another Minister of State with Sabanci Group; both the Company and the Group have been leading TÜSİAD members. TÜSİAD had 'organic' links to the government in power."

20 The customs offices were very accessible to businessmen willing to offer bribes in exchange for export incentives for "fictitious exports." Although the actual amount of these fictitious exports remains unknown, Turkish newspapers in the 1980s exposed minor and even several influential family holdings that were involved in these activities (cf. Schubert 1996).

21 Concerning the lack of monitoring capacities, an official from the State Planning Organization told Biddle and Milor: "If I tell my people to collect data on the actualization of investments, then what do I do with the data? Once I have the documentation on the implementation of incentives, then I have to do something with it. But this will pose a true dilemma for me. If I don't do anything about the situation, then I am violating the legal system which stipulates that I should punish the violators. But if I take steps to punish the violators, then this is like playing with fire. They are powerful individuals who have access to top politicians and they will find a way, sooner or later, to unseat me. So, I would rather not collect data in order not to disturb anybody" (1997: 297). On the decline of the State Planning Organization in the neoliberal reform process in general, see Ünay (2006).

1991, the Third Republic's first coalition government of the leftist Social Democratic People's Party (SDPP) and Demirel's True Path Party (TPP) was established, which set the stage for the political dynamics of the 1990s.

In short, the years of this first wave of economic restructuring were characterized by a bifurcated political structure: namely, between the Turkish armed forces, which repressed leftist movements, parties and trade unions, and the Motherland Party, which replaced the former political elites as the only provider of patronage. Although Prime Minister Özal centralized and personalized political processes – also with the aim of enriching his family and supporters – trade liberalization policies, combined with the export incentive regime, disproportionately benefitted the established family business oligarchs, who were the only national champions available for the Motherland Party to sponsor.²² At the same time, the social upheavals of those years were contained, to a certain extent, by the Motherland Party's patronage capacities without guaranteeing equal and impartial social citizenship rights to the population. The principle of reciprocity was tied to the electoral rules of party patronage in order to deal with the pressing urbanization and new urban squatter (*gecekondu*) issues, while the state began to finance private charitable activities to address the new market-induced poverty.²³ This monopolization of political power enabled the reform process, but with the return of former political elites to the political stage in 1987 and the capital market liberalization of 1989, the deepened integration of Turkey's economy into the world market was dominated by excessive political fragmentation and uncontrolled corruption structures.

22 “This has not led, however, to a formalization of state–society relations in line with the formal and impersonal character of the principle of redistribution. Instead, the decade has witnessed an intensification of particularist relations between the state and private sector actors with claims on public resources. Exporters who were supported by tax rebates, investors in tourism and real estate benefitting from preferential credits, and the bidders for public sector enterprises in privatization deals have all appeared as important actors in newly emerging networks among public authorities and private businessmen. Liberalization and deregulation have provided ample opportunities for the mobilization of such networks for private gain, and what has critically been labeled populism has given way to downright corruption” (Buğra 2003: 462).

23 “Although the 1980s was a period when Turkey's newly discovered faith in the ability of the self-regulating market system largely produced demands for state intervention to solve economic and social problems, the need to respond to emerging forms of poverty did not remain unrecognized. A relatively early response, which came with legislation enacted in 1986, was rooted in the tendency to regard poverty as a problem that could best be dealt with through the country's traditional ethos of charity involving a society-specific form of state–society cooperation without proper delineation of private and public funds used to assist the needy. Hence, the Fund for the Encouragement of Social Cooperation and Solidarity was established as an umbrella organization covering over 900 local foundations managed by representatives of the central government at the district level with the aid of a board of directors that included prominent members of the local population” (Buğra 2007: 46).

Open access and political fragmentation

In contrast to the 1980s, the second phase was characterized by extremely volatile growth rates, high levels of inflation, the outbreak of several financial crises, and a political deadlock scenario, as a result of which this period is often referred to as the “lost decade.” The main reason for this is the debt trap the economy could not evade. The full liberalization of the financial system under Özal in 1989 was accompanied by high public sector borrowing requirements (PSBR) which – given the banking system’s lack of institutional robustness – had pernicious effects on the economy in general. The government relied on new tools of domestic finance which heavily influenced the incentive structures of both state- and privately owned banks and enterprises.

This debt trap can be characterized as follows. The high level of PSBR and the deficit spending policies of the government compelled the Treasury to issue high-interest bills and government bonds (domestic debt grew from nil in 1987 to 25–30 percent in 2000). Small and medium-sized private commercial banks bought these bonds and financed these activities by borrowing short-term capital on international markets and by fiercely competing for the savings of the Turkish population, thereby contributing to the appreciation of the Turkish lira. This appreciation secured access to foreign short-term funds, despite the macroeconomic imbalances they caused. First, the appreciated lira weakened the competitiveness of Turkish exports (at a time when the export incentive regime of the Özal period had come to an end due to the GATT regime and the Customs Union with the EU) and deepened trade imbalances. Second, the borrowing activities of those private banks furthered the dollarization of the Turkish economy, which contributed to the devaluation pressures on the lira. Caught in a vicious cycle of high deficits, high inflation, and high interest rates, as well as the decline of the Central Bank’s foreign reserves,²⁴ the lowering of Turkey’s credit rating at the beginning of 1994 eventually triggered the devaluation of the lira and the massive outflow of those short-term funds on which the financial system was increasingly relying (cf. Cizre-Sakallioğlu/Yeldan 2000; Alper/Öniş 2002; Öniş 2003).

The IMF program in 1994 called for fiscal austerity and the regulation of the financial sector to address the moral hazard problem with regard to the private banks, but after a slow recovery of Turkey’s macroeconomic performance the same pattern of internal and external borrowing resumed its dominance. Another IMF program was adopted in 1999 that addressed banking regulation and inflation (Öniş 2003). New banking supervisory agencies were established and started to operate in 2000, but these measures did not prevent the outbreak of the financial crises in 2000 and 2001. The 2000 crisis erupted due to the insolvency of Demirbank, which was heavily involved in lending to the government. The 2001 crisis, however, occurred after the dispute between Prime Minister Bülent Ecevit and President Sezer. This dispute was immediately interpreted

24 This pattern resembles the financial liberalization experiences of Mexico, Brazil, and Argentina, which all experienced financial crises in that era.

as a signal of political crisis, which triggered an outflow of short-term capital. The later crisis was much more dramatic, impacting on the whole economy, leading to the collapse of growth and severe unemployment in 2001.

It was undoubtedly the return of the old political elites to the political arena after 1987 that impaired the regulatory capacities of the newly established institutions and rules of banking regulation and supervision. With the end of the MP's dominance, old party leaders fought bitterly with one another over the rent distribution instruments that Özal disposed of so freely during the 1980s. This fierce political competition was responsible for the growing PSBR, which prevented austerity policies and effective regulatory measures in the financial sector, highlighting the logic of what Öniş (2003) labeled "populist cycles."

Especially after the 1994 financial crisis, state-owned and private banks were used for rent-seeking purposes by politicians and businessmen alike. The former served as patronage resources for politicians who – given their vulnerability in the political process – allocated funds towards broad segments of society during both national and municipal elections.²⁵ Beyond these broad-based allocations, politicians started issuing licenses for new banks on the basis of mainly political criteria. These new banks, again, were either used to buy treasury bills and government bonds (see, for example, Alper/Öniş [2002] on Demirbank), or served as tools enabling family business groups to siphon off capital to companies within these groups, without adhering to the regulations on intergroup lending (Soral/Işcan/Hebb 2006). It is fair to conclude that these political competition structures seriously overburdened the financial capacities of the state, and neither politicians nor businessmen had any incentive to fundamentally alter these rules.²⁶ Although the public was aware of the nature of the political and economic problems, the political elites could not be held accountable.²⁷

25 Alper and Öniş point to the changing dynamics and adaptability of rent-seeking alliances. "Following the crisis of 1994 and the ensuing IMF program, the two major sources of rent distribution in Turkey involving state economic enterprises and extra-budgetary funds were largely brought under control. In retrospect, public banks emerged as the new principal avenue whereby rent distribution mechanisms have been reactivated in the post crisis era. This is not surprising in the sense that the utilization of the two major public banks allowed incumbent governments to serve large sections of the electorate. Ziraat Bank helped to channel funds towards agricultural producers, whereas Halk Bank targeted small and medium sized business both on a heavily subsidized basis" (2002: 10).

26 One striking example of the inability that resulted from these personal linkages is Cavit Çağlar. As a close friend of Süleyman Demirel, Çağlar was able to set up a textile company and immediately started to diversify his activities into finance and media. His Interbank conducted "bankruptcy for profit" (see Soral/Işcan/Hebb 2006) strategies by siphoning off capital within his holding company. He was also involved in similar practices on the part of the banks of friends within the Demirel network. From 1995 to 1996, Çağlar was State Minister in charge of the state banks, a position he used to safeguard these illegal activities. Eventually, after 2001, these activities were covered up and his bank was transferred to the Savings Deposit Insurance Fund.

27 "Countless parliamentary investigatory committees [were] set up in the 1990s to investigate alleged abuses in state apparatuses. Almost every day, the media draws attention to human rights

Beyond this high level of political fragmentation, other factors come into play, the most important being the emergence of new actors in both spheres. In the economic domain, these actors are new holding groups that, since the 1980s, have been conducting the same political business strategies as the big holding companies had done for decades. The rise of the Uzan family is a prominent example: together with Ahmet Özal, Turgut Özal's son, Cem Uzan set up the first private TV station (Star TV) and immediately diversified into construction, energy, finance (Imarbank) and communications (Telsim). Uzan (like the Doğan group) used his enormous media power as a means of acquiring profitable deals and resources in a way that directly undermined the capacities of state institutions.²⁸ These new groups threatened the position of the big holding companies in that they rendered impossible privatization projects from which the latter could have benefitted. The sheer rapidity of the rise of the new oligarchs meant that they were unable to consolidate their position without being dependent on political elites who were involved in increasingly fierce competition over businessmen's resources.

In the political sphere, it was the rise of the Islamists that challenged the oligarchic framework. They not only attacked the ideological foundations of the Turkish Republic, but also represented the business strata that had been politically excluded during implementation of the ISI and EOI growth models, principally SMEs. The Welfare Party (WP) of Necmettin Erbakan was dangerous to the political elites because it was regarded as a legitimate alternative in the central and eastern Anatolian provinces. These regions had hitherto been excluded from the gains of state-led industrial development, and their political representation was weakened by the prevailing clientelistic structures of center-right parties (see, for example, Sayari 1977; Özbudun 1981; Güneş-Ayata 1994). Interestingly, the WP was able to attract these important votes in the mid-1990s because it was regarded as a party with strong – formal and informal – grassroots organizations that addressed the problems of small businesses and the general populace. Thus, the Islamists were able to profit from the existing center–periphery dichotomy (cf. Mardin 1975) and incorporate it into its anti-Western, anti-Kemalist ideological framework.

The main bases for the success of the Islamists were the so-called “Anatolian Tigers,” a far-reaching network of SMEs in the central Anatolian provinces. In contrast to the large industrial conglomerates in Istanbul, İzmir, and Ankara, these companies pursued

violations and public corruption, and highlights social poverty, violence and crime. The opposition parties themselves denounce and challenge political irregularities. Nevertheless, apart from elections, the ability of societal actors to evoke governmental responsiveness or accountability is virtually nil. More importantly, Turkey's political class does not resist, ignore or fail to resolve the explosive social and political problems. Rather, it often operates ‘in defiance’ of widespread public demands” (Cizre-Sakallioğlu/Yeldan 2000: 494).

- 28 “Industrialists and financiers are attracted to newspaper and television ownership, not just as businesses in their own right, but as ‘loss leaders’ for their other commercial activities. Dedicated media owners see the advantage of moving into non-media fields. They are prepared to peddle influence in return for credits, incentives and other advantages” (Finkel 2000: 155–156). See also Christensen (2007) for an overview of media ownership concentration and Karedemir and Danişman (2007) for the political logic of post-1980 business–media linkages.

growth and export strategies without having politically secure access to state incentives (cf. Öniş 1997). They profited from an abundant stock of unskilled, cheap labor and from inner-group religion-based norms of trust and cooperation. Tightly embedded in this socio-cultural framework, the WP was provided by these SMEs with stable income (cf. White 2003; Öniş 2006). Furthermore, with the establishment of their own business association (MÜSİAD) and trade union (HAK-İŞ), this movement increasingly capitalized on the unsolved issues of rural and urban poverty in the name of a just and Islamic order.

Nevertheless, this socio-cultural counter-elite was prevented from attaining access to the national political arena. In the 1995 parliamentary elections, the WP won 21.3 percent of the national vote (ahead of the MP and the TPP). After the breakdown of the TPP/MP coalition government, the WP at last came to power in a coalition with the TPP. Shortly afterwards, in the face of the resistance of the Turkish armed forces, rival political parties, the media, and civil society organizations (TÜSİAD), the WP was forced to resign in 1997 and was banned by the Constitutional Court in 1998. This decision restored the usual political connections between politics and business. However, at the level of local politics, the relations between Islamic SMEs and politicians remained untouched, due to the informality and flexibility of these networks, enabling them to adapt to developments at the level of national politics.²⁹ At the national level, the Islamists regrouped under banner of the new Virtue Party (VP) and entered parliament after the 1999 elections. Again, this party was ruled unconstitutional and banned in 2001. The strategy of re-establishing two parties in 2001 – the JDP and the Felicity Party – reflected the internal split in the Islamist movement. Beyond that, given the massive social discontent with the political class after the crisis of 2001, the JDP was able to present itself as a viable reform party that had gone through a process of moderation and unconditionally acknowledges the secularist foundations of the Turkish Republic.

To repeat, the 1990s were characterized by higher degrees of power dispersion. The main channels of rent distribution were public and private banks that had to bear the costs of the rapid wealth maximization of politicians and businessmen alike. This fragmentation of power undermined the regulatory capacities of the state, so that the IMF reform program after 1994, which emphasized the importance of banking regulation, was not adhered to by the political elites. Therefore, in the 2002 parliamentary elections, all political parties that were perceived to be involved in these corrupt practices, failed to reach the ten-percent threshold to enter parliament, while the new JDP emerged victorious (34.3 percent of the votes; 66 percent of the parliamentary seats). These elections represent a clear break in recent politico-economic developments in Turkey. For the first time, the socio-economic counter-elite of the influential oligarchs was elected without being prevented from consolidating its position in the political process.

29 White labels this type of social mobilization “vernacular politics,” characterized by “a value-centered political process rooted in local culture, interpersonal relations, and community networks, yet connected through civic organizations to national party politics” (2003: 27).

Regulating finance and Islamic neoliberalism

Since the coming to power of the moderate Islamist JDP, revolutionary political, economic, and discursive changes have occurred in Turkey. Despite the JDP's enormous electoral success, its position in the political process was extremely delicate, as its every move was closely monitored by the bearers of economic power (the dominant family business groups which earlier supported the ousting of the WP), as well as of political-ideological power (President Sezer and the TAF). Also, party leader Recep Tayyip Erdoğan became Prime Minister as late as 2003, thereby ending the uncertainty over the leadership issue. Constrained by these groups, as well as by the tight economic policy prescriptions of the international financial institutions, the JDP stuck to its identity shift toward a moderate religious party, portraying itself as a Muslim counterpart of the European conservative parties. It deepened the economic and political reform process to accelerate the rapprochement with the EU, a strategy that turned out to be successful and was rewarded with the official opening of accession talks in October 2005. The EU anchor seemed crucial not only to earning the confidence of foreign investors and rating agencies (Öniş/Bakir 2007), but also to obtaining a certain degree of bargaining power against the opposition, the President, and the TAF, who opted for a rigid Kemalist discourse, (literally) demonizing the Erdoğan government. Accordingly, between 2002 and 2005, the ruling party implemented a variety of liberalizing reforms, improving civil rights, curbing the formal prerogatives of the TAF in the National Security Council, and introducing cultural rights for the Kurdish population.

The macroeconomic developments after the financial crisis of 2001 further undermine the image of the "lost" 1990s. Stable and high growth rates, the decrease of the inflation rate below 10 percent, fiscal and monetary stability, and the rising inflow of FDI underline the effectiveness of the IMF program and the economic policies of the JDP. Even though the reform was implemented before the JDP came to power, it nevertheless adhered strictly to its prescriptions, especially with regard to fiscal austerity and privatization.

The financial sector, above all, turned out to be much stronger than in the past. Even the JDP's power struggle with the military and the judiciary did not cause serious capital outflows of the kind experienced in 2001. This shows an overall internal and external confidence in the robustness of the Turkish economy, for which the new ruling party is credited by the international financial institutions, the EU, and foreign investors. One striking example of the marked change is banking regulation. Those private banks that were involved in bankruptcy for growth strategies (inter-group lending, back-to-back loans, and so on), or had outstanding debts to the state banks or went bankrupt after 1999 (21 banks in total), were taken over by the newly established Savings Deposit Insurance Fund (SDIF). It even went so far as to confiscate several companies of the respective holding companies in order to guarantee debt repayments. The SDIF consolidated bank and company balance sheets and reprivatized them.

It gained public trust as it was able to proceed against influential and fast-growing holding companies of the 1990s. The Uzan family, for example, faced fraud allegations and eventually lost major companies (Telsim, Star TV) and its Imarbank to the regulatory authorities, so that not much is left of the political and economic power it wielded in the 1990s. Further prominent examples of influential figures who were charged and prosecuted include Cavit Çağlar, Dinç Bilgin (ATV-Sabah media network), and even Murat Demirel, nephew of former Prime Minister and State President Süleyman Demirel. In the banking sphere, these measures led to concentration processes and the entry of major foreign banks. This had the effect that private banks were no longer willing to serve as the financiers of political elites. All in all, these developments were taken as a clear sign that the economy no longer functioned in accordance with political criteria and that the crucial steps toward a liberal market economy were being taken.³⁰

Beyond these new – external and internal – windows of opportunity, which shaped these substantive restructuring measures, also crucial in the past decade has been the identity and discursive shifts among Islamist groups, which led to the active embrace of liberal market ideologies by the new government. Although such norms have been propagated in the public sphere since the late 1980s and have shaped fields such as education (Kaplan 2006: Chapter 4) and new forms of urban segregation (Geniş 2007), they did not take the form of concrete policies before the JDP.

This ideological reorientation, from skepticism towards the free market to a new “capitalist spirit,” openly embraced by Islamic businessmen and scholars, has drawn a great deal of attention from both Turkish and foreign scholars and observers, as it seemed to directly contradict the prevalent, supposedly “orientalist” claims that Islam and capitalism – not to mention modernity as a whole – were not compatible.³¹

Since the 1990s, when the opening up of the economy to private and foreign capital triggered the painful but successful capture of new export markets by Anatolian business groups,³² on the one hand, and the pluralization of the media, on the other, discursive shifts made possible new articulations concerning the role of religion vis-à-vis the state, the West, democracy, and capitalism. Originally tied to WP hardliners, since the late 1990s the unfolding success and emancipation of Islamic capital has had a “taming” (Jang 2005; Demiralp 2009) effect on these debates, which was realized through new newspapers belonging to new business groups (for example, *Yeni Şafak* [“New Dawn”], belonging to the Albayrak Group, and *Zaman* [“Time” or “Era”], associated with the

30 Another important boost for the post-crisis economic recovery was the liberalization of the credit card market (see Altunbaş/Kara/Olgu 2009: 84–85).

31 One very prominent publication countering this claim on the basis of recent Turkish economic experiences was “Islamic Calvinists: Change and Conservatism in Central Anatolia” (2005) by the European Stability Initiative. Available at <www.esiweb.org/pdf/esi_document_id_69.pdf>.

32 These new markets are located particularly in the Middle East and Central Asia, which, especially in the high oil price era of the 2000s, gave the export profile of Turkey in general an enormous boost; see Kirişçi (2009).

Gülen movement). Tuğal (2006) neatly traces these divergences and links them to the ongoing struggles within the Islamist counter-movements. In the context of the political opportunity structures of the late 1990s, he differentiates between adherents of a “moral capitalism,” according to which Islamic norms are intended to weaken the socially disruptive forces of the market, and those propagating an “alternative capitalism,” who do not view these effects critically and refer to the moral obligations of profit-making according to Islam. What both groups share, however, is the blame they attach to the tradition of subsidizing western Turkish family business groups, as well as the overall implications of an inefficient financial sector which, instead, should operate on the basis of Islamic banking principles. They wish to implement new forms of profit-making, favoring a new work and consumption ethic different from rentierism and conspicuous consumption, of the kind associated with the established oligarchs (Yavuz 2009: 53).

Thus, with the JDP in power, Turkey seems to have experienced a successful re-embedding – in Polanyian terms – of capitalist social relations into a new moral framework, centering on principles of Islamic charity (Buğra/Keyder 2006), while, at the same time, pursuing its reformist course. In contrast to previous ruling parties, the JDP – uniquely – has followed the tight fiscal and monetary policy recommendations of the IMF to put an end to rampant cronyism and the overall rentier mentality which, supposedly, was a by-product of the country’s statist tradition.

At first sight, these efforts of the JDP seem to have been effective, at least if the appreciation of foreign audiences is anything to go by, who are amazed at how rapidly a professedly Islamist party has addressed these issues. Even so, acknowledging such a fundamental break with historically-grown state–business linkages is possible only as long as we take the self-representations of the ruling party for granted, which veils as much as it uncovers. This is because the JDP, in common with all previous ruling parties in Turkey’s modern history, has engaged in the same discretionary politico-business strategies, aimed at disproportionately benefiting its own constituency.

The JDP is as untransparent as its predecessors when it comes to disclosing information about party finances. Despite several public declarations that it would reform party finance regulations, nothing has happened in that regard and therefore no legal prosecutions may be expected involving informally operating political entrepreneurs.³³ In a similar vein, the JDP has not addressed the issue of parliamentary immunity which repeatedly serves as an easy way of evading corruption allegations, as in the case of

33 As one Turkish interviewee – a former employee at the Ministry of State – explained it: “There is no rule regulating election campaign financing. All political parties are capable of spending huge amounts of money without a system that might hold them accountable for how they spend these resources. There is no transparency, no cap on how much you can actually spend. And this holds for national as well as local politics. On the other hand, there is a formalized audit of political parties by the constitutional court, but, in the same way that companies have two accounting books (one for the auditors, one unofficial), political parties have one official report which is audited by the constitutional court and another, unofficial one.”

Minister of Finance Kemal Unakitan and JDP deputy Cemal Kaya.³⁴ Furthermore, the JDP has hitherto not publicly clarified its own involvement in scandals involving Islamic businesses (*Yimpaş*) and Islamic charity organizations (*Deniz Feneri*).³⁵ The most prominent case of nepotism was the sale of the sequestered ATV-Sabah network to the Çalik Group in December 2007. Even though the bidding process was characterized by a number of irregularities, the SDIF approved the sale to Çalik for 1.1 billion US dollars. Besides that, the deal was financed by two loans (amounting to 750 million US dollars) from state banks and investment by the Qatari Al Wasaeel media network.³⁶ Also, the public–private distinction is blurred constantly by the enactment of legislation that is supposed to collectively favor the JDP’s constituency but which in parallel benefits the economic interests of individual government members. This occurred, for example, in 2003 when the government implemented a tax amnesty to mobilize around 8 billion US dollars (Demiralp 2009: 329), a move that helped MÜSİAD members substantially and, beyond that, the Minister of Finance himself.³⁷

34 Available at <<http://report.globalintegrity.org/Turkey/2007/notebook>>. Although Koçan and Wigley refer to the political power considerations of lifting the immunity regime in the context of a Kemalist judiciary, the “democratic” motif of the JDP is highly contradictory: “Indeed, there is some evidence that AKP (JDP) is misrepresenting its motivations. Firstly, in spite of its concerns about the partiality of the judiciary it has authorized court proceedings against five former ministers, including the former Prime Minister Mesut Yılmaz. Secondly, AKP has not been afraid to use the law against its political opponents. In 2003, the ministry of justice gave permission for an investigation against Youth Party leader Cem Uzan (who was an elected member of parliament) for insulting the office of the prime minister, occupied by AKP leader Tayyip Erdoğan. He has subsequently been sentenced to eight months in prison” (2005: 139).

35 In both cases, moneys collected among the Turkish population in Germany were siphoned off and transferred to Turkey. The first case – involving funds amounting to several billion dollars – involved Dursun Uyar, who in the 1990s was very close to WP circles. Although Uyar was convicted in absentia by a German court, the JDP has been surprisingly silent about its dealings with him and other *Yimpaş* managers, one of whom, Beşir Atalay, has become Minister of Interior (see <www.nzz.ch/2005/08/18/wi/articleD2COF.html>). In the *Deniz Feneri* case, the German branch of an Islamic charity organization collected funds in Germany to help the victims of the 2004 Tsunami in Indonesia: 16 million euros vanished, for which those responsible were charged and sentenced in Frankfurt. However, although the persons involved were linked to prominent JDP members – especially Zahid Akman, Head of the High Board for Radio and Television – no criminal proceedings were initiated in Turkey.

36 Interestingly, Ahmet Çalik is a long-time friend of PM Erdoğan and has profited enormously from bidding for state contracts in recent years. Also, Erdoğan’s son-in-law is a general manager in the Çalik Group, and it is known that JDP leaders established the necessary contacts with the Qatari media group. In fact, President Gül himself admitted that he personally introduced Çalik to the Qatari partners.

37 See <<http://report.globalintegrity.org/Turkey/2007/notebook>>: “Erdoğan, newly elected as prime minister, appointed Kemal Unakitan, a former Islamic (interest-free) banker, to be finance minister, just as Unakitan was being tried in court for producing fake invoices for the tax authorities. At that point, the charges against him were suspended due to his parliamentary immunity. Members of Parliament quickly passed a law that granted amnesty for a number of tax offenses, including those perpetrated by the finance minister. Unakitan, later found to be the owner of unlicensed villas on a well-to-do hill in Istanbul, came under pressure in 2003 for alleged tax favors for his son. Substantiated evidence showed that Unakitan’s son had imported

Finally, the government tends to resort to established arbitrary sanctions against particular economic actors who become either too critical of the JDP or are perceived as a potential threat to its political dominance. An example of the latter occurred with the JDP's sequestration of Uzan Holding's companies.³⁸ Although the trigger for the criminal proceedings was the family's involvement in a multi-billion dollar scam (the mobile phone companies Motorola and Nokia being the victims³⁹), it was Cem Uzan's position as media mogul, politician (as leader of the Youth Party), and – vastly expanding – entrepreneur that drew the suspicions of the JDP.⁴⁰ Concerning the former case, in 2009 the government fined the Doğan Media Group (belonging to the well-established oligarch Aydın Doğan) 2.5 billion US dollars due to irregular tax statements. While the JDP refers to this decision as an example of impartiality and of its determination to end the long tradition of the Doğan family's involvement in rent-seeking (for which it has regularly relied on its media power), the main reason behind this step is the group's critical coverage of the JDP's involvement in the *Deniz Feneri* scandal of 2008.

These violations of formally institutionalized principles do not represent exceptions proving the rule, but instead reflect the multidimensionality of the counter-elites' project of capturing the state and its distributional and symbolic capacities. Accordingly, the same local structures that, since 1994, have guaranteed the repeated electoral successes of Islamist parties and that tend to be portrayed in terms of new public management, transparency and citizen-orientation, have become the dominant venues of political patronage in which religious businessmen play a crucial role as financial supporters. Since the 1990s, the political-bureaucratic and economic dimensions of these local power constellations have been inseparable, as MÜSİAD members have always been engaged in these networks of privilege, as illustrated by Jang's analysis (2005) of the organic linkages between politicians and businessmen.

Thus, an analysis of the power structures of the past seven years casts a different light on this, overall, successful period of marketization. The main success of the JDP in the consolidation and institutionalization of banking regulation is undeniable. The Central Bank and the new regulatory authorities operate relatively free of political interference and have set in motion the reorganization and internationalization of the formerly troubled banking system. How was this institutionalization possible in a context

4,000 tons of corn shortly after a government decree more than halved the import tax on corn. Only four days after the 4,000 tons of corn had cleared customs, the import tax was raised by 25 percent.”

38 <www.nytimes.com/2004/02/16/business/turkey-seizes-219-companies-of-uzan-family.html>.

39 <www.nytimes.com/2003/02/17/business/2-phone-giants-in-court-to-fight-turkish-family.html?scp=6&sq=Uzan%20+motorola&st=cse>.

40 As an Ankara-based foreign investor noted: “Well, you have seen what they have done to the Uzan family. Of course, he was implicated in fraudulent activities, but he was only targeted because he was head of the Youth Party, which is the same thing that happened to Khodorkovsky in Russia. There are a lot of people involved in the same things, but you are charged only when you're actively engaged in politics” (Ankara, 2 December 2007).

of prevailing rent-seeking structures? Why did it occur after 2001 and not after earlier financial crises? The answer is that, after 2001, those authorities started operating in a context that was free of the fierce political competition structures of the 1990s. Due to the almost revolutionary character of the 2002 parliamentary election, the JDP had sufficient capacity to implement and uphold this autonomy. It also had the will to adhere to these policies as they could be directed against formerly influential politicians and businessmen. The JDP could get rid of those networks according to the rules of political legitimacy as it did not have to rely on patronage resources.⁴¹

Power politics is also the answer when it comes to privatization. The crucial factor in the success of privatization policies is that the JDP's political power was effectively contained by the military (bureaucratic power) and the business oligarchs (economic power). This equilibrium secured a stable framework for large holding companies, such as Koc, Sabanci, Doğan, and others, which could reorganize their conglomerates by acquiring highly profitable firms in the energy sector and selling companies in areas with falling profit margins (for example, textiles and retail). The inflow of FDI also favored these groups, which secured their position in the Turkish market through a process of internationalization in order to become more autonomous from political elites whose pernicious impact on business these groups experienced during the 1990s. In return, TÜSİAD and the big media corporations were very favorable towards the JDP and its pro-EU position. The military, on the other hand, prevented the JDP from adopting religion-based symbolic policies that could have changed the secularist nature of the Turkish state. This power equilibrium, paradoxically, helped to overcome possible commitment problems on the part of the JDP government. The monopolization of political power by the JDP was regarded by TÜSİAD as a stable and trustworthy environment, given its experience with a fragmented political process in the 1990s. What made institutions work (at least, those institutions that did not operate effectively in the 1990s) was the change in political power structures. The JDP had the capacities and the interest to make banking regulation work (by directing it against its political enemies). It could also use these same capacities to favor close business groups and Anatolian SMEs (through contracts at the municipal level), as long as it provided the big holding companies with privatization deals at the national level.

41 Compare the JDP's capacities to the failures of institutionalization in the 1990s: "The ability of such an agency to play a constructive regulatory role was severely hampered by the presence of private banking lobbies that resisted any kind of regulation. Bank regulation also faced resistance from politicians and policymakers who conceived of private banks as a major means of government financing and the public banks as a serious source of rent distribution for building up and sustaining electoral support. Whilst the IMF was justified in its emphasis on the need to create strong regulatory institutions in Turkey, it clearly underestimated the political and institutional problems of constructing autonomous and effective regulatory institutions in the Turkish context. In other words, attempting to engineer reforms in a top-down fashion without paying sufficient attention to problems of political legitimacy tends to reduce the likelihood of effective implementation and the overall viability of the IMF-sponsored reform process" (Öniş 2003: 14).

In sum, contrary to the assessments of IFIs and political and economic analysts, the changes that have occurred in Turkey in the past six years have not entailed a systemic change in the direction of the rules of a liberal capitalist order and a democratic political regime. The only change that has occurred under the JDP is the shift to a phase of political power monopolization. This monopolization was contested, for the first time, with the recent backlashes of the military and the judiciary. Nevertheless, the JDP survived the 2008 closure case and struck back at the TAF by initiating the so-called “Ergenekon” case to target, for the first time, the illicit linkages between members of the TAF, paramilitary forces, and organized crime. Also, the renewed foreign policy efforts to assume a more Middle Eastern identity, the rapprochement with Armenia, and the initiatives to soften, if not end, the Kurdish problem are highly challenging for the TAF, which has come to recognize the loss of republican symbols and ideological power.

Turkey’s future direction depends on the current round of conflictive interactions. Its political power configurations have become fairly entrenched and the existing oligarchic capitalist framework has been undermined by opening it up to rivaling business constituencies, which display the “hegemonic” (Tuğal 2009) dimension of the moderate Islamist project as it confronts the oligarchy in both ideological *and* material terms, supporting the argument that change comes mainly from power struggles. The days of Turkey’s *closed oligarchy* have, therefore, come to an end, but it remains to be seen whether the new regime can really vest power in institutions, while at the same time pluralizing the political arena, and whether it really intends to do so.

4 Pathways out of oligarchy?

In this paper, I have tried to trace the erosion of state capitalism and the emergence of oligarchic capitalist features in Turkey. In contrast to the former, the latter are marked by lower degrees of state infrastructural power as the state institutions are captured by small cartels of political and economic elites. Privileged access to state institutions remains an essential avenue for economic actors and ties them to the historically developed rules of political patronage. Contrary to the predictions and assessments of neoclassical economists and promoters of reform in development agencies, the implementation of measures towards market liberalization does not, in itself, translate into the creation of a liberal market economy in which entrepreneurs can count on the impartiality of the state bureaucracy. If we take for granted that economies and markets are designed and installed by political elites, it is essential to differentiate between political dynamics in late developing countries in order to understand the outcome of those liberalization policies.

Turkey represents a highly interesting and challenging case of institutional changes in the neoliberal era. Similar regime dynamics and patterns of legitimization exist in other countries and regions that have experienced the transformation and retrenchment of the state, for example, in Latin America and Southeast Asia. Elites in oligarchic settings face the challenge of political contestation in highly fragmented configurations. They attempt to mobilize lower strata of the population at election time, while at the same time resorting to non-democratic practices to effectively contain any form of non-elite societal mobilization that could endanger their elite status. This framework is the result of increased and institutionalized social inequality in the context of effective multi-party political contestation. However, this pattern does not translate into a democratic regime, as the prevalent non-democratic practices persist due to the low degree of accountability of political elites, who center their activities on patronage resources.

However, in recent years possible pathways out of this oligarchic framework have emerged, which are connected to this dynamic element of effective political contestation: for example, the neoliberalism-cum-populism variety pursued by Menem in Argentina and Fujimori in Peru during the 1990s; the populism-cum-socialism of Venezuela under Chavez and of Bolivia under Morales; and, finally, the authoritarian option, as exhibited by Thailand in 2006 and Honduras in 2009.

Turkey's recent trajectory away from the highly fragmented era of the 1990s was initiated by the delegitimization of the political class and the renewed emergence of the religiously-based counter-elite, which underwent substantive identity shifts by incorporating state Kemalist and neoliberal ideas to capture the center-right in Turkey's political arena (in the tradition of the Democratic Party of the 1950s, the Justice Party of the 1960s and 1970s, and the Motherland Party of the 1980s). Expressed differently, the JDP represents a curious case, as both the legitimate bearer of the Polanyian "double movement" to re-embed market relations (1944) and the force that seeks to deepen the liberalization of state and economy. After eight years in power, the JDP is no longer a social movement, but has linked itself to and restructured the state. This reflects the contradictory dynamics between public and private, state and societal, re-embedding and disembedding roles. This highly peculiar nature of the JDP can be understood only if we account for the historical dynamics of state and capital and the way they were structured by the early Kemalist elites. Accordingly, like any other politico-economic configuration, the Islamic neoliberal experiment is facing its own contradictions the outcome of which will depend on the current full-fledged power struggle with the remaining Kemalist groups within the Turkish armed forces and the judiciary.

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