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The Political Economy of Import Substitution and Subsequent Trade Liberalization: The Case of Turkey

by

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Institut für Weltwirtschaft an der Universität Kiel

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July 1988

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1. Introduction: The Public Choice Approach to Import Substitution and Trade Liberalization

In almost all developing countries early stages of industrialization are marked by import substitution policies. In an attempt to improve standards of living and to enhance output growth, indigenous industrialization was promoted by barriers against foreign competition. Inward industrialization was further assumed to free developing countries from their dependence on industrialized countries and to pave the way to efficiency gains based on local technological development.

The pure economic performance of countries pursuing import substitution policies and the successes of countries following a more outward-oriented industrialization path have cast substantial doubt on the wisdom of inward-oriented industrialization strategies. Despite the fairly obvious economic advantages of export-oriented industrialization few developing countries have actually changed their initial inward-oriented industrialization strategies[1]. This adherence of governments and politicians to obvious non-optimal economic policies raises fundamental issues on the determinants of economic policy-making. Yet, there are no studies to date analyzing the economic and political roots, which lead to the choice of a specific industrialization strategy in developing countries.

An evaluation of the determinants influencing this choice requires a theory on the determinants of political decision-making, as it is suggested in the political economy approaches to the analysis of political behavior. These theories assume that economic policy-making does not reflect so much political intentions but results from a rational economic calculus on the part of politicians. It is assumed that above all politicians act in their best self-interest, i.e. they want to maximize their personal income by defending and enhancing their political influence[2].

In order to remain in power they have to expose themselves to the pressure of the electorate and interest groups. Thus, economic policy-making is governed by pure economic considerations and the ultimate economic effects of economic policies are only evaluated with respect to their impact on the electorate and the behavior of pressure groups.

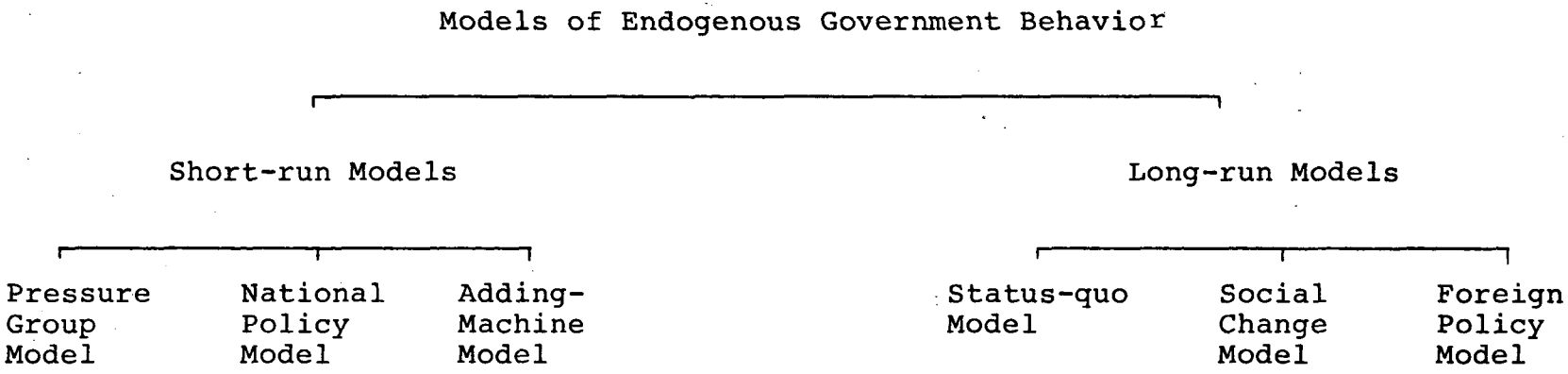
This paper intends to apply a public choice approach to the transition from import substitution to trade liberalization observed in a specific country, namely Turkey. The analysis entails an assessment of factors that have affected the strategic choices of the government first for import substitution and for trade liberalization later. The focus is on the targets, the behavior and the importance of special interest groups over longer periods of socio-economic change in order to derive a relationship between the prevailing political environment and the industrialization strategy chosen.

In the recent literature, a variety of political-economy models of trade-policy determination have been developed. These are listed in Chart 1.1[3].

- The pressure group model attempts to explain industry protection by the lobbying activities of respective interest groups, as it has been discussed by Olson (1965) and Becker (1983). Politicians serve the interests of such groups, as long as these groups can offer political support and/or financial rewards. Interest groups may either propose or oppose protectionism depending on the preferences of their members.

- The national policy model, as it has been developed by Caves (1976), assumes the prevalence of ideological boundaries affecting economic policy-making. Outcomes of such policies manifest themselves in infant industry protection, excessive industrialization, tendencies towards autarchy, etc...

Chart A.1: Typology of Political-Economy Models for Trade Policy Determination



Note: Terminology has been taken from Quibria (1986) and Caves (1976).

- The adding-machine model puts an emphasis on the politicians' attempt to affect elections by respective economic policies, including both macro- and sector policies, as it has been discussed by Downs (1957).

The other three approaches are supposed to be more long-run in nature.

- According to the status-quo models current duty levels as well as recent changes in them depend to a large extent on historical tariff levels. According to Cheh (1974), government officials, especially bureaucracies, favor the status-quo, since they either have a certain regard for existing property rights or prefer to be risk-averse.

- The social change model, as it has been formulated by Fielcke (1976) and Ball (1967) considers trade policy as an instrument for income redistribution. The extent of redistribution depends on social inter-relationships and classes as well as social values and culture.

- And finally, the foreign policy model views the economy as a political unit bargaining with other nations about reductions in protection, while other countries adopt a merchantilist attitude towards trade policy. Examples for such approaches can be obtained from Kindleberger (1973), Krasner (1976) and Keohane (1984).

Most of these models have been analyzed empirically both for developed and developing countries[4]. However, quantitative models are not capable of assessing the behavior of interest groups and governments as well as resulting policies in their historical context, either because qualitative or structural changes cannot be quantified or because relevant data are missing. Empirical investigations based on such models rely heavily on a given socio-economic structure and hence empirical results cannot be extrapolated beyond the sample period. Moreover, changes in these

structures determine - according to the public choice approaches - the import substitution or export-orientation policies.

Since the adherence to such policies may take decades, descriptive analysis as applied by economic historians like North (1982) appears to be a more promising approach. Despite its arbitrariness and the lack of comparability, this approach is more likely to reveal insights into the political economy of import substitution and subsequent liberalization.

The theoretical underpinnings of this paper are based on hypotheses which can be derived from the pressure group, adding-machine and social change models. Basically all policy measures are attributed to interest groups, which may enter the political market in three different ways.

Firstly, pressure groups can be embodied in the official institutions of a country, such as the military, the bureaucracy and corporatist intermediaries. The latter encompass organizations, which are controlled by the government, though their membership constitutes of members of the private sector; i.e. cooperatives and chambers of commerce and industry. Since most corporatist intermediaries are given administrative competence, they have much in common with bureaucracies. For the military, bureaucracies and corporatist intermediaries, it is the legal framework which provides the opportunity to exert power on the government. Such institutions are mainly interested in enlarging both their legal competence and their respective budgets, as it has been assessed by Niskanen (1971) and Lindblom (1977).

Secondly, pressure groups can be associated with a political party representing the group's interest in parliament and in the government. Especially mass organizations prefer this way of lobbying, as they can count on their large membership in elections. The political parties serve as intermediaries between the government and the interest group. In democratic systems, where costs of information are quite low, large groups do not neces-

sarily require an organizational form in order to make use of their voting power.

Finally, interest groups may prefer to be independent, never binding themselves to political parties or government institutions. Since such groups voice their interest through informal channels, they have to be quite powerful in order to achieve political benefits.

The power of interest groups, which use the latter two channels of influencing politicians, is due to factors, which have been assessed by Olson (1962). The larger the membership of a group, the more costly is it to organize an effective pressure group, since group members' potential gains per capita are low compared to the costs of organization. As a result, individual group members behave as free-riders, since they expect other group members to take over the costs of organizing. According to Olson, large groups require more time for organizing themselves. This time span tends to be shorter, when the group develops a group-specific ideology, as it is assessed by North (1979). Furthermore, large groups can easier organize in a democratic environment, as elections are the most efficient instrument for decision-making in large groups.

In contrast, small groups have lower costs of decision-making and organizing. This comparative advantage enables small groups to act even within an authoritarian environment, in which elections and rights of assembly are prohibited. Since small groups have no considerable backing by electorates, their source of power does not rest in the public support, which large groups can guarantee. Small groups rather use their economic power facilitating extensive public relation policies and political bribery. Hence, interest groups have to optimize their group size, because there is a trade-off between the costs of organization and the public support of the group. According to Olson, the cost of organization increases at a higher rate with increasing group size than the effectiveness of lobbying due to public support. As a result,

smaller groups can easier prevail upon the government to serve the interest of the group members.

In addition, large groups suffer from decision and adjustment lags, which make it difficult for them to constitute a lobby given the discontinuous economic and political environment in developing countries. As small groups can adjust and act more quickly, North (1979) and Tullock (1974) have concluded that all major economic and political changes, such as revolutions or changes in trade regimes, are due to the activities of small groups.

Another factor affecting costs of organizing lies in the regional distribution of group members. If group members are scattered along a wide geographical area, they cannot easily communicate and contact politicians given the lack of infrastructure in developing countries. In contrast, groups which are located in urban centers of the country have lower costs of communication. For this reason powerful groups, such as business organizations and groups of landlords, are well represented in large cities.

These hypotheses on pressure groups should also be applicable for the implementation of import substitution and the transition from import substitution to trade liberalization. Basically, there are five groups, which are affected by protectionism: capital owners, land owners, suppliers of human capital, suppliers of labor and consumers. Since factors like capital, land and human capital are generally very unequally distributed in developing countries, their factor owners encompass rather small and powerful groups. In contrast, labor and consumers are rather sizeable groups, which are less capable of carrying through their interests.

Import substitution involves protection to more capital-intensive goods favoring suppliers of human capital and capital, while consumers and labor are discriminated. Capital owners, who are represented by business groups, and human capital owners, as organized in business groups and higher rank bureaucracies, lobby

for import substitution, which increases their factor income. Since small groups of capital and human capital owners can organize more efficiently and effectively, they can push through import substitution policies against the opposition of large groups, i.e. consumers and labor.

However, there can also be some opposition of business groups and landed groups since trade barriers tax export-import traders, agricultural exporters and export-oriented producers through higher prices for intermediate products. However, this opposition is not effective, mainly for two reasons: Firstly, primary import substitution is restricted to consumer goods rather than intermediate products. Secondly, the implementation of import substitution is most likely to occur during a balance of payments crisis, which is due to a deterioration of export trade, as it was assessed by Hirschman (1971). In this situation, the export-oriented groups are in a less favorable position to lobby for free trade.

Thus, import substitution is a consequence of the lobbying activities of inward-oriented business groups. Evans (1979) maintains that the implementation of import substitution is due to the dominance of a so-called state-class, which is a tri-party coalition encompassing the government, local producers and multinational companies. This coalition accomplishes the extension of import substitution to consumer durables, machinery and intermediate products (secondary import substitution). This deepening process is opposed by sizeable business groups representing a large number of companies, which depend on imported intermediate products and machinery. The production of these goods involves both a high capital intensity as well as high absolute levels of physical capital per plant. In developing countries only a small exclusive group of companies is able to engage in this kind of large scale production. Due to its endowment with capital this small group is quite powerful compared to their customers, that cover the majority of numerous small-scale producers. As a result, secondary import substitution is likely to be implemented.

The import substitution industrialization (ISI) causes an increase in average plant size and a concentration of firms in large cities. As a result, labor faces lower costs of organization leading to a higher degree of unionization. Following the Stolper-Samuelson theorem, trade unions should be interested in free trade, thereby raising the factor income of labor (Stolper-Samuelson-lobbying). However, protection raises profits in the respective industry, thus providing more opportunities for income redistribution. Trade unions might take advantage of that by raising wage demands in the collective bargaining process. For this reason, trade unions which are organized with respect to specific sectors might also have an interest in protection (Carnesian lobbying).

Thus, there are a number of groups on the political market: various business groups, trade unions, bureaucracies, military and landed groups. All these groups lobby for distributional gains which are provided by politicians through protection. The process of lobbying is not a zero-sum game, since protection does not only involve redistribution of income but also allocative inefficiency, which reduces the total welfare in the economy. Protection accrues benefits to some groups, while it discriminates others. For this reason, there is a competition between interest groups, which form coalitions and oppositions depending on their interest. These activities have been referred to as "rent-seeking" or "directly unproductive profit-seeking activities" (DUP) in the literature. According to Krueger (1974a) and Bhagwati (1982) individuals engage in such activities allocating factors from production into lobbying. The welfare loss due to this misallocation exceeds the allocative inefficiency caused by the tariff.

However, there are limits to the rent-seeking activities. As long as the benefits of rent-seeking fall on relative small groups, there is an income redistribution from the public as whole to the small group. Following Becker (1983) small groups should perform more successful lobbying, since the per capita loss of welfare in

the society is lower. DUPs benefitting large groups lead to larger per capita losses for each individual, who thereby is given incentives for opposition.

Larger groups can easier lobby for protection when the latter becomes a property right or a decisive part of an ideology, which according to North (1979) may reduce the free-rider effect. A distortion is viewed as a property right the longer it persists and the more individuals take advantage of it. Thus, even larger groups may also successfully engage in rent-seeking and realize gains from ISI, though the costs to the society are substantially higher. The rise in aggregate costs of protection creates incentives for trade liberalization. Following North (1979), adjustments will occur only as long as private returns exceed private costs. Since free trade is a public good, private returns can be negligible especially for members of large groups. Hence, large groups cannot alter the property rights because of the free-rider problem. However, small groups or rulers, who do not face a free-rider problem, can induce institutional changes. Thus, a change in the trade regime is initiated by a small and powerful group, since larger groups prefer the status-quo because of their free-rider problem.

It has to be tested, whether the experience of a particular country lends support to these theoretical hypotheses on the political economy of import substitution and trade liberalization. In this respect, the post-war development in Turkey is a quite promising field for study since this country has experienced substantial changes in political systems as well as fundamental shifts in trade policies during the last 30 years[5]. The Turkish economy has been traditionally based on agriculture and processed agricultural products which also accounted for the largest share in the country's total exports. Being an oil importer it was subject to considerable adjustment problems caused by the oil shocks. Thus, terms of trade deterioration and industrialization have led to considerable changes in the economic structure ranging from excessive import substitution in the early 1960s to cautious export orientation during the 1980s.

The second chapter of this paper provides a comprehensive overview of major political events and changes of trade regimes. Moreover, the relevant interest groups are derived for each subperiod in Turkish history. This rough analysis of interest groups is deepened in the following three chapters, which have almost the same structure.

In each chapter interest group pressure is related to decisive changes in trade regimes, i.e. the implementation of ISI, as it is assessed in Chapter 3, the implementation of secondary import substitution, as it is in Chapter 4 and the trade liberalization in Chapter 5. Each of these chapters start with an assessment of the particular interest groups featuring the factions within the group, its objectives, its incentives, and its relative power vis-à-vis other groups. Thereafter, it is shown to what extent these qualities were reflected in the actual outcome of the political process. Finally, Chapter 6 summarizes whether the economic policies are in line with the theoretical hypotheses on import substitution and subsequent trade liberalization.

2. Interest Groups and their Role in the Recent History of Turkey

This chapter gives a survey on Turkish history in order to derive important pressure groups, which have been in a position to influence the government and its trade policies over several decades. It is both convenient and conventional to divide the Turkish history of economic policy into six periods: the period 1923-1932, during which laissez-faire policies were conducted; the period 1933-1945 during which etatism and war economy dominated; the years from 1946 to 1953 when gradual liberalization was to be observed; the planless industrialization efforts from 1954 to 1959; the planned period of import substitution in the 1960s and 1970s; and finally the present liberalization measures, that have been applied since 1979[6].

2.1 The Compulsory Laissez-faire Policy

The founding of the Turkish Republic in 1923 is not meant to be the starting point of the analysis, as this period contrasts sharply with the import substitution industrialization of the planned period. Nevertheless, the founding years were formative, since the economic system had inherited main features of the Ottoman Empire namely the bureaucracy, state economic activities, debt problems and the trade regime.

Despite profound institutional changes, the new leadership of the Republic constituted of the reformist wing of the military - bureaucratic elite of the Ottoman Empire. This elite was organized in the Republican People's Party (RPP), which was not to be separated from the state as such, since the monoparty system was guaranteed by the constitution. Gazi Mustafa Kemal, later called Atatürk was both the military and political leader of this movement during the war of liberation. He became the first president of a republic, in which fundamental social and political reforms were to be undertaken in order to defend the state from religious-monarchist groups on the countryside as well as threats

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from abroad. In this situation economic policy received little attention by the government. This disinterest was also due to restrictions of sovereignty provided by the Lausanne Peace Treaty of 1923. According to this document, Turkey had to take over the external debt of the Ottoman Empire and keep its non-protective trade regime until 1929 granting the allied signatory nations preferential treatment. In addition, alleviations for foreign direct investment had to be introduced, so that foreign capital was in a position to replace emigrating Greek businessmen and to take over a part of the Ottoman state economic enterprises. Hence, for the first ten years the government's role in economic policy was restricted to restoring law and order. As a result, the country experienced its most extended economic liberalism, which was supported by the emerging muslim business class. Moreover, this policy helped to reassure credibility among non-muslim minorities, that constituted the major part of private business.

However, there was no doubt that the powerful Istanbul business groups, that had formerly cooperated with the occupants, preferred a more active role of the state. In an economic congress, which was held by capital owners and traders in Izmir 1923, this group demanded government assistance and protection vis-à-vis foreign companies in order to foster industrialization and agricultural production[7].

Hence, there were four groups that influenced economic policy-making from the very beginning:

- the military and the bureaucracy, which both formed the new reformist elite organized in the RPP;
- the allied signatory nations, which represented the interests of the foreign creditors and investors;
- the business class located in Istanbul and Izmir.

The RPP government had to settle its relations with the allied signatory nations in order to carry through political reforms. Hence, the RPP was willing to adhere to the laissez-faire policy, even though this policy was not favored by local business groups.

Given this liberal environment the economy faced extraordinary growth rates averaging 13.3% from 1923-1929, which was due to rising production and exports in the agricultural sector[8]. Initially, this helped to reduce the trade deficit that had been prevailing in the Ottoman Empire.

In the course of the 1920s the terms of trade turned increasingly against Turkey. The deterioration of the balance of payments became most dramatic in 1929, as individuals anticipated a possible change in the trade regime provided by the expiration of the Lausanne Treaty. Furthermore, the global impacts of the world crisis led to a reduction of world trade, which the Turkish economy depended on. The depression of 1929 hindered political and social consolidation and radically altered the government's perception of the country's political economy. Unleashed social and cultural conflicts that were latently threatening Mustafa Kemal's reform movement made the RPP more defensive and agressive. The way out of depression was seen in autarky and rapid industrial development through state intervention. The results of the Soviet industrialization drive, especially against the background of the Great Depression, looked very impressive thus questioning private enterprises' ability to foster capital-intensive industrialization[9]. Immediately, such intentions were challenged by liberal and anti-authoritarian urban groups that had remained outside the coalition formed by the RPP. This opposition became organized in the Free Republican Party which was founded in 1930 by an associate of Atatürk. It quickly seized upon the economic uncertainty ushered in by the depression and became quite popular[10]. However, the manufacturing industry in the private sector was yet underdeveloped, thus being a negligible opposition against etatism. Business groups represented primarily the interests of merchants. Hence, after the retreat of the merchants, who opted for a position with the state, there remained no faction of the bourgeoise favoring liberal market ideologies. Thus, the RPP was in a position to realize its perception of state-led industrialization.

2.2 The Etatist Period of Import Substitution

Successively, the government shifted to etatism, starting with restrictions on foreign trade. The tariff regulations of 1929 promulgated prohibitions of imports which were complemented by a restrictive foreign exchange regime a year later. In addition, in November 1931 a quota system was instituted that was to persist 50 years. Shielded by excessive protection, state economic enterprises were founded during the 1930s. As it was provided by the First Five Year Industrial Plan the emphasis was placed on the development of domestic textile, chemical, sugar, building materials, coal, iron and steel, paper and cellulose, and other industries mainly through government enterprises. Hence, the first generation of industrialists comprised the bureaucrats and technocrats, who were at the top of the state economic enterprises (SEEs). As the SEEs were tightly bound to the central bureaucracy, i.e. through the five year plans, their management did constitute a pressure group, which was not to be separated from the bureaucracy as such.

The establishment of infant industries in the state sector could only temporarily offset the stagnation in agriculture. The annual growth rate averaged 7.7% between 1930 and 1939, while the volume of foreign trade initially declined due to the restrictions. With the introduction of a clearing and compensation agreement in 1933, Turkish foreign trade became dominated by clearing-systems. This regulation helped to increase the volume of trade[11], since after the breakdown of the gold standard there was a lack of internationally acknowledged balances for capital transfers.

The already high level of government intervention was further increased with the beginning of the Second World War. Trade became a state monopoly with the National Protection Law of 1940, which instituted total government control of economic activity. Although Turkey was not involved in the war, it remained threatened and experienced a period of war economy. Agricultural and industrial production declined considerably, since resources

were diverted to mobilization measures. As these years were characterized by shortages, inflation and overregulation, an economy of corruption and semi-legal black-market operations emerged. In addition to Istanbul merchants handling foreign trade, a new class of speculators based mostly in provincial towns arose.

In order to tax such profiteers an once-and-for-all capital tax was levied, which in application, however, fell disproportionally on non-Muslim business groups. Although this law benefitted many aspiring muslim capitalists, it remained unpopular. This severe injury of civil legality was to affect the reputation of the RPP for decades, especially in business groups.

During the war, Turkey was able to repay its foreign debt and accumulate a considerable stock of gold and foreign exchange reserves, because the war fostered Turkey's exports in food stuff, while import controls were restrictive. After the war, tight regulations that constituted the war economy were impediments for the recovery. The government was basically willing to reduce the overregulation of the economy. However, disputes on the degree of trade liberalization caused a fragmentation of the RPP and finally led to the foundation of the Democrat Party (DP). This new party consisted of former prominent members of the liberal wing of the RPP. Initially the RPP regarded the DP as a controlled loyal opposition[12]. In fact, the party programs and objectives of the two parties had much in common, though the DP rejected the dominant role of the central bureaucracy in etatism. The position of the DP was confirmed by U.S. hegemony in Europe. Marshall Plan aid was practically conditioned on the existence of multiparty democracy and private entrepreneurship. Since the RPP regarded Turkey as a part of the Western World, after Turkey had given up the wartime neutrality, the government had to put up with the DP opposition. Given this internal and external pressure the government cautiously liberalized foreign trade and devalued the currency by more than 200% in 1945[13]. The GNP returned to its pre-war level due to average growth rates of 12.2% during the 1945-50 period.

Nevertheless, liberalization was proceeding very slowly due to ideological differences within the RPP. The conflict became very transparent, when the government envisaged a rapid land reform that was intended to give incentives to small peasants thereby increasing agricultural production and exports[14]. As a result, the latent coalition between the landed class, merchants and RPP representatives dissolved. Consequently, the landed class and the merchant groups made use of the new multiparty system and sided with the DP. During the 1946 election the DP had been effectively hindered by the local bureaucracy, which was occupied by RPP sympathizers. In the 1950 elections, however, the DP was able to win an absolute majority. The change of government marked the end of the etatist period, in which a coalition of military and bureaucrats had been dominating.

2.3 The Radical Export Orientation Experiments

The DP rejected all bureaucratic procedures and planning associated with the monoparty era. The government under Prime Minister Menderes removed almost all restrictions on imports and created favorable conditions for foreign investment. Furthermore, it was intended to denationalize state economic enterprises or at least introduce profit-oriented pricing policies. The deregulation of the economy was not due to purely economic reasons. Both the central and the local bureaucracies were controlled by the RPP. Hence, the DP had no choice but to exclude the bureaucracy from policy-making. Since the political support for the DP originated largely from rural areas, the agricultural sector was given priority with respect to investments in infrastructure. In addition, price supports and tax exemptions were granted. The preference given to the landed sector was in line with the Marshall Plan consultations, according to which the Turkish economy was to expand food production helping to remove the shortages in post-war Europe[15]. For this reason, the policy change was not only favored by the landed groups and the merchants but also by the USA, that became the major foreign creditor.

Under the DP government the outstanding export performance in the agricultural sector continued and was further strengthened by the Korean War. Annual GNP growth rates averaged 13% between 1950 and 1953. The export expansion coupled with an increase in income facilitated an unprecedented import boom. The upswing of the export economy came to a sudden end in 1954, when agricultural exports declined due to a crop failure and decreasing demand. Rising import demand and low levels of foreign investment caused serious balance of payments problems, that were aggravated by the overvaluation of the domestic currency. The government attempted to cure the current account by imposing trade barriers restricting mainly imports of high-income consumer goods[16]. This ad-hoc return to protectionism had two effects. Firstly, the trade barriers provided incentives for imported substitution in the private sector, so that the merchant capital increasingly shifted towards the production of consumer goods. Secondly, protection was given through a quota system, which limited the foreign exchange available for the importation of particular products. This system proved to be rather discriminatory, since only a small group of urban-based traders was in a position to take advantage of this policy. It was primarily this group that managed to obtain the cheap foreign exchange and the respective import licences. In contrast, industrialists and exporters, who did not have enough political influence, were discouraged by the increasing interventionist policy of the DP.

Moreover, the state sector became an instrument of interventionism, as the commercial groups did not come up to Menderes' expectations in purchasing state enterprises offered to them. Such a sale did not transpire because there was political protest against selling the profitable ones and no willing buyer for the unprofitable companies. Nor did the private sector dramatically increase investment as it lacked confidence to lead the way. Disappointed by the response of the private sector, the DP once more reverted the state sector as the more likely field of industrial expansion. They started to put an emphasis on economic projects that would also have a favorable political impact and guarantee

votes in the next elections. Thus, the state sector became an instrument of economic policy-making in the sense that the SEEs were used for party politics and electoral campaigns. Indeed, these so-called "election factories" together with pricing policies and generous subsidization of agriculture helped to maintain the DP majority in parliament in the 1954 and 1957 elections despite the growing inflationary impact of budget deficits financed through central bank credits[17].

By 1958, the balance of payments pressure combined with stagnation, inflation and an overvalued exchange rate led to a loan agreement with the IMF and debt renegotiations with the OEEC creditors. The 1958 stabilization package included not only standard measures like devaluation, tight credit ceilings and other stabilization measures but also two important items, that had lasting significance. The first was the establishment of a trade regime based on detailed annual import programs fixing import quotas by users and products. This import regime provided one of the basic mechanisms for import substitution industrialization, which had already emerged in an unplanned fashion as a result of protectionism. The second was the establishment of a central organ for planning, as it was proposed by the OEEC in order to rationalize import substitution. The foundation of the "State Planning Organization" (SPO) restored the power of the central bureaucracy, which had lost importance during the DP era. These institutional changes, nevertheless, were not to be materialized by the Menderes government, since the military assumed power.

The military and the bureaucracy had been the losers of the DP era. This loss in the social scale was mainly due to the increasing inflation taxing constant wage earners. As a result the military and the bureaucracy suffered real income losses causing unrest within these two groups. The DP had good reason to feel confident of its generals, especially the high command, which was replaced after the 1950 elections. However, the government's general disregard of the military's material welfare, especially the well-being of the junior officers, proved to be a serious

political error. In May 1960, the government declared the state of martial law in order to settle student demonstrations. The social unrest provided the perfect opportunity for the military to intervene, as political controversies began to infect the armed forces. The military coup did not bring about serious opposition, since the economic impacts of the drastic stabilization program and the 1958 devaluation on urban commercial and industrial sectors caused a general disenchantment with the DP government, which had not been able to satisfy increasing conflicting demands. In addition, the urban elite was concerned about the DP's appeal to traditional populism, which was supposed to endanger modernization of the Western kind. The military coup ended the DP era, which revealed a change in the political structure. Since the DP could not rely on the old bureaucratic-authoritarian elite, the landed class and the merchants were the more prominent interest groups in the 1950s. Another implication of the DP policy was the emergence of import substituting industrialists in the private sector.

2.4 The Period of Planned Import Substitution

The planned efforts of ISI started with the institutional changes brought about by the military rule. The officers who carried through the coup of 1960 had a conception of social change derived from the old authoritarian, etatist ideology. However, soon after the coup the various currents within the ruling military committee clashed on the question concerning the return to democracy. A minority argued that economic development was the foremost problem to be faced, which could best be tackled with the aid of a planned, state-directed economy and a permanent involvement of military in future politics. The majority, which was supported by the RPP leaders and the Istanbul bourgeoisie intended to relinquish responsibility to an elected government.

The first provisional government established under military rule consisted mainly of civilians among them several trusted managers and technocrats. First of all, the pay scale of the bureaucracy and the military was adjusted to the new level of prices. Thereafter, a Constitutional Assembly prepared a new constitution leading to elections in October 1961. The RPP gained only a relative majority, while the successors of the banned DP, the Justice Party (JP) and the New Turkey Party (NTP) achieved 233 out of 450 seats. This poll shows that the military coup did not alter the preference of voters. Between 1961 and 1965 four different coalitions were formed, the first three being led by the RPP and the last by the JP[18]. Political stability was further challenged, as the extreme minority in the military tried to organize a new coup, which was prevented by the moderate majority of military leaders. The signing of an association agreement with the European Community in 1963 aiming at a full membership in the long-run was the only remarkable political decision in this period. The widespread political uncertainty temporarily halted all investment, as businessmen hesitated.

This caution was gradually given up, when the State Planning Organization (SPO) launched the First Five Year Development Plan (FFYDP) for the years 1963-1967, as it was provided in the constitution. In addition, the Cyprus crisis in 1964 stopped the inter-party conflict creating an atmosphere of artificial national unity. The FFYDP proposed a strategy of import substitution industrialization (ISI) fostered by temporary import restrictions[19]. The investment boom of the 1960s started in the SEEs which enlarged their capacity in the fields of investment and intermediate goods. In early 1965 the JP returned to government as the senior party of a four party coalition promising to fix boundaries for the state sector in order to allay the anxieties of the private sector. These concerns were partly due to a bill on land reform prepared by the RPP since 1960 in order to abolish large absentee land ownership and share cropping. After the election campaign of 1965, in which the JP stressed its belief in anti-communism and Islam associating the RPP with communism, the JP government under Prime Minister Demirel was sup-

ported by an overwhelming majority of 52.9%. The initial response to this victory was one of relief that the country had left behind the period of unstable coalitions.

Meanwhile the private sector took advantage of the ISI strategy. In collaboration with foreign capital, investments were undertaken in the production of durable consumer goods serving a relatively high-income market. In this respect, this policy was substantially different from the nationalist-statist import-substitution of the 1930s based on domestic inputs and oriented to the production of basic consumer and intermediate goods for a mass market in a semi-autarchic fashion. In contrast, the emerging assembly-industries, based mainly in urban areas, more extremely depended on foreign exchange, since besides investment goods most of the intermediate goods had to be imported inducing a high demand for foreign exchange. As industrial production was not based on domestic inputs, high agricultural prices were not in conflict with the interests of industry. Since the foreign exchange earnings of the economy were still based on the stagnant traditional export structure, ISI led to a foreign exchange gap that had to be compensated by increasing foreign debt. Moreover, the private sector began to realize the opportunities provided by a mixed economy on a broad scale, as entrepreneurs benefitted from the subsidized inputs produced by the SEEs. In this protective environment even many small firms were able to flourish. Most of these small companies served as subsidiaries for leading import-substitution industries and as buyers of the SEEs' output.

Under Demirel's leadership the economic growth began to pick up momentum and the economy grew at an average annual rate of 12% from 1965 to 1969. However, this had been achieved at the cost of constantly rising prices and wage levels that were kept low in order to attract foreign investment. As a result, trade union activities became militant engaging increasingly in political strikes. In the early 1960s labor unions appeared as a powerful interest group, after strike had been granted as a constitutional right in the 1961 constitution. Hence, the labor unions were in a

position to escape from corporatist control, as it had been prevailing during the 1950s. Since unions became more independent and stronger, they were woed by the parties, especially the RPP.

The 1969 elections polled a comfortable majority for the JP. Nevertheless, Demirel's position was very weak. Retarding growth rates in the manufacturing industry caused growing conflicts within the business class undermining the power base of the JP. Assisted by Özal, the head of the SPO, Demirel attempted a cautious step towards trade liberalization, that became known as the 1970 reform package. In negotiations with the IMF and foreign creditors, it was agreed upon a devaluation and structural measures to encourage exports. In addition, a further association agreement with the EEC envisaged tariff reductions and a partial abolition of the quota system. However, the devaluation proved to be the only measure that was politically to be implemented.

In February 1970, Demirel was forced to resign, when JP dissidents voted against the budget. Although reappointed by President Sunay, a former general, Demirel was not in a position to recover from this set-back. In March 1971 military commanders assumed power, after they had pronounced a ultimatum stating that they would take over the government unless the parties were able to form a majority. They had intervened, but with the example of the Greek military junta before, they preferred to control the government indirectly by establishing a cabinet consisting of policy planners, technocrats and managers under Professor Erim, a neo-Democrat. This cabinet was supposed to represent all factions in the RPP and JP. Nevertheless, it proved to be a government of disunity, when a reform package including the land reform and constitutional amendments with respect to personal freedom were presented to the parliament. After the rejections of these proposals, which came to the big surprise of industrialists and the military, the government gave priority to providing law and order declaring martial law, challenged by the outbreak of urban guerilla activity and strikes. In 1972 a new cabinet was appointed, in which the RPP was excluded. This was an indication

for the separation between the military and the RPP which became a social democrat party under its new secretary general Ecevit. As Turkey entered 1973, virtually no reform had been implemented due to the opposition of the business groups and the landed class in parliament.

The military commanders eventually had to draw back, as they failed to have their candidate elected President. In the 1973 elections the "new" non-elitist but populistic RPP was supported by the industrial work force and the urban poor. It turned out as the winning party, though it was not given a sufficient majority to form a strong government. In January 1974 it was agreed upon a coalition with the National Salvation Party (NSP), which was founded by Erbakan to translate the discontent of the small-town traditional bourgeoisie, mainly landed groups and smaller business formerly represented by the JP, into a platform of Islam revivalism. Thus, the program of the new government reflected the demands of its electorate: establishment of minimum prices for agricultural produce, promotion of regionally balanced industrialization by the state sector, i.e. heavy industries; introduction of unemployment and other social benefits. The program also emphasized the committment to a national armaments industry, which the high command had been calling for. Conservative business circles were pleased to learn that economic development was focused around the state sector, leaving the more profitable light industry in private hands. This program marked the beginning of secondary import substitution. The primary phase of import substitution ended with a retardiation of growth in the manufacturing sector, clashes of interests between regional business groups, increased radical trade unionism and a stabilization program, which did not involve trade liberalization but rather an extension of ISI.

2.5 The Phase of Secondary Import Substitution

Hence, the inward orientation of the industry persisted, as it was envisaged in the First Five Year Development Plan. The Second Plan for 1968-1972 had clarified the concepts of ISI that had

been implemented in 1960, as protection was proposed as a predetermined transitory measure[20]. In practice, however, the respective import quotas became increasingly restrictive as domestic production grew, thereby indicating that the industry did not believe in the temporary character of industry protection. The Third Plan for 1973-1978 emphasized infant industry protection as a policy to foster outward oriented industrialization leading to a diversified export structure rather than as a means to achieve autarky[21]. In fact, the 1970 devaluation led to a doubling of exports, i.e. in the food and the textile sector and to a steady increase of work remittances from Europe, as it is to be seen from Table 2.1. Nevertheless, the rapid increase of foreign exchange receipts between 1970-1973 was not the cornerstone of a reorientation but rather enabled ISI to persist politically as well as economically, i.e. during the first oil shock.

The political stability due to the RPP/NSP coalition was only short-lived, as Ecevit resigned in September 1974. The RPP tried to go for an early poll in order to use its popularity after the occupation of Cyprus. However, this attempt was frustrated by an assembly controlled by parties which did not want early elections. After more than 6 months of ministerial crisis Demirel succeeded in the formation of the so-called Nationalist Front Government encompassing the JP, the NSP and the Nationalist Movement Party (NMP), a party devoted to traditional fashist ideas. This coalition had taken those reforms out of the RPP program that could help to enhance its standing with the electorate: extensions of unemployment benefits, reduction in the price of artificial fertilizers thereby subsidizing landlords. Nevertheless, RPP turned out as the winner of the 1977 elections, though no party succeeded in gaining the majority of seats. The RPP, which was given support by Istanbul industrialists and trade unions, failed to organize a coalition government. Demirel, who returned as the head of a second National Front coalition was also forced to resign after a no-confidence vote. Following Demirel's failure, Ecevit formed a minority government backed by recently defected independents from the JP. Virtually, economic

Table 2.1: Trade Balance and Workers' Remittances, 1960-1984
(Million US$)

Year	X Exports	M Imports	Trade Deficit	X/M(%)	Workers' Remittances
1960	321	468	147	68.6	-
1961	347	510	163	68.0	-
1962	381	623	241	61.3	-
1963	368	688	320	53.3	-
1964	411	537	126	76.3	9
1965	464	572	108	81.2	30
1966	490	718	268	68.2	115
1967	523	685	162	76.4	93
1968	496	764	268	649	107
1969	537	801	264	67.0	141
1970	588	948	360	62.0	273
1971	677	1171	494	57.8	471
1972	885	1563	678	56.6	740
1973	1317	2086	769	63.1	1133
1974	1532	3777	2245	40.6	1462
1975	1401	4730	3337	29.6	1312
1976	1960	5129	3169	38.2	982
1977	1753	5797	4044	30.2	982
1978	2288	4599	2311	49.7	983
1979	2261	5069	2804	44.6	1694
1980	2910	7909	4999	36.8	2071
1981	4703	8933	4233	52.6	2490
1982	5746	8734	2988	65.8	2171

Source: William Hale (1981), OECD (1983).

policy-making was reduced to restricting imports and taking up foreign loans in order to cover the foreign exchange gap. The embarassment of economic decision-makers and their lack of conception were reflected in the Fourth Five Year Development Plan for 1979-1983[22], which was delayed one year due to lacking majorities. The political crisis which accompanied the economic exhaustion of ISI was not only reflected in a splintering of the party system; widespread civil and political unrest throughout 1978 prompted a declaration of martial law.

The security situation worsened even further during 1979. Ecevit was again obliged to step down, as he faced a number of ministerial defections. Thus, Demirel returned as head of an all-justice government in November 1979. Despite extensive rescheduling and continuous devaluations since 1974, there was no economic recovery registered. In contrast, real production declined in 1979 and 1980, while inflation rates exceeded 100%. The stagnation of domestic demand as well as the shortage of imported inputs resulting from the foreign exchange gap caused considerable overcapacities and unemployment in the manufacturing sector. Terrorism and the polarization of industrial relations was followed by excessive strikes and lock-outs. The budget deficits increased sharply due to the subsidization of landed groups and industrialists and the rise of social benefits, while the tax base was eroded. The hopeless balance of payments situation, which deteriorated drastically after the second oil shock, forced the government to engage in negotiations with the IMF and the World Bank. This fact and the nearly desperate conditions of the economy forced Demirel and Özal, the director of the SPO, to once again institute long-term policies that came to be known as the January 24, 1980 stabilization measures. This package included a devaluation associated with changes in respective legislation allowing for successive mini-devaluations, price increases for the output of state-economic enterprises, abolishment of the Price Control Board leading to considerable price increases for almost all goods, lifting of bureaucractic impediments to exports as well as subsidization of export industries, restrictive mone-

tary and fiscal policies and the abolishment of interest rate controls[23]. The latter, however, was immediately followed by a gentlemen's agreement between the oligopolistic bankers.

After having partly met the conditionalities for structural adjustment loans and stand-by-agreements provided by the World Bank and the IMF, debt renegotiations and new OECD loan agreements were facilitated[24]. Nevertheless, the Demirel government suffered from a lack of credibility, political impotence and further deterioration of internal security. Thus, the stabilization package did not reveal immediate effects.

The parliament and the bureaucracy were paralyzed, since partisan politics had invaded every aspect of the state. As the parliament failed to elect a new president and pass drastic security measures, the military that had so far been a silent vigilant publicly criticized the assembly. This was supposed to be a threat, as it was always voiced to indicate the discontent of the military and the possibility of military intervention. On September 12, 1980 General Evren, chief of the high command, led a military coup on behalf of a five-men National Security Council (NSC) that suspended the constitution and dissolved the assembly. All existing parties were banned and many of their leaders, including Demirel and Ecevit, imprisoned. Strikes as well as lockouts were forbidden, while collective bargaining was replaced by government decrees. Thousands of people, among them leading trade unionists were arrested on political charges. Martial law was extended to all 67 provinces and security forces succeeded in immediately restoring internal stability. Meanwhile, the NSC had confirmed it would follow an economic policy on the grounds of the 24 January package. In order to demonstrate continuity Özal, the architect of the 1970 as well as 1980 reforms, was appointed Deputy Prime Minister. The leading businessmen welcomed the take-over on the grounds that the stabilization package was likely to be implemented[25]. In fact, the military coup ended a political crisis, which was an impediment for economic recovery.

2.6 The Steps towards Export Orientation

Nevertheless, the January 24, 1980 stabilization measures were only the first step of what Özal hoped would be a major transformation of the economy from its inward looking nature to an outward looking one. Since the difficulties in passing the legislative aspects of the reforms were removed, Özal's proposals signalled the abandonment of ISI. In December 1980 an extensive tax reform was implemented recovering the tax base of the country. In the same year, prices of almost all commodities produced by SEEs were increased. Foreign currency holdings by residents were permitted. In March 1981, the import regime was liberalized allowing for unrestricted importation of intermediate goods. The quota system was legally abolished. In May, controlled floating was introduced instead of permanent devaluations. Export subsidies and deregulation in the trade regime were successfully implemented. In August legislation with respect to capital markets was passed, which legally facilitated the reopening of the Istanbul stock exchange and allows for private trade in bonds. As the restrictive monetary policy further reduced internal demand many companies producing consumer durables had to decrease their stocks through exports. Only the bigger conglomerates could sustain losses through export trade. Nevertheless, exports in manufactured goods increased sharply, which was, however, mainly due to the construction sector and textile producers[26].

During the banking crisis in summer 1982, which was initiated by the breakdown of one of the major newly founded independent banks, the government was to relax the restrictive monetary policy in order to be able to guarantee the deposits. In addition, the central bank created a "rescue fund" in order to back some large-scale holding companies which were endangered by bankruptcy. Özal, who had criticized this policy approach, resigned and began to organize his Motherland Party (MP). At a national referendum of November 1982, Turkish voters overwhelmingly approved a new constitution, under which General Evren was formally designated as president. The military leaders, who had

always envisaged a transition to democracy, wanted to rule out any immediate likelihood of anything resembling the earlier party system. Thus, the old parties remained banned, while their leading politicians were not allowed to engage politically for ten years. Only three of 18 parties that had been nearly founded were approved for registration in the November 1983 elections. Although the military frankly supported the Nationalist Democracy Party (NDP) it was outpolled by Özal's Motherland Party, which gained a comfortable majority of seats.

Given this support Özal gave up to liberalize imports as cautiously as it was done in the past but abolished the old import regime based on "positive" lists[27]. This was a part of the new 1984 trade regime, which harmonized tariffs with the schedules envisaged in the association treaties with the EEC. In addition, most tariffs and all quotas were replaced by so-called funds, which had to be paid to the housing fund or other foundations, so that they did not appear in the budget. In fact, these funds are tariffs, even though they have to be paid in foreign currency.

Furthermore, some institutional reforms have been undertaken. The number of ministeries was reduced, while at the same time the performance of all bureaucratic institutions was rationalized. The SEEs had to introduce profit-maximizing principles, even though the price increases have been regarded as one of the main sources of inflation. Some public municipalities were privatized by distributing participation shares to the public. However, the 1984 policies of the Özal administration had also to take into account the initial effects of liberalization. The inflation rate has been too high due to high deficits of the municipalities; the unemployment rate went up as a consequence of the breakdown of the domestic market; real wages have been constantly decreasing; business faced liquidity problems due to restrictive monetary policies; and the level of investments was too low[28]. The new government's economic policy continues to give priorities to exports, especially to the Middle East and North Africa. Since then, the public sector has refrained from investments in heavy

industries, with the exception of arms industries, while the private sector considers such investments unprofitable. In order to reestablish the domestic markets, the tax reform facilitates the deduction of personal consumption from the income tax within certain limits. At the same time, the tax system was rationalized, so that it became easier to impose controls. The aggregated tax base has increased, since agriculture and small business are subject to income and property taxation.

The Fifth Five Year Development Plan for 1985-1989 confirms the export-oriented growth strategy by proposing further liberalization of imports "to the advantage of export industry and the consumer", "free-trade zones in order to encourage foreign direct investment" and the "promotion of labor-intensive industries to increase employment"[29].

However, there is still a gap between these ambitious objectives and political reality. In fact, liberalization measures have been discriminatory, since the present protection allows for import substitution in the fields of consumer durables and arms industries. Thus, the present system is far from being neutral, though it reflects a prominence of export-orientation over import substitution industrialization.

2.7 Summing up: Important Interest Groups 1923-83

The political economic history of Turkey, as it was sketched in this chapter, reveals a number of interest groups that are likely to have affected the process of economic policy-making: military, bureaucracy, foreign creditors, business groups, landed groups and labor unions.

The military has been a powerful group from the very beginning of the Turkish Republic. Together with the bureaucracy it formed the authoritarian state elite. Since the establishment of the multiparty system in 1950, the military commanders have directly assumed power in 1960, 1971 and 1980. In all three instances, the

take-overs marked the beginning and the end of a chapter in Turkish economic history. In contrast to Latin American military dictatorships, the military in Turkey always returned the power to a civilian government, which they used to influence by voicing threats.

Beside the military, the bureaucracy is the second state institution, which has acted as an independent pressure group. Bureaucrats have been engaged in the management of the SEEs, in local administrations as well as in central planning. Hence, the bureaucratic institutions are less homogeneous as a pressure group.

The foreign creditors, i.e. international institutions like the IMF, World Bank, OEEC and OECD, had an active part in the formulation of the stabilization programs in 1958, 1970 and 1980. Since Turkey has been depending on foreign loans since the end of the Second World War, the conditionalities of these loans have been a determinant of economic policy-making.

The business group can be attributed a less obvious role in politics because of two arguments. Firstly, business did not form a homogeneous group, as it was reflected by the division into commercial and industrial interests on the one hand, and regional factions on the other. Secondly, business groups made use of party politics in order to achieve political gains.

This characteristic does also apply to the landed interests, which gained considerable importance during the DP era in the 1950s. Since the Second World War this group has been successful in defending the privileges of the landlords and avoiding the implementation of land reforms.

The trade unions entered the political process towards the end of the third phase of ISI in the late 1960s. Their field of activities shifted more and more from collective bargaining to representation of political demands. Since the labor unions became

mass organizations they were in a position to affect party policies.

These are the interest groups, which according to the theory in Chapter 1 form the basis for explaining the changes in economic policy. The following three chapters analyze to what extent the activities of these interest groups have led to the three important shifts in the development strategy in the last 30 years:

1. the shift from export orientation towards ISI in the 1960s;
2. the deepening of ISI towards secondary import substitution in the 1970s;
3. the exhaustion of ISI and the shift towards export orientation in the 1980s.

3. Vested Interests in the Implementation of ISI

This chapter assesses the role of interest groups in the implementation of ISI. The first section takes a closer look at the interest groups, which have been derived in the previous chapter. For each group an assessment of its origin, foundation, organization, its sources of power and its interest in ISI is given taking account of the various factions which may prevail in the groups. Furthermore, the particular groups' linkages with the political parties and the government are analyzed.

The second section shows to what extent these vested interests engaged in coalitions for or against ISI. According to the public choice theory the relative power of particular groups and coalitions determine government policy. This hypothesized policy resulting from the direction of interest group pressure is compared with the actual policy outcome.

3.1 Pressure Groups

3.1.1 The Military

In general, the military in developing countries has a comparative advantage with respect to violence, as together with other security forces they are given a monopoly on power in most constitutions. Thus, the military is the only group which can deliberately liquidate other interest groups. When this monopoly is questioned by guerilla warfare and social riot, military leaders can be expected to take a more active role in politics to defend their position.

Furthermore, the military as a group is also interested in the economic well-being of its soldiers. For this reason the military in developing countries is likely to take also an active role in economic life[30]. The military in Turkey did directly assume power in 1960, 1971 and 1980 in order to direct the political process. During the democratic periods in between, the military voiced threats, which were an indirect means of influencing policies.

The military had been assigned the role of a vigilant for interior security within a strong coalition covering also the RPP and the central bureaucracy. As this coalition lost its power, the military found it extremely difficult to adjust to the liberal capitalist environment as provided by the DP government in the 1950s. The populist rule of the DP caused a serious loss of political power for the military in general. During the DP era soldiers' participation in the cabinets and in parliament declined drastically[31]. Furthermore, the RPP, which was the representative of the bureaucratic-military elite, was increasingly suppressed by the DP majority in parliament. In addition, there was a discontent of the Turkish military with the economic policies of the DP government. The military were among the group which suffered most directly and visibly from the inflation, which was not matched by increase in salary[32]. Another source of dissatisfaction was rooted in the social composition of the Turkish army, which has been recruited largely from the lower-middle class thus being extremely sensitive to policies favoring minorities at the expense of wage-earners[33]. In addition, the personal income tax fell unequally on constant wage earners, while landed groups and tradesmen were practically exempted[34]. The government did not, however, neglect the military on the whole. The DP woed the high command by offering attractive positions for retired officers in the party, the local administration or even in the SEEs. However, this policy failed to serve the interest of the majority of officers, especially the younger ones, who were increasingly hit by inflation and a loss of prestige.

This treatment led to cleavages in the military which became divided into two parties: the "moderates", as they were represented by the high command and staff officers and the "radicals", encompassing the younger junior officers[35]. Having arrived at the top of their profession most senior officers belonged to the moderates. They were affected by the conservatism that came with rank, age, status and the attainment of a comfortable material position[36]. In contrast, the "radical" junior officers were highly nationalistic, progressive, authoritarian and developmental-minded.

However, the respect for institutional hierarchy was never explicitly challenged. Even the "radicals" sticked to their institutional ethic, which makes the military an effective pressure group. Thus, planning the coup of 1960 the radicals preferred to coalesce around some moderate members of the high command, who were concerned about the unity of the army. The majority of the high command had continued to support the RPP. As a result the army as a homogeneous body assumed power in May 1960. The coup was intended to realize the following objectives:

1. removal of the DP rule and its supporters;
2. guaranteeing the participation of the army in the future political process;
3. guaranteeing the economic well-being of the military as a corporate body.

However, the two factions in the military had quite different conceptions how to achieve these objectives. The radicals argued that economic development was the foremost problem, which was to be solved with the aid of a planned, state-directed economy and a long-term direct military rule. The moderate wing wanted to return the power to a civilian government as soon as possible. This disinclination to rule directly is mainly due to the military's lacking capacity to manage a complex society[37]. The risk-awareness of the high command remained always geared to keeping the military's traditional reputation in the public. Hence, the reform of the institutional setting was due to the outcome of the dispute between the two factions.

The National Unity Council (NUC), which was the military government, encompassed both factions, of which the radicals had the majority. This disadvantage was offset by the fact that the moderate Gen. Gürsel was the head of the NUC. In addition, the moderate faction, which was initially against the coup, controlled almost all key units in Ankara and Istanbul, especially the top military command and the air force[38]. Although the radicals succeeded in a rejuvenation of the military in 1960, most of them were purged from the NUC in 1961.

Eventually, the political objectives of the military reflected the moderate faction's interest. The military aimed at gradually returning the power to a civilian regime, even though it was expected to reduce the dominance of the military in policy-making[39]. The military as a whole has maintained this position, though it was challenged by extremist officers attempting to carry through coups in 1962 and 1963.

Hence, the military government's conceptions intended to realize its objectives in the following way:

1. The DP was banned, while its main supporters, namely the landlords were partly expropriated or became subject to higher taxation[40].

2. The military tried to guarantee its future role in politics through three channels. Firstly, the head of the NUC, Gen. Gürsel, was elected president. Secondly, a so-called National Security Council (NSC) encompassing high-rank officers was constituted as a supervisory board. Thirdly, the two larger parties, namely the RPP and the JP, were led by ex-generals. The military considered these channels enough to serve their adequate participation in politics.

3. Finally, the military also tried to secure its economic position. Entering the first phase of import substitution the military became actually a part of it, when the Army Mutual Assistance Association (OYAK) was founded in 1961[41]. This organization was initially planned as a pension fund providing housing credits, recreation facilities and pensions for officers. Regular officers are obliged to pay ten percent of their income into this institution which has invested its massive funds in numerous large-scale enterprises featuring production of machinery and transport equipment, chemicals and tourism. Since most of these enterprises were founded in the early 1963s, the military was indirectly involved in the promotion of ISI.

3.1.2 The Bureaucracy

The bureaucracy in Turkey can be divided into the central bureaucracy, the local administration and the managers of the SEEs. As it will be shown later, there were basic rivalries between these institutions on the issues of competence, hierarchy and wages. However, due to the professional mobility between the different institutions and because of the administrative interlinks, the bureaucrats can be treated as a corporate group with vested interests. The effectiveness of the bureaucracy as an interest group is due to the prevailing internal hierarchy and the legitimation through institutions and common law[42].

Just like in the armed forces, the bureaucracy allows for a high degree of social mobility thus providing attractive career opportunities. In the monoparty period the civil bureaucracy was overwhelmingly dominant, as it was the chief source of reforms together with the RPP and the military. However, this political standing declined with the end of Etatism. In the DP era, the public sector salaries underwent a serious radical decline resulting from rapid inflation as well as the general disfavor with which the DP treated civil servants[43].

The military coup of 1960 restored the old coalition between the RPP, the military and the bureaucracy. Thus, the civil bureaucracy was to be reinstitutionalized though not to be elevated to the same level as the military in running the affairs of the state. The RPP argued that the economic problems could only be with the help of economic planning. The NUC had to rely on determined administration consisting of bureaucrats. Both, the RPP and the NUC fostered a constitution, in which they fixed the dominant role of the central bureaucracy in planning. The result was the foundation of the SPO, which legally was given a high degree of autonomy[44]. The SPO had been given a broad competence, which covered

- the determination of investment in infrastructure and the SEEs;

- decisions on incentives that were to be given to the private sector;
- proposals on macro-politics, foreign direct investment and price policies.

Given this competence, the central bureaucracy was in a position to influence decisions on allocation, income distribution and rent-seeking in general.

A study by Roos and Roos (1971) shows that the newer administrative departments in Turkey enjoy the highest status due to salary level, political factors, the chance to increase knowledge, authority, promotion, prestige and the location[45]. This led to cleavages between the new institutions (such as the SPO) on the one hand, and the Ministry of Finance, the SEEs and the Ministry of Foreign Affairs on the other[46]. However, this internal rivalry did not affect the bureaucrats siding with ISI. This can be obtained from the First Five Year Development Plan[47], which reflected mainly the attitudes of the central bureaucracy and SEE management, since politicians were hindered by the military. At the outset of the First Five Year Development Plan, the SPO stated that "goods of which internal production partly covers internal needs will not be included in the liberalization lists and if already included will be taken out... Import programs will give priority to imports which contribute to the realization of plan targets"[48]. The bureaucracy's fostering of ISI was associated with demands for increased regulation in general and in particular[49]:

- allocation of more financial capital for SEEs;
- increase of salaries for the bureaucrats;
- guaranteeing of the political autonomy of the central bureaucracy in planning and decision-making.

These political demands go in harmony with Niskanen's theory on the bureaucracy as it has been sketched in the first chapter.

3.1.3 The Landed Interests

During the monoparty era the RPP and the central bureaucracy used to treat landowners and peasants in their elitist fashion neglecting them as a factor in economic policy-making. The introduction of the mulitparty system immediately changed the political influence of the landed class. It quickly realized its opportunities given by its voting power, since the majority of population was located in rural areas.

However, elections did not merely reflect the preferences of the entire rural population. Taking into account the prevailing patron-client relationships in rural societies, elections were a mechanism for special interest politics, since the majority of clients always had to follow in the wake of their patrons. The traditional patronage was given by landlords, who legally or illegally owned the major part of the land in a village, if not the entire village. The clients constituted of smaller land tenants, who were given social protection by their patron. The patronage altered with the beginning of export orientation in agriculture and then even more with import substitution. Agricultural mechanization was restricted to large land zones. Thus, smaller tenants became share-croppers or land workers, if they did not migrate to the cities leaving their parcells to their relatives or selling it to the landlords[50]. Increased industrialization did not only increase the migration to the cities, but created linkages between industry and agriculture. On the one hand, the agricultural sector served as a market for the protected consumer durables and agricultural inputs industries. On the other hand, the agricultural sector provided intermediate goods for food, tobacco, textile and clothing industries, which were equally protected. The modernization of agriculture and the industrialization in related industries changed the economic activities of patrons. The new patrons, who are partly identical with the old ones, were traders, local merchants, absentee landlords, that had moved to the cities, and owners of related industries. In the eastern parts of Turkey, both forms of patronage have been existing simultaneously.

The ability of the patrons to guarantee the votes of their clients gave the patrons a favorable bargaining position against the political parties. In the rural sector, parties have been playing a much less significant role, since it is not the party ideology which counts but rather the personal influences. Thus, party loyalties have been weaker and voting behavior is characterized by sudden erratic changes from one election to the next[51]. In many cases the patron was a member of a party or even a politician. The patrons used the parties as a forum to achieve local gains. In some cases party membership was only due to local rivalries between two landlords. One patron's adherence to one party encouraged his rival's adherence to its principal opponent party[52]. The defection of patrons from one party to another could cause major shifts in voting behavior contributing to political instability.

As a result, landowners were a major determinant in politics. The vested interests of this group of large market-oriented landowners was very clearly defined:

- prevention of any kind of land reform, as they were proposed by the RPP in the 1940s and as it was temporarily implemented by the NUC in 1960;
- provision of subsidized modern agricultural inputs, as they were produced by the SEEs;
- determination of high support prices, which involves the setting of the prices by the cabinet and the purchasing of the same commodities by state agencies, mainly SEEs.
- provision of preferential credits by the Agricultural Bank (Ziraat Bankasi).

The question of land reform had already been a crucial question in the 1950 elections. After the military coup of 1960 the NUC managed to expropriate some landlords and to implement an extensive land reform. Since the parties had been paralyzed by the military coup, the landed interests had little means of oppo-

sition. After power had been returned to an elected government, the landed class succeeded in redressing the situation. Thus, unlike small exclusive pressure groups, the landed group has depended on its voting power to carry through its interest. In general, the landed groups were not in a position to carry through their interests under the non-democratic military regimes.

Furthermore, the landed class was interested in continuous subsidization, especially in the price-support policy that dated back to the 1930s. Prices were determined by the board of ministers, which implemented protectionist measures or instructed the various SEEs to engage in respective purchases[53]. Due to these measures, the prices for some agricultural products started to exceed the world market prices in the 1950s[54]. In addition, subsidies were granted through preferential credits and subsidized inputs produced by the SEEs. The losses of the SEEs were financed by Central Bank credits, adding to the inflation until the system was partly abolished as a result of trade liberalization. An empirical study by Ergüder (1980) shows that the support-policy was clearly a function of electorates' pressure and party policies.

Given these institutional regulations it is hardly surprising that the landed sector did not oppose the implementation of planned ISI, in particular as an important goal of this policy was to attain food self-sufficiency[55]. Thus, there was an inward-orientation of the agricultural sector, even though the agricultural sector was meant to obtain the foreign exchange required for ISI. These two aims were not contradictory under the prevailing institutional arrangement. Although the landed sector was the prominent exporter, it had no incentive to lobby against protectionism and ISI. Usually, exporters are taxed by high-priced inputs, overvalued exchange rates and a price increase of the scarce factor. However, in Turkey input and capital access were subsidized, while the state agencies had taken over the exporting of agricultural products. Furthermore, the industrial

and the rural sector did not compete for non-skilled labor, since this was the abundant factor. Thus, the landed groups had no reason to feel taxed by ISI, but rather adapted a position of neutrality or cautious approval.

3.1.4 Foreign Creditors

The inward orientation of domestic industry after 1958 led to a high dependency on foreign exchange receipts. On the one hand, import substitution industries were unable to export, while on the other these industries permanently depended on imported inputs and capital goods. The traditional exporters, i.e. agricultural exporters, and the worker remittances from abroad were not sufficient to meet the increasing demand of foreign exchange given the permanent overvaluation of the (fixed) exchange rate. In addition, these two sources were subject to heavy fluctuation because of unstable foreign demand for agricultural products as well as the recession in Western Europe resulting in unemployment and a decline of workers' remittances. Hence, the only solution to the foreign exchange gap was a permanently rising stock of foreign debt.

Since Turkey's role as a foreign trade partner or as a host country for FDI was not that relevant, the western industrialized countries had a predominantly political interest in Turkey's political stability as an important NATO member country. Thus, the official creditors have been providing the largest part of the loans, especially on a bilateral basis. The interest structure of the official lenders were subject to a dilemma. On the one hand, foreign creditors proposed a strategy of outward orientation, since this policy was expected to be the best way to guarantee a stable political and economic development in Turkey. On the other hand, dictating their policy conditionalities the foreign creditors had to be careful and take into account the good relation with Turkey as an important partner country in NATO. Hence, contrary to the foreign creditors' intention, the permanent supply of credits enabled ISI to survive for more than a decade, as new foreign loans had to cover the foreign exchange gap.

During the beginning of the 1960s the stock of foreign debt did not exceed 0.7 billion $[56]. Hence, the government was not yet highly dependent on foreign credits, while the foreign creditors did not insist on strict measures of trade liberalization, when they were asked for assisting the 1958 stabilization program. In On the contrary, the OEEC and later the OECD, which coordinated the demands of the bilateral creditors, proposed tight control of imports through trade barriers[57]. According to these organizations, raising the level of investment was the foremost problem of the country, which could be also achieved by primary import substitution[58]. Hence, foreign creditors did not oppose the beginning of planned import substitution in Turkey, even though they favored a more outward-oriented policy.

3.1.5 Trade Unions

Apart from the landed groups, labor was an economic factor which suddenly gained importance, when free elections had been allowed. Because of the influence that trade unions can exert on their members, both the DP and the RPP fostered the development of trade unions. As a result, the Confederation of Turkish Trade Unions (TÜRK-IŞ) was founded in 1952. Immediately, the member unions voiced their perference of import substitution as they promoted the use of domestic products in order to fight unemployment[59]. Due to the decline in standards of living during the war economy, the DP was favored in the elections of the 1950s. However, in the export-oriented environment of the fifties TÜRK-IŞ remained unimportant. Firstly, because the DP refrained from granting labor the right to strike, as it had been promised before the 1950 elections. Secondly, the DP preferred to address labor, i.e. urban workers, directly by social policy measures thereby circumventing TÜRK-IŞ[60].

Despite the high rates of unionization, as can be obtained from Table 3.1, the broad dispersion of small regional unions hindered effective lobbying. In addition, the DP exerted corporatist control on TÜRK-IŞ by using financial endowments or simply clos-

Table 3.1: The Development of Trade Unionism

	Workers Covered by Labor Law (Thousands)	Unionized Workers (Thouands)	Rate of Unionization (Percent)	Number of Unions	Average Number of Workers per Union (Thousands)
1950	374.0	78.0	20.9	88	4.79
1955	604.3	189.6	31.4	363	1.66
1960	824.9	283.0	34.3	432	2.91
1965	1082.5	360.3	33.3	668	1.62
1970	1406.1	2088.2	148.5	737	1.91
1975	1819.5	3328.6	182.9	781	2.32
1980	2204.8	5721.0	259.4	733	3.01

Note: In the 1970s the percentage rate of unionization exceeds 100 percent, which is not due to statistical errors, but results from workers' membership in more than one union at the same time.

Source: Işik (1987), p. 316.

ing down unfavorable local unions and federations. In addition, the leaders of TÜRK-IŞ used to sympathize with the DP, as in this case concessions were more likely to be obtained. As a result, TÜRK-IŞ remained under the control of conservative union representatives until the 1970s, when a social democratic opposition managed to establish itself in the General Assembly of TÜRK-IŞ.

After the 1960 coup the trade unions were given the constitutional right to strike. However, they could not make use of this right under the military rule. Hence, the trade unions did not constitute a powerful interest group, when planned import substitution was implemented.

3.1.6 Business Groups

Between 1950 and 1970, the main spokesman of private business in Turkey was the Union of Chambers of Commerce, Industry and Commodity Exchanges of Turkey (UCT). This organization has the legal status of a "public corporate body" (müessesati umumiye) owing to respective legislation from the 1920s. Although these laws brought the existing 50 chambers, dating back from the Ottoman Period, under the jurisdiction of the Ministry of Commerce, it is interesting to note that its statutory terms do not define the functions of the chambers. Thus, the only aim in lending an official status to the chambers was to make membership and respective dues obligatory and hence bring together small and fragmented local capital under corporatist control of the administration. The Union of Chambers is a highly centralized organization, whose budget is 50 percent financed by subscription dues. The rest is derived from fees charged for quasi-governmental services and administrative functions delegated by the government. Clashes of interest within the Union of Chambers have been due to its organizational structure which rests on two principles. Firstly, the formation of the local chambers conforms to the local administration structure of Turkey encompassing 67 provinces and 571 districts (ilçe). As each local chamber or commodity exchange is legally entitled to one representative in the General Assembly of

the UCT regardless of membership strength or amounts of revenue, regional disparities led to factionalism within the UCT.

Secondly, a local chamber can be split up into a Chamber of Commerce and a Chamber of Industry, if there is a written request of industrialists in a province provided that they constitute at least 30 members. In legal terms, an "industrialist" encompasses all enterprises that employ 10 workers or use power-driven machinery and employ 5 workers. In practice, however, it was not easy to leave a local Chamber of Commerce and Industry in order to found a separate Chamber of Industry. Such a leave would have caused a loss in membership dues. The majority of commercial interests, that dominated the local Chamber of Commerce and Industry, always opted against a separation, since the division into separate Chambers of Commerce and Chambers of Industry could cause a considerable loss in financial and thereby in political power. Hence, only large industrial enterprises were in the position to counteract opposing commercial interests trying to prevent the industrialists to establish their own local chamber.

In most cases industrialists had to put up with the dominance of commercial groups within local Chambers of Commerce and Industry. As a result, the General Assembly of the UCT reflected an overwhelming majority of commercial interests, as it can be seen from Table 3.2. Despite their numerical weakness, the eight Chambers of Industry as well as the two bigger Chambers of Commerce, namely Izmir and Istanbul, exerted considerable power in union politics owing to their economic power, which enables them to make use of inofficial links with the government, the mass media and within the UCT[61].

The struggle between commercial interests and industrialists and its actual outcome has always been essential for the determination of the import regime. As a result of the overregulation and the black-market operations during the Second World War, the

Table 3.2: Numerical Representation of Local Chambers in the UCT General Assembly

	Number of Local Chambers		Number of Delegates in the General Assembly	Percentage of Delegates
	1973	1977	1973	1973
Chamber of Industry	7	8	55	5.8
Chambers of Commerce and Industry	112	131	438	46.5
Chambers of Commerce	40	50	166	17.6
Commodity Exchanges	53	52	282	30.0
Total	212	241	941	∿100.0

Source: Eskişehir Sanayi Odasi (1973), Öncü (1980), own calculations.

private sector had gained considerable economic power, especially the commercial sector[62]. The RPP government took certain steps concerning concepts of trade liberalization consulting with UCT representatives of the Istanbul, Ankara and Izmir chambers in 1948. The tension between the government and these business groups was aggravated because of the 1947 devaluation of the Turkish currency. The industrialists' rejection of the etatist policy partly constituted itself in the National Development Party (NDP) founded by an Istanbul industrialist named Demirağ. Commercial interests, however, favored the DP, that gained power in 1950.

The clash of interests between the dominant commercial groups and industrialists was revealed on an extraordinary meeting of the UCT General Assembly 1951 during which the import-export merchants advocated a liberalization of the import regime and a predominant place for agriculture relative to industry[63]. This strategy of economic development completely matched the views of the DP thus leading to a de facto unification of the government and the UCT until 1958. As a reaction the private industry, which was not as developed as the state sector, established the Istanbul Chamber of Industry (ICI) in 1952.

The permanent overvaluation of the Turkish currency coupled with a policy of trade liberalization, facilitated exorbitant profits in importing and foreign exchange traffic, while it discouraged investments in production capacity. This situation changed, when prohibition and quota restrictions on formerly liberalized goods were passed in order to cure balance of payments problems. Consequently, new enterprises launched in the 1954-1953 period entailing imports of know-how and product-specific technology. Since such firms necessitated international linkages, it was mainly the licenced importers of various commodity brands, so-called importer-industrialists, and some multinational corporations that went ahead to produce non-durable consumer goods and simple durables locally[64]. Nevertheless, the import-substitution industries did not really blossom until the end of the 1950s, when the trade regime became increasingly restrictive.

In the 1955-1958 period, the great profits in importing encouraged a violent competition in the distribution of quotas. As most importable goods, i.e. luxury goods and durable consumer goods, were subject to highly inelastic demand importers partly favored the price-raising impact of the quota system[65]. The powerful members of the Istanbul Chamber of Commerce, in particular, benefitted from the corruption and favoritism which was encouraged on the part of strategically placed officials and ministers as a consequence of the competition for quotas[66]. Furthermore, the lobbying activities of the Chambers of Industry entailed attempts to secure increasingly higher quotas for industrialists thereby circumventing the purchase of imported raw materials from merchant importers[67].

The conflict between importers and industrialists intensified with the implementation of planned import substitution. According to the new trade regime, the UCT itself was entitled to distribute import quotas among its members. This led the way for increased trade restrictions, which were not to be attributed solely to the industrialists' influence. The latter had emerged very rapidly towards the end of the 1950s especially from the rank of traders, such that by the end of the decade the Turkish economy had a pool of second generation industrialists[68]. This new group consisted of importer-industrialists who, because of trade barriers, were driven to start domestically manufacturing of formerly imported commodities without generally abandoning their import business. The majority of these industrial concerns were family-owned and yet too small to encounter an effective opposition against Istanbul-based importers. However, despite competition in quota distribution, there was a confluence of interests between importers and industrialists. The former would like to have quotas imposed so that they can collect rents and the manufacturers can benefit from the protective element of the quota. This observation is derived theoretically by Wellisz and Findlay (1984) for all developing countries. Thus, there was no clash of interests on the appropriate development strategy,

especially ISI, but rather a distributional struggle without questioning protectionism or import substitution as such. The position of importers changed in the mid-seventies, when import quotas became increasingly restrictive and foreign exchange earnings decreased. Thus, during the early sixties both industrialists and importers promoted the idea of ISI. Officially the UCT backed this trade policy by calling on the government "to seriously apply policies of import substitution"[69]. The homogeneity of attitudes towards import substitution was also reflected in the relations between the UCT and the JP, which had come to power after the 1965 elections. As the RPP was still led by Ismet Inönü, the leader from the etatist period, Demirel's JP was backed by nearly all commercial groups and industrialists, thereby becoming the heir of the DP.

3.2. The Collusion of Interests within the Institutional Setting of ISI

The behavior and interest patterns of pressure groups, as they have been sketched in the previous sections, are in line with the hypotheses suggested in Section 1. The military participates in the political power struggle in order to secure its economic and political standing. Investment in capital-intensive industries undertaken by OYAK, led the military to favor import substitution. The bureaucracy expected from ISI a higher budget for investment in SEEs, higher pay scales and new institutions, especially for planning. In contrast to the expectations voiced above (p. 8) the landed oligarchy interests did not oppose ISI, since they benefitted from the system through price support policies and subsidization of inputs. Foreign interests generally favored a more export-oriented policy. However, the OECD creditors accepted import protection as an adequate measure to correct the balance of payments situation. In addition, Turkey was not yet heavily indebted, so that there was no serious opposition of the foreign creditors against the policy regime. Finally, the business circles were unanimously in favor of ISI. Industrialists lobbied for protection of their products, while importers wanted to capture the quota rent.

It has to be noted, though, that trade protection was already implemented, even before ISI became the official development strategy. This protectionism, which was meant to correct the balance of payments imbalances had generated a group of industrialists, which formed a lobby for ISI later on. This observation lends support to Hirschman's thesis that ISI is initially not implemented as a development strategy but rather as an ad hoc policy to correct severe balance of payments deficits.

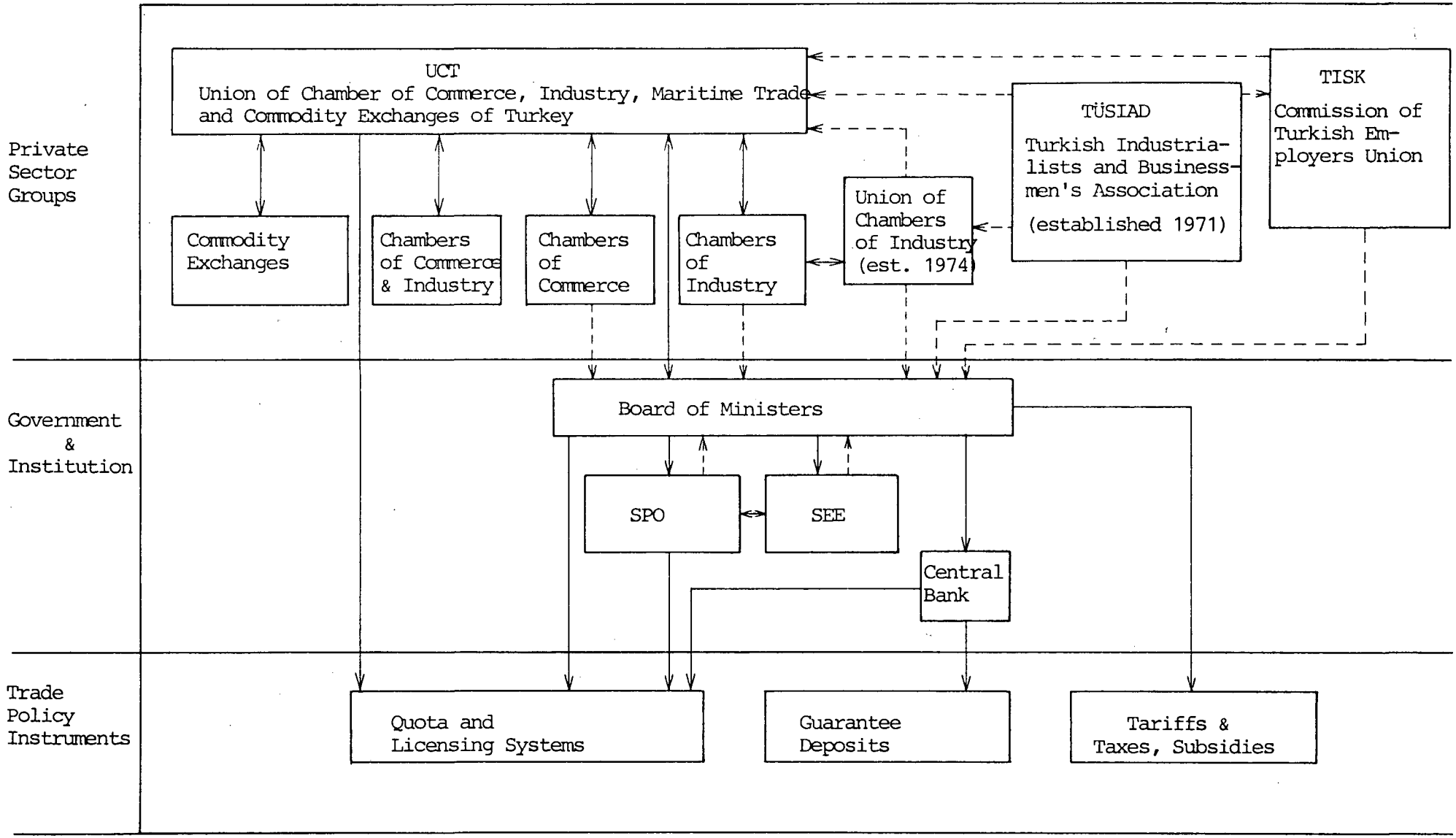
Summing up, there was no pressure group opposing the implementation of ISI in Turkey. However, there was a competition in rent-seeking between interest groups, which had different attitudes towards the level and coverage of protection without questioning ISI as such. The degree to which different pressure groups were able to realize their self-interest depended on their respective involvement in actual policy formulation.

Trade policy was implemented through mainly three trade policy measures, namely the quota and licencing system, guarantee deposits as well as tariffs, taxes and subsidies. In a quota system determined by import programs, the latter two instruments are of minor importance. In the early 1960s, the quota and licencing system was officially and legally determined by the following organizations (Chart 3.1):

- the bureaucracy: SEEs, SPO and Central Bank;
- the Board of Ministers, i.e. the government;
- the business groups, as they were organized in the UCT and its member chambers.

Other interest groups, i.e., the military, foreign creditors, trade unions and landed groups were not entitled to participate directly in the decision-making on import barriers. Given their general acceptance of ISI, they had - at least in the early phase - no reason to seek active participation or to oppose specific measures applied.

Chart 3.1: The Role of Interest Groups and Institutions in Trade Policy Formulation



Note: The arrows show the direction of exerted power by the various groups and institutions.
----- indicates the inofficial linkages of influence, while ——— indicates both official and inofficial channels of influence.

The quota and licencing system was at the center of interest for bureaucrats, politicians and business circles. The UCT, SPO, Central Bank and Board of Ministers jointly decided, how the available foreign exchange were to be allocated on various import categories. Furthermore, it was determined whether a category of goods was eligible for importation or subject to a quota. This was done after the Board of Ministers and the SPO had consulted the management of the SEEs, while the UCT had consulted their member chambers.

This system suffered from inherent distributional conflicts. Firstly, there was a conflict between the private and the state sector for quota allocations. Like the private sector the state sector needed foreign exchange allocations in order to meet its demand for imported intermediate products and investment goods. Under the military rule and the RPP governments the state sector was in a favorite position, since the old coalition between military, bureaucracy and RPP favored the leading role of the state sector. As power was gradually returned to the JP, the successor of the DP, the private sector was favored against the state sector, as it can be seen from Table 3.3. Between 1961 and 1968 the private sector increased its share of non-oil imports from 68.6 to 79.4 percent. The reason was that all private businessmen, who were mainly represented by the JP, formed a coalition against the state sector.

Secondly, there was a conflict among business groups, namely the importers and industrialists. When domestic production of a freely importable good was established, each industrialist could apply for import restrictions, i.e. the transfer of the respective commodity to the Quota List, or for an import ban, if it was determined that the new producer's capacity was adequate to meet domestic demand. Therefore, industrialists taken as a whole benefitted in two ways from quota allocations in terms of effective protection. On the one hand, the easier access to intermediate products helped to reduce the costs of inputs; on the other hand, imported inputs reduced the amount of foreign exchange available for imports of finished products.

Table 3.3: Relative Shares of the Private and Public Sectors in Turkey's Total Imports

Years	Private Sector (%) Share of		Public Sector (%) Share of		Total Imports (Mill.$)
	Total Imports	Non-oil Imports	Total Imports	Non-oil Imports	
1961	61.5	68.6	38.5	31.4	510
1964	66.7	76.0	33.5	24.0	537
1968	72.9	79.4	27.1	20.6	764
1972	58.2	64.9	41.8	35.1	1563
1976	60.9	77.1	39.1	22.9	5129
1980	39.3	73.8	60.7	26.2	7909
1984	47.7	71.0	52.3	29.0	10756

Source: Statistical Yearbook of Turkey, various issues.

By contrast, the importers were interested in increasing the flow of resaleable goods into the country and therefore, in keeping finished goods on the list of eligible imports in order to capture the quota rents. The distribution of quotas for the private sector was assigned to the UCT. Once an import program was published, importers and industrialists were allowed to apply for a quota allocation at their local chambers. However, the UCT did not auction off quota allocations among individual chambers, as it was prescribed legally. The large Chambers of Commerce and Chambers of Industry could rather appropriate the quotas through inofficial links to the government, as they are depicted in Chart 3.1. Thus, the system of protection provided numerous opportunities for the exploitation of insider information, favoritism, and bribery[70].

The performance of the quota system in Turkey does lend support to earlier hypotheses with respect to rent-seeking behavior. Firstly, rent-seeking in Turkey was indeed not completely competitive, as assumed by Hong (1987). The structure of the market for quota allocation was oligopolistic because of considerable barriers-to-entry erected by small and exclusive groups within the UCT such as the chambers of the larger cities.

Secondly, there is virtually a sector, namely the influential chambers, which fit Bhagwati's (1982) description as "directly unproductive profit-seeking activities" (DUP). These chambers invest considerable financial resources in lobbying activities. Given the barriers-to-entry, rent-seeking has a built-in-tendency to grow stronger as long as additional rents are larger than the costs of rent-seeking. Thus, small and exclusive groups, which can quickly exchange information and organize, are likely to benefit from such a system.

The industrialists have increased their share of private sector quotas from 52 to 77 percent in 1962-1970[71]. This shows that industrialists have successfully outcompeted their rivals, the importers, in the political market. Another indicator for the power of industrialists is the extension on import substitution to an ever larger number of products. Evidence for such a protectionist development is given in a study by Krueger (1974b) showing a gradual shift from Liberalization Lists to Quota Lists and from Quota Lists towards import bans[72].

4. Vested Interests in the Deepening of ISI

Subsequent to the establishment of ISI as an official development strategy in the 1960s, economic policies of the 1970s were characterized by "second stage import substitution" (Section 2.5). It is the subject of this Section to show how a collusion of special interests has affected this policy choice and how the implementation of specific policies has influenced the goals of major pressure groups. In particular, the focus is on side-effects of ISI which have laid the seed for subsequent pressure for trade liberalization.

4.1 Pressure Groups

4.1.1 Military

Towards the end of the 1960s, the military was again concerned about the unity of the army as well as the economic and political situation in general. As far as the unity of the armed forces was concerned, the high command could not help being concerned about the increased radicalism among officers. On the one hand, some officers were suspected to collaborate with terrorist groups from the left challenging the integration into NATO and questioning the treatment of the Kurdish minority[73]. On the other hand, some officers were associated with the NMP, which turned into a fashist party under the leadership of some former NUC members. After several warnings from high command officers, the military again assumed power in March 1971. The military coup succeeded in appeasing the radical factions in the army[74].

Apart from that the military was concerned about the business climate due to deterioration in industrial relations, balance of payment problems, the foreign exchange gap, terrorism and above all the disunity of the political parties dooming the executive to impotence. The high command's concern about the business climate was due to the military's growing participation in the economic system. Since OYAK has been devoting more than half of its assets to industrial and commercial investments, this organi-

zation deliberately implanted itself in a particular type of import substitution industrialization in the form of establishing assembly plants and partnership with foreign capital. Although it was initially planned to provide socio-economic benefits that accrue to members of the armed forces, OYAK became a large holding company with a prominence of import substituting over export-oriented industries. Having a stake in the mixed economy as promoted by the JP government, the military has consequently developed a large interest in political and economic stability. Thus, the coups of 1971 can be partly explained by the military's attempt to preserve its economic and social standing. In contrast to the 1961 take-over, the military coup was not directed against the ruling party[75]. Thus, the military's interests during the period 1968-1973 can be summarized as follows:

1. restoring "law and order", which included banning terrorism and reducing strike activities;
2. the implementation of the 1970 reform package in order to relax the foreign exchange situation;
3. continuing import substitution;
4. the restoration of the military's unity.

4.1.2 The Bureaucracy

During the late 1960s the role of the administration as a pressure group was altered mainly because of two factors:

Firstly, rapid industrialization partly fostered by excessive import substitution created alternative career possibilities in the private sector, which were more prestiguous and better paid. As a result of the JP's preference for the private sector, the bureaucrats suffered a loss in their social standing. Secondly, the transition to planned import substitution was accompanied by an uncontrolled growth of bureaucratic institutions. In the absence of careful specification of what was to be regulated, this environment led to overregulation[76]. As a consequence, corrup-

tion and favoratism arose, becoming extremely widespread in the local and lower rank administration, which was much more exposed to political and physical pressures than the central bureaucracy[77]. In the same vein, the SEEs became more dependent on the political parties thereby reducing the competence of the SPO[78]. Thus, the central and higher ranking administration was increasingly isolated from the rest of the bureaucracy. The central bureaucracy temporarily regained substantial political responsibilities after the military intervention of 1970, since the armed forces made use of the bureaucracy to depoliticize the country. Since the military instituted a provisional government encompassing technocrats, managers and bureaucrats, the bureaucracy took an active part in the formulation of the development strategy. The provisional government announced that priority was to be given to heavy industry in order to escape the dependent industrialization[79]. As heavy industry was an area reserved for the state sector, the extension of ISI was meant to expand the responsilities of the SEEs and the respective planning bureaucracies. Thus, the bureaucracy lobbied for secondary import substitution.

4.1.3 The Landed Interests

The entire system of price support had been geared towards Turkey's export structure and its import requirements of agricultural products. On the one hand, government intervention put an emphasis on Turkey's traditional export products, namely raisins, hazelnuts, cotton and tobacco; on the other hand, the government promoted the import substitution of sugar and wheat.

As this policy did not change during the 1960s, it helped to preserve the structure of agricultural production. Other products, mainly live stock, meat, fruit and vegetables were discriminated, since these products were not eligible to subsidization and price-support. However, these sectors were potential exporters, though under the prevailing system smuggling was the only means of export trade[80]. Because of climatic conditions, the producers of supported and discriminated products were located in

different geographical areas. Hence, the landed sector was divided on the issue of export-orientation and the prevailing agricultural support system. The regionalism which resulted from this division was further aggravated by the traditional patrons' loss of power. In the 1950s and early 1960s the patrons had the monopoly on information, while the majority of peasants were not interested in politics. This situation changed during the late 1960s, when the rural population became interested in issues of regional policy as a result of better education. As peasants became increasingly aware that their vote had a price in material benefits, especially when state resources became abundant, the clients became more demanding with respect to their patrons[81]. Thus the patrons and their political representative had to come up with investments in agricultural infrastructure, especially irrigation, in order to settle the demands of the regional population. This state support became even more important, when the end of the land expansion led to an emphasis on measures raising productivity.

Another issue of landed groups was the land reform, which became topical after some land invasions by peasants who illegally occupied state land and private property. Since the military government of 1971 depended heavily on political parties, the landlords, however, again managed to prevent the implementation of the land reform.

The interests of the landed sector were less directed against ISI as such. Instead, the demand of the landed sector covered

- increased investment in rural infrastructure;
- extension of the price-support system;
- higher subsidies for agricultural inputs to promote the modernization of agriculture.

4.1.4 Foreign Creditors

The balance of payments crisis of 1970 was again solved with assistance of the IMF and the OECD. The latter regarded a policy of export-orientation as the only long-term solution[82]. In the same vein, the IMF conditionality included a devaluation and measures of export promotion. Being hit by the foreign exchange gap, the debtors, mainly the Turkish government, had an interest in obtaining more aid and loans on preferable terms, even though the government had to stick to adjustment programs as stipulated by IMF conditionality. The implementation of each stabilization package was followed by a military take-over. The policies pursued by the post-coup regimes were invariably more in line with the demands of international financial institutions. However, once the flow of foreign funds was restored due to an increase in exports, aid and loans, the government simply resumed its former policies. While the 1958 measures had been followed by price stability and a recession, the 1970 measures brought about increased inflation and a rapid increase in production. Thus, the pressure which the foreign creditors were able to exert on the Turkish government was only of short-term relevance.

4.1.5 Trade Unions

In the 1960s, trade unionism suddenly became more important, which can be attributed to three factors.
Firstly, the 1961 constitution guaranteed the right for strike and collective bargaining. Trade unions managed to escape from corporatist control. Secondly, TÜRK-IŞ refrained from siding with a particular party in order to maintain a favorable bargaining position vis-à-vis the government. In addition, non-partisan trade unions were given substantial financial support by AFLCIO, OECD, ICFTV and AID. The third and presumably most important factor was the upcoming of import substitution leading to a fast increase in urban wage labor. Workers were employed in plants with steadily growing production scales. Given this environment,

TÜRK-IŞ found it easy to effectively organize strikes resulting in considerable real wage increases between 1964 and 1969, as it can be obtained from Table 4.1.

In this situation, the employers of the private sector realized that the regionally organized UCT was not a suitable platform for collective bargaining and lobbying for (or against) labor laws. Hence, the nucleus of the Istanbul based employers founded the Turkish Confederation of Employers' Associations (TISK) based on industry-type organizations. Since TISK had a legal monopoly on private sector representation, it was in a position to fix mandatory maximum levels with respect to wages and working conditions for all its members. Due to its organizational power and its hostility towards labor unions, TISK adopted an increasing militancy in collective bargaining.

This and the growing role of private sector enterprises brought about a segmentation in TÜRK-IŞ. Most of the trade unionists represented the majority of political attitudes of workers. The centre-right unionists frankly sympathized with the JP. The social-democratic opposition within TÜRK-IŞ favored the RPP. Both groups reflected the moderate majority in TÜRK-IŞ, which lobbied for protectionism and supported the concept of a mixed economy with strong but non-partisan trade unions. In contrast, the third group, which encompassed members of the newly founded Turkish Labour Party (TLP) adopted a more radical view based on marxist ideology. According to this group union activities should not be restricted to collective bargaining but also to political enforcement of socialism and a nationalization of the economy. This group constituted the nucleus, which founded the Confederation of Revolutionary Trade Unions (DISK) in 1967.

Due to its radical outfit DISK was able to attract large numbers of workers mainly from the private sector. The industrial membership was concentrated primarily in the metal, machinery, rubber, pharmaceutical, and petroleum industries. These were the capital goods and intermediate goods sectors that had absorbed the bulk

Table 4.1: Wages of Workers registered at the Social Insurance Organization

	Average in Current Prices	Cost of Living Index	Real Wages	Change (%)
1958	10.90	100	10.90	-
1959	13.28	123	10.79	-1.0
1960	14.45	131	11.01	2.0
1961	15.59	137	11.40	3.5
1962	16.48	143	11.54	1.2
1963	17.91	137	11.40	-1.2
1964	19.50	161	12.18	6.8
1965	21.64	169	12.78	4.9
1966	23.28	177	13.17	3.1
1967	25.83	188	13.77	4.6
1968	28.22	197	14.39	4.5
1969	32.13	206	15.60	8.4
1970	35.32	226	15.64	0.3
1971	39.32	266	14.78	-5.5
1972	43.88	304	14.43	-2.4
1973	54.41	344	15.84	9.8
1974	68.26	424	16.09	1.6
1975	85.55	515	16.60	3.2
1976	115.30	603	19.14	15.3
1977	146.53	790	18.55	-3.1
1978	207.93	1326	15.68	-15.5
1979	294.31	2351	12.52	-20.2
1980	426.96	4132	10.33	-17.5
1981	543.84	5687	9.56	-7.45
1982	691.03	7551	9.15	-4.3
1983	907.00	9724	9.32	1.9

Note: The deflator is the Istanbul wage-earners' cost-of-living index as it is defined by the Istanbul Chamber of Commerce.

Source: Statistical Yearbook, various years; TÜSIAD (1984).

of new employment and investment in private industry due to planned import substitution. According to a study by Bianchi (1984), these sectors contain the largest work sites, the biggest concentration of foreign capital and technology imports, the highest profit and productivity as well as the highest protectionism in the private sector. They also encompassed the country's largest best-financed, and most militant employers' unions.

In contrast, conservative unionists covered in TÜRK-IŞ were more dominant in consumer goods industries, such as textiles, clothing, food processing and beverages. In these areas TÜRK-IŞ was aided by preexisting well-financed parent unions mostly organized in the state sector.

The foundation of DISK initiated a sudden increase in strike activities mostly in the private sector, which were followed by considerable real wage increases (see Tables 4.1 und 4.2). In order to keep up with DISK's increasing popularity, TISK had to adapt a more radical policy leading to an increase in strike activities. Nevertheless, the increase in strike is also due to DISK's engaging in political issues. Gümrükçü (1981) shows that less than half of these strikes were directly related to the collective bargaining process, while the remaining part was due to political demonstrations against price increases, labor laws, lock-outs, NATO, etc. In these respects, DISK was not more than the means, by which a small political party attempted to increase its political effectiveness.

As TISK did not succeed in stopping its competitor's upswing, the moderate unionists attempted to enforce corporatist control on DISK. In 1970, TISK, TÜRK-IŞ, the JP and later the military government tried to implement a law that would have practically given TÜRK-IŞ the monopoly on union representation. The legislative initiative was given up, as DISK further increased its strike activities. Nevertheless, the military succeeded in reducing strikes for a while and abolished the TLP. As a consequence, DISK turned towards the RPP that had already shifted to left-of-centre.

Table 4.2: Strike Activities in the Turkish Economy, 1965-1980

	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
1. Number of Strikes	43	39	91	59	82	111	97	14	22	45	90	105	167	175	190	227
a) Public Sector	5	5	40	9	22	50	30	4	7	22	13	22	29	27	46	30
- Manufacturing Industry	3	-	-	1	13	20	16	-	1	3	4	7	11	4	4	4
b) Private Sector	38	34	51	50	60	61	67	10	15	23	77	83	138	148	144	197
- Manufacturing Industry	31	27	39	35	33	46	46	9	13	22	55	64	95	95	74	182
2. Number of Workers involved (thousands)	5.5	10.4	8.2	8.1	23.2	26.0	20.0	7.2	12.3	21.0	25.4	32.9	59.9	27.2	39.9	46.2
a) Public Sector	0.5	1.3	5.3	2.0	15.3	19.0	6.5	2.9	5.2	15.4	5.8	12.7	18.4	3.0	21.9	11.7
- Manufacturing Industry	0.3	-	-	0.7	13.9	11.7	4.5	-	0.5	3.5	3.0	7.2	13.4	0.3	1.2	6.3
b) Private Sector	5.0	9.1	2.9	6.1	7.8	6.9	13.5	4.2	7.1	5.7	19.5	20.2	41.5	24.2	18.0	34.6
- Manufacturing Industry	4.1	8.3	1.4	3.7	2.6	5.0	8.7	4.2	7.1	5.5	16.9	16.9	30.4	20.1	11.6	32.2
3. Man-Hours lost (thousands)	240.6	419.8	203.8	192.2	357.8	260.3	296.0	147.6	479.9	470.1	1102.7	1768.2	5778.2	1598.9	2217.3	5408.6
a) Public Sector	15.5	29.7	137.3	54.4	122.3	120.7	100.9	18.0	213.4	256.1	231.0	399.5	1316.3	153.5	714.4	1354.6
- Manufacturing Industry	10.8	-	-	33.8	93.8	50.7	39.8	-	1.5	123.9	95.6	225.8	1129.9	23.8	46.1	1008.3
b) Private Sector	225.1	390.1	66.5	137.8	235.3	139.6	195.1	129.6	264.5	214.0	871.6	1368.7	4461.9	1445.4	1502.9	4054.0
- Manufacturing Industry	222.1	374.6	32.1	80.1	94.7	128.4	143.3	129.5	264.3	195.4	72.7	1216.3	3874.1	1202.3	1071.2	3897.0

Source: Statistical Yearbook of Turkey.

Even the authoritarian rule implemented by the military was not sufficient to liquidate DISK as a pressure group. The persistance of DISK was due to its support from the party system, i.e. the RPP, which had not been affected by the military coup. However, trade unionism was generally weakened under the military coup, so that the employers temporarily succeeded in taking advantage of the restrictions on strike.

Since the March 1971 coup TISK members increasingly tended to cut short the collective-bargaining process through well-financed industrywide lockouts. It was interesting to note, that large industrialists, as organized in TÜSIAD dissociated themselves from military government and TISK's hardening position[83].

The disputes of employers on the one hand and the division of unions on the other added to the organizational inefficiencies of the collective bargaining process. However, the division of labor unions did not change their general inclination towards ISI. Since heavy industrialization was the source of the unions' power, they promoted secondary import substitution[84].

4.1.6 Business Groups

Towards the end of the 1960s there were two lines of segmentation in the UCT. Firstly, there was the division between industrialists and importers at the national level. And secondly, there was a regional conflict between the Anatolian chambers representing the numerous small-scale enterprises and the Izmir and Istanbul chambers which encompass the largest industrial and commercial holding companies.

The competition for quota allocations between industrialists and importers finally led to a cleavage on the degree of import substitution. Despite their numerical underrepresentation in the UCT General Assembly the industrialists managed to increase their share of user-specific quota allocations considerably throughout the 1960s, as it is shown in Table 4.3. The reason was that

Table 4.3: Planned Quota Allocation to Importers and Industrialists 1962-1978
(Thousands of Dollars)

Number and Years of Import Program	Industrialists	Importers	Total
No. 8/1962	15420 (52)	14125 (48)	29545
No. 12/1964	16017 (61)	10181 (39)	26198
No. 16/1966	21339 (65)	11316 (35)	32655
No. 20/1968	23614 (70)	10027 (30)	33641
No. 24/1970	27046 (77)	8135 (23)	35181
No. 26/1971	208700 (77)	61300 (23)	270000
No. 28/1973	321000 (71)	129000 (29)	450000
No. 29/1974	300000 (71)	336000 (29)	126000
No. 33/1978	769000 (70)	331000 (30)	1100000

Note: Percentage shares of total user-specific allocations are given in parentheses under the absolute numbers. Quotas since 1971 had been valid for the entire year, while earlier import programs were published semi-annually. Apart from that, increase in user-specific allocations to importers and industrialists is due to shifts from global quotas to specific quotas.

Source: Krueger (1974), BfA (1975), Barkey (1984a), own calculations.

import substitution was an issue that united industrialists who became increasingly stronger, both politically and economically. On the whole, ISI was still a strategy favored by most in the business community, even though the Istanbul and Izmir Chamber of Commerce, to which most of the importers belonged, became increasingly reserved. The problem for importers did not primarily originate from the lack of foreign trade due a ban on imports. The increase in domestic production created new possibilities and opportunities in immediately related areas, such as complementary or intermediate products, leading to an expansion of import trade. Thus, importers not allayed with continous adjustments and diversification were squeezed out or escaped this trend by becoming importer-industrialist[85]. Eventually, opposition to this kind of excessively growing import substitution was solely centered on large chambers such as the Istanbul Chamber of Commerce, which themselves constituted a minority in the UCT.

As a result, the industrialists as a whole were in a position to push through their views on ISI against commercial interests. However, this alliance of interests between industrialists proved to be comparatively short-lived, as consumer goods industries reached their maturation phase at the end of the 1960s. The next stage of import substitution had already been envisaged in the Assembly Industry Guidelines (Montaj Sanayi Talimatnamesi) published in 1964 putting emphasis on consumer durables production, i.e. automobiles and domestic appliances. The assembly industries, mainly an Istanbul phenomenon, initially assembled imported parts, which were planned to be gradually substituted for domestic inputs. This form of import substitution and its protection by the government resulted in a severe dispute on the direction of the Turkish industrialization leading to a serious division among industrialists within the UCT. Proponents of the assembly industry were mainly represented by the Istanbul and Izmir Chambers of Industry, while the opponent Anatolian chambers, mainly represented by the Eskişehir Chamber of Industry questioned its beneficial impact maintaining that it would lead to increased importation.

Thus, on the one hand the two big chambers of industry found themselves outvoted by the large number of Anatolian chambers, while on the other hand the latter expressed their resentment to hegemony of large capital, which smaller enterprises had little means of competing with[86]. The regional concentration given in Table 4.4 underlines the regional nature of this conflict. The Eskişehir Chamber of Industry, which considered itself as the representative of the numerous Anatolian chambers, proposed a different kind of import substitution geared towards the whole economy instead of producing for high income levels. In a so-called "Manifesto of the Socially Conscious Industrialist" published 1970 it was called for increased investments in intermediate and capital good production, while consumption levels should be reduced[87]. These were sectors, in which the late-comers to import substitution expected opportunities for expansion. Despite these basic differences in opinion the Union of Chambers of Industry, which was an unofficial union of all industrialists within the UCT, reached a compromise position regarding the proposals for the Fourth Five Year Development Plan[88]. This compromise included both deepening and consumer durable production.

In fact, this regional conflict was rooted in the unequal distribution of quotas, the large majority of which had been alloted to large industrialists and merchants of the three or four big cities[89]. The regional divisions were accentuated by the dispersion pattern of assembly industries. In addition, smaller enterprises, especially industrialists, were short of lending facilities. The financial sector collected the savings in Anatolian banks and transferred these funds to urban areas, since the urban based import business offered lower risk, higher returns and short maturities.

The regional issue erupted politically when the Islamic fundamentalist Erbakan, who became the founder of the NSP, was elected Secretary-General of the UCT due to a majority of Anatolian chambers in the General Assembly. This led to a defensive coalition between the large chambers of commerce and chambers of

Table 4.4: Regional Concentration of the 421 Largest Private Industrial Corporations in 1980

	Number of Firms	Percentage of Firms	Percentage of Turnover
Marmara	283	67.2	70.3
of which Istanbul	253	60.1	61.7
Aegean	65	15.4	11.6
Mediterranean	29	6.9	10.3
North Central	34	8.1	6.5
South Central	9	2.1	1.4
Black Sea	1	0.2	0.0
East Central	-	-	-
Northeast	-	-	-
Southeast	-	-	-
Total	421	100	100

Note: Data have been derived from the list of the top 500 published by the Istanbul Chamber of Industry from which 79 SEEs were extracted.

Source: Istanbul Chamber of Industry (1981).

industry, that felt equally endangered by Erbakan's anti-Western bias[90]. Furthermore, Prime Minister Demirel who was concerned about the UCT's getting out of the JP's control exerted indirect pressure on Erbakan by refusing to release some of the quota allocations. The Justice Party leadership eventually was successful in driving Erbakan out of the UCT and the JP[91]. Even though Erbakan was removed from the Union presidency, Demirel had proved to be a close ally of the Istanbul Chamber of Commerce, thus giving up JP's monopoly regarding the political representation of the entire UCT. As a result, some smaller parties, whose members had partly defected from the JP, emerged as representatives of the Anatolian chambers exploiting existing disputes.

The relationship between the large chambers and the JP deteriorated, as Demirel and Özal, the head of the SPO agreed on a 66% devaluation, as it was envisaged in the 1970 stabilization program negotiated with the creditors and the IMF. In this respect both industrialists and importers had a vested interest. The government tried to sell the stabilization package to the manufacturing sector as a means of insuring foreign exchange availability and international capital transfers. However, industrialists, i.e. groups related to the assembly industries, believed that the devaluation was a deliberate policy measure undertaken by the government to scuttle the private sector. Instead the industrialists proposed a policy termed as an "export-oriented adjustment of the exchange rate with some custom adjustments", which was equivalent to export and tax rebates as well as a special exchange rate for exporters[92]. The concerns of the industrialists were partly justified, since organized labor was expected to ask for wage increases, leading to an acceleration of inflation, while the government was expected to block price increases.

The 1970 stabilization measures, which were eventually implemented by the military, were the very first half-hearted approach of a civilian government to alter the existing strategy of import substitution against substantial pressure from all industrialist chambers[93], which formerly were among the key supporters of

Demirel. Furthermore, commercial chambers had fallen out of favor with Demirel over his decision to end Istanbul importers' long dominance over the UCT presidency giving industrialists a greater representation which was intended to reconcile them with the JP.

The inability of the private sector to agree on a common policy weakened the UCT as a pressure group. Hence, after the 1971 military coup the technocrats dominating the "above party" cabinet were in a position to remove the UCT's authority to distribute quota allocations transferring it to the Ministry of Trade[94]. Large industrialists welcomed this move, as by implication commercial interests and small chambers were excluded and the UCT lost almost all their power vis-à-vis their membership. At about the same time the 12 largest industrialists in the country initiated the Turkish Industrialists and Businessmen's Association (TÜSIAD)[95]. Its 106 members, with a few exceptions Istanbul-based private businessmen, encompassed the assembly industry as well as the large-sale holding companies, that had emerged during the early phase of import substitution. Most of these holdings were highly diversified both in the vertical and horizontal sense, so that some of their subsidiaries were engaged in import substitution and others were oriented towards exports. Due to their size they had acquired informal channels of access to various deputies, newspapers and the government[96]. Unlike the UCT, the TÜSIAD was intended to rely only on these inofficial links never devoting itself to parties and politicians but formulating economic policy recommendations.

Hence, business groups were divided into three groups in 1970, which formed coalitions against each other to foster their respective concepts of economic policy. The small chambers were interested in secondary import substitution, whereas the representatives of the large companies opposed the idea of extending ISI to basic input and machinery production. Furthermore, importers questioned ISI as a whole, since they were crowded out by the industrialists' importation of goods. As a result the

importers and large industrialists formed a coalition against secondary import substitution, while large and small industrialists jointly lobbied against trade liberalization and devaluations.

The division of the private sector was reflected in the fragmentation of the JP, the party, which traditionally represented the business groups in parliament. Thus, the inability of the JP to decide on a set of policies can be related to the business group's cleavages on import substitution.

4.2 The Collusion of Interests leading to the Continuing of ISI

In the 1970s the pressure groups were clearly less united on the issue of ISI than in the 1960s. The military intervened in order to improve the business climate leaving the party system untouched. Since the economic standing of the military depended on the continuing of ISI they did not opt for trade liberalization. Since OYAK was a large industrial holding company, the military's interest was closer to TÜSIAD than to the Anatolian chambers. As the military preferred to rule indirectly, they virtually adapted a neutral position between these two business groups. The bureaucracy rather preferred a deepening of ISI, especially through heavy investment into SEEs. In this respect they were supported by the trade unions, which proposed heavy industrialization and nationalization. Despite their division, trade unions were still united on the question of secondary ISI, since this policy promised to increase the labor unions' power in society.

The landed interests took a neutral position, though some of their potential exporters were discriminated. Their electorate pressure was more directed at increased subsidization rather than trade liberalization. The foreign creditors lost their influence, once new loans had been disbursed alleviating the foreign exchange gap.

On the whole business groups were still united on the rejection of trade liberalization. Nevertheless, the particular business groups were divided on the questions of ISI. Importers lobbied for less than prohibitive quotas, which were the source of their income. The small Anatolian industrialists lobbied for secondary import substitution, while the large urban industrialists were interested in the importation of intermediate goods and machinery in order to protect the assembly industries.

This runs contrary to the theory, according to which the large urban companies attempt to carry through secondary import substitution against the pressure exerted by numerous small industrialists. According to Olson, the small, exclusive and powerful organization is a more efficient and effective lobby than the sizeable and less powerful organizations. Nevertheless, this concept neglects the effects of voting power, which was quite important in the 1970s, as the military left the party system untouched. Since the group of small industrialists inhered much more voting power than the TÜSIAD members, the power between these groups was quite balanced.

Thus, the resulting government policy depended on other groups, i.e. the bureaucracy and the trade unions. The bureaucracy had come to power as a result of the military, which rendered government to a cabinet of bureaucrats. The head of this cabinet, Prime Minister Erim, stated that priority would be given to heavy industry[97]. This cabinet, which proved to be short-living, was followed by an elected coalition government encompassing the RPP and the NSP. The RPP was backed by the bureaucrats and the trade unions. The bureaucrats were traditionally associated with the RPP, while the trade unions for the first time used their voting power in favor of the socialist RPP. The islamic-fundamentalist NSP was supported by the Anatolian chambers, especially Eskişehir and Ankara, as well as the East Anatolian landed groups. Although the RPP and the NSP were two adverse poles of the party system, they were able to implement a set of policies reflecting the interests of pressure groups. The RPP-NSP coalition agreed on

increased investments in heavy industries, especially in Anatolia. In fact, the public sector shares of non-oil imports increased temporarily from 20.6 to 35.1 percent between 1968 and 1972, which was a consequence of the SEE's investments in heavy industries[98].

The extent of secondary import substitution should be also reflected in the structure of effective protection, as it is given in Table 4.5. Consumer goods, such as textiles and ceramics are among the best protected products. This does also apply to the steel and plastic industry. However, machinery, i.e. transformers and motor pumps, and chemicals are not protected at all. Thus, secondary import-substitution was fostered especially in the production of basic inputs. Protection tends to be higher in industries, in which the private sector is more heavily engaged. This should be due to the fact that the industrialists represented by the NSP depended heavily on inputs provided by the SEEs.

Summing up, it can be concluded that the policies followed by the government reflected the interest of the relevant pressure groups. It is evident that in a competitive party system groups with considerable voting power, i.e. small companies and trade unions, have a better position vis-à-vis small and exclusive groups, such as large industrialists.

Table 4.5: Effective Rate of Protection for Selected Projects 1972-1973

Industry/Products	Effective Protection	Private Sector Share in Respective Industries' Output
Metal drums	-11	50.9
Tranformers	-2	-
Tyres	-1	100.0
Chemicals	0	49.6
Motor pumps	0	76.1
Canning vegetables	0	67.6
Glass wool	6	-
Tomato paste	15	67.0
Wood/formica	24	71.4
Cement	29,42	47.2
Textiles	40, 96, 153	82.7
Plumbing supplies	53	95.7
Light bulbs	118	-
Textiles (synthetic)	197	90.5
Steel wire/rods	291	72.5
Copper/steel wire	294	74.0
Ceramics	363	79.7
Plastics	1060	99.0
Steel billets	1911	-

Source: World Bank (1973), Statistical Yearbook of Turkey 1981; own calculations.

5. Vested Interests in Trade Liberalization

This chapter assesses the role of interest groups in the process of trade liberalization from 1977 until 1984. Following preceding chapters, the first section derives the standpoint of various interest groups and their respective factions towards measures of trade liberalization. Thereafter, the actual liberalization process is compared to the policy demands of major interest groups.

5.1 Pressure Groups

5.1.1 The Military

During the seventies the multi-party system had fragmented into numerous rival groupings and parties. Due to the tight affiliations between particular parties and high military officers, this fragmentation was reflected in political cleavages in the armed forces[99]. Hence, the military was concerned about the political impotence of the multi-party system and its direct impact on the military[100].

Furthermore, the military was also affected by deteriorations of the political and economic situation in general. The outburst of violence after 1975, which was followed by a declaration of martial law, gave the army a leading role in the maintenance of order. In addition, the armed forces were concerned about the business climate, which deteriorated because of continued foreign exchange gaps, tensions in industrial relations, and declining growth rates. As OYAK became the second biggest industrial holding company in Turkey and an influential member of TÜSIAD, there was a set of common interests among large industrialists and officers[101].

Apart from OYAK, the military had an additional interest in economic policy-making. In the secondary phase of import substitution the military leaders exerted pressure on the Ministry of

Defense in order to promote the development of a national arms industry. The respective projects conducted by SEEs have so far not only survived the liberalization efforts, but seem to be of growing importance. In this respect, military leaders have been successfully lobbying for import substitution.

As in 1971, the 1980 military coup can be explained as an attempt to restore law and order and preserve the military's economic and social standing. As in the coups before, the military intervened in a state of economic and political crisis. However, interventions did not take place before economic reform packages had been implemented. The risk awareness of the military remained always geared to keeping its traditional reputation in the public while avoiding internal conflicts, that were perceived to harm its homogeneity. As in all instances, the military was to return the power to civilian governments. However, the military government did not retreat, unless it had carried through some political and economic changes. Firstly, the multi-party system was reformed, after all existing parties and their leading politicians had been banned. As before, the military had an idea of a directed democracy controlled by a military president and a military-controlled party, the Nationalist Democracy Party (NDP), which, however, was not supported in the 1983 elections.

As far as economic-policy making was concerned, the military was interested in an improvement of the business climate, which especially involved

- banning terrorism and all other illegal activities in the shadow economy;
- a reduction of strike activities;
- improvement of the balance of payments situation, especially the foreign exchange gap.

5.1.2 The Bureaucracy

During the 1970s party policies invaded all of the bureaucratic institutions. Governments or rather parties making up a coalition did not confine themselves to bringing their own teams to the upper ranks of the civil service. The reshuffling involved all ranks, while the number of bureaucrats increased rapidly fostered by all political parties including the radical groupings[102]. The lower and local administration had already been suffering from accelerating polarization in the late 1960s, as it was discussed in chapter 4.1. During the 1970s, in addition, the security forces and the jurisdiction suffered from partisanship[103]. Furthermore, the SEEs got under complete government control being abused as "employers of the last resort" and as provisions of management posts for party members[104]. Party policies became also dominant in the ministeries, where parties actually managed to gain the complete control in a particular ministery depending on the posts that had been negotiated in the short-lived coalitions[105]. Even the strongest institution, the SPO, became politically involved, since the political parties realized the opportunities resulting from the SPO's broad competence. After a sudden increase of its staff in the beginning of 1980, the SPO became completely controlled by the government[106]. By implication the widespread partisanship led to a worsening of relations between the bureaucracy and the military. Thus, after the military coup of 1980, the existing bureaucracy was not strengtened as it had been in the preceding coups. In contrary, the bureaucracy ceased to be factor in politics, since the military removed a large number of bureaucrats from their positions[107]. Since the civil servants had been closely associated with the political parties, the bureaucrats lost their power base, when all political parties were banned.

Nevertheless, the military had to rely on a few technocrats who had been associated with international organizations like the IMF and the World Bank. This group of technocrats, which was organized around Özal, the head of the SPO, helped to settle the

relationship with the international creditors, which was in the interest of the military. For this reason, this small group of high-ranking bureaucrats had been endowed with wide competence concerning the stabilization program and economic policy-making in general. The majority of bureaucrats still favored ISI, since the foundation of institutions they were working for dated back to the 1930s and 1960s[108]. In contrast, this very small number of technocrats rather favored an export-oriented strategy. Not more than 10 high-ranking bureaucrats succeeded in implementing the 1980 stabilization program despite the opposition coming from the rest of the bureaucracy[109].

There remains the question to what extent trade liberalization and the associated deregulation could go in harmony with the interest of bureaucrats. Firstly, most of the technocrats deliberately turned from bureaucrats into politicians. The political vacuum due to the ban on all parties provided the perfect opportunity to step into the political market. The managers of the stabilization program were quite aware of the fact that their political careers were much more promising, if they followed a strategy of export orientation, thus serving the interests of the military and the large holding companies and the foreign creditors. Moreover, the political technocrats were quite aware that their fortune was determined by the foreign creditors who favored trade liberalization.

Secondly, after the 1983 election Özal, now as Prime Minister, reformed the entire government and administration. As a result, high-ranking posts were given to US-trained economists, who have been replacing the majority of lawyers and engineers in the public sector. Since these new technocrats have all been appointed directly by Özal, they are in line with the strategy of cautious export orientation, as it is followed by the MP government. Thus, the high-ranking bureaucracy is under the control of the government.

Thirdly, towards the end of the 1970s the bureaucracy became directly involved in the economic system. Just like the military, the higher-ranking bureaucrats had organized a pension fund called MEYAK (Memurlar Yardimlaşma Kurumu), which gave credits to large holding companies or acquired shares in them[110]. Unlike OYAK this fund has so far remained quite exclusive, as it was managed by members of the higher-ranking bureaucracy. Although MEYAK as a holding gained much less importance than OYAK, it helped to harmonize the interests of bureaucrats with the needs of the big holding corporations, as represented by TÜSIAD. MEYAK has put an emphasis on credits and portfolio investments. Since it could not really unfold its activities during 1970s for political reasons, it did not engage in heavy industries, as it was demanded by the RPP, but rather into private companies with a prominence of exports over import substitution.

Hence, despite their weak position as a pressure group the technocrats had an inclination towards trade liberalization, while the inward-oriented part of the bureaucracy lost its political influence.

5.1.3 The Landed Interests

The rent-seeking activities of the landed class as well as rising demand for agricultural products due to excessive import substitution had caused an inward orientation of the agricultural sector. This worsened the foreign exchange gap, as the agricultural sector was the main source financing the structural import needs of the import-substituting industries. However, even the landed sector was affected by the shortage of foreign exchange, when the supply of agricultural inputs had to be rationed.

In general, the landed groups objected the stabilization program, since trade liberalization involved a removal of price support and subsidies. However, a small group of agricultural producers, whose products were distributed and exported by the private sector, had an interest in trade liberalization.

Given these clashes of interest between various groups of producers and regions, the landed sector was a sizeable and heterogeneous pressure group. This heterogeneity was also reflected in the parties. As the JP sided with urban commercial and industrial groups, independent candidates and minor parties received a much larger share of votes[111], thereby adding to the political instability.

When the military government banned all existing parties in 1980, the influence of the landed sector was virtually removed. The authoritarian government facilitated trade liberalization leading to an export boom in agricultural products. In this respect, the landed sector agreed to the stabilization program. However, the military implemented a tax reform, according to which agriculture was no longer exempted from taxation. Moreover, the implementation of the land reform was again at stake.

Thus, it was only consequent for the landed groups to support Özal in the election campaign 1983, since he was a former NSP candidate, the architect of the liberalization package and an opposition against the military-backed parties. Despite the gradual disappearance of traditional patron-clientel relationships the rural groups have remained a crucial factor in elections.

5.1.4 Foreign Creditors

Table 5.1 and 5.2 show that debt accumulation increased moderately during the early seventies after the stabilization program of 1970. Towards the end of the seventies, foreign debt grew considerably under the prevailing crisis condition. The effect of this growing indebtedness was that economic policy-making became more and more affected by the interests of the creditors and IMF conditionalities.

Table 5.1: External Debt, 1970-1985 (US$ Billions)

	1970	1975	1980	1985
Total External Debt	-	-	19.52	26.12
1. Long-Term Debt	1.91	3.35	15.98	18.18
of which:				
a) Private Non-guaranteed	0.04	0.16	0.54	0.36
b) Public and Publicly Guaranteed	1.87	3.19	15.44	17.82
2. Use of IMF Credit	0.07	0.24	1.05	1.33
3. Short-Term Credit	-	-	2.49	6.62

Table 5.2: Public and Publicly Guaranteed Long-Term Debt, 1970,1985

	1970	1975	1980	1985
Debt Outstanding including Undisbursed	2.72	4.78	19.02	23.38
of which:				
1. Official Creditors	2.53	4.34	12.76	15.90
a) Multilateral	0.56	1.49	3.63	6.88
IBRD	0.14	0.83	2.33	5.19
IDA	0.09	0.20	0.19	0.18
b) Bilateral	1.97	2.85	9.13	9.02
2. Private Creditors	0.19	0.44	6.25	7.48
a) Suppliers	0.12	0.21	1.38	0.96
b) Financial Markets	0.07	0.23	4.88	6.53

Source: World Bank (1987), World Debt Tables.

The political relations between Turkey and its NATO partners, however, have been subject to considerable tension constraining the supply of credits. For instance, the Cyprus conflict of 1974, the subsequent arms embargo by the U.S., the Turkish reluctance to agree on the establishment of new military bases as well as the attempts of Ecevit to cooperate with the Soviet Union led to serious frictions between Turkey and the USA.

In this sense, the 1977-1980 crisis was different, as indebtedness and respective dependency on foreign creditors were extremely high, while there was considerable political tension between Turkey and the creditor countries. Since no bilateral or multilateral creditor was willing or able to meet the extraordinary financial requirements of the Turkish economy, the institutions involved rather preferred a tight coordination of the creditors' demands, as it was later institutionalized in the Latin American cases[112].

However, this coordination was not to be established within organizations such as NATO and EC for obvious political reasons. Thus, the OECD was assigned the task to coordinate the bilateral committments of the particular creditor countries. In 1979, the respective work group was given additional competence, as it had to negotiate the agreements and supervise its performance in cooperation with the IMF and the World Bank.

In the same vein, the 230 private banks faced reschedulings and additional requirements, which until that time were rather exceptional. Private creditors became increasingly important between 1975 and 1980, as workers' remittances declined and Export-Import Bank loans were not available any more as a result of the Cyprus crisis. This sharp increase was facilitated by the so-called Deposits Convertible to Foreign Exchange (DCFE = Dövize Çevrilebilir Mevduat), which was aimed at using state guarantees to rapidly obtain large amounts of foreign exchange attracting the savings of migrant workers. However, the principal depositors turned out to be foreign commercial banks. Hence, during this

period the DCFE virtually became a channel for borrowing by the Turkish private sector in European money markets, which provided half of the disbursements of foreign debt[113]. Under the prevailing crisis conditions commercial banks constituted a steering committee under the leadership of the Citibank. Although commercial banks were in principle willing to support a possible stabilization package, they were only prepared to agree on reschedulings rather than on additional loans in the negotiations. Furthermore, all agreements were tied to a stand-by agreement negotiated with the IMF, since its tough conditionalities were regarded as an insurance to restore Turkey's ability to pay. Thus, the political influence of foreign creditors centered around the IMF as the most important institution.

The Turkish government under Demirel had contacted the IMF well before the illiquidity crisis of 1977, since it became obvious that without an immediate solution of the balance of payment issues GNP growth rates of 8% as given in the plan could not be realized. Although the government aimed at additional long-term loans, only a Compensatory Financing Facility was given. As IMF conditionalities (an 18 percent devaluation, an immediate repayment of mature debt and a reduction of government expenditures) were not fulfilled as agreed on in a letter of intent, a stand-by arrangement did not come into effect. In addition, the World Bank refused to give any more credits until the 1977 elections. The relations between the IMF and the World Bank, on the one hand, and the Demirel cabinet on the other, were hindered by the NSP and its attacks against what it called the "Western Club". Eventually the National Front government broke down, partly a result of the dispute over the stand-by agreement[114].

To spare itself a protracted war of attrition in its negotiations with the IMF the new Ecevit government implemented a sweeping devaluation. Given this precondition the IMF released a stand-by agreement for two years, which facilitated a debt rescheduling with the OECD creditors. However, the RPP government did not manage to harmonize the conditionalities and the demands of its

broad electoral base, when economic indicators deteriorated in the course of 1978. When the Ecevit government failed to meet the conditionality, the debt reschedulings negotiated with commercial banks became impossible. As the negotiations with the IMF were entirely interrupted, the Ecevit government unsuccessfully tried to attach loans from the Soviet Union and Arab oil producers.

As a result of the Iranian crisis the OECD succeeded in a continuation of negotiations with the IMF. Apart from rescheduling, fresh money was provided by the OECD, commercial banks and the World Bank. However, the oil shock frustrated all efforts of the RPP government to stick to the conditionalities. Finally, Ecevit had to resign.

Although Demirel's new government immediately relaxed the stabilization measures, Özal engaged in inofficial talks with the IMF on a medium-term stand-by agreement. When the 24 January Stabilization Package was first presented to the public, the new government was officially in a position to claim that it acted independently. After these measures had been fixed in a letter of intent, the IMF released a three-year stand-by agreement, which was followed by two short-term agreements. This agreement together with the political stability brought about by the military coup facilitated a medium-term adjustment process, supported by the OECD, the World Bank and the commercial banks. The military government took over the conditionalities, leaving Özal in office in order to demonstrate continuity. Moreover, backed by a comfortable majority in the 1983 elections, Özal has been able to meet the demands of the IMF and the foreign creditors.

Hence, in 1980, the pressure of the foreign creditors against ISI was much more intense and persisting than it had been during the 1958 and 1970 crisis. As the multilateral creditors proposed a medium-term structural adjustment program, there was less scope for the government to escape this pressure by relaxing its adjustment program.

5.1.5 Trade Unions

Towards the end of the seventies, strike activities reached a climax, although trade unions had lost some ground. Due to growing overcapacities and lacking inputs, many employers preferred to lock out workers and save wage payments than to agree to higher wages. As real wages declined, DISK concentrated mainly on political demonstrations against stabilization programs. In this respect, DISK had become a decisive power bloc, which the RPP government had to negotiate with. In addition, the number of trade unions and federations allied with political parties increased rapidly leading to a split in labor interests (see Table 5.3) and to political turmoil, which weakened the labor unions as a whole. Since every party in parliament was associated with at least one union, organized labor still exerted considerable voting-power, which was a decisive factor and an opposition against stabilization programs and attempts of trade liberalization.

This situation changed with the military coup. Since the military banned all parties, the trade unions lost their voting-power. The military coup of 1980 came to the relief of TISK as most of its proposals were realized by the military as there were:

- prohibition of all unions except TÜRK-IŞ;
- prohibition of political activities of trade unions;
- granting strikes as a constitutional right, as long as it did not "harm the economy or public interest".

TÜRK-IŞ was to survive as it was not clearly associated with a political party. However, trade unions were not allowed to start their restricted activities before 1984, when important measures of trade liberalization had already been implemented.

The liquidation of powerful unions brought about serious real wage losses that were essential for the success of Özal's liberalization effort. Özal himself is a former representative of TISK, so that despite recent strikes, changes in trade union legislation are not to be expected.

Table 5.3: Major Labor Confederations in Turkey

Name	Number of Members	Local Affiliations (Unions/Parties)	Date of Foundation
The Confederation of Turkish Trade Unions (Türkiye Işçi Sendikalari Konfederasyonu Türk-IŞ)	1.9 million	30 national unions; mostly organized in public sector; independent, conservative and social-democrat	1952
The Confederation of Revolutionary Trade Unions of Turkey (Türkiye Devrimci Işçi Sendikalari Konfederasyonu - DISK	1.6 million	28 national unions; mostly organized in the private sector and municipalities; socialist and communist	1967
The Confederation of Turkish Nationalist Workers' Unions (Türkiye Milliyetçi Işçi Sendikalari Konfederasyonu - MISK)	290 thousand	18; NAP (MHP)	1980
The Confederation of Turkish Just Workers' Unions (Türkiye Hak Işçi Sendikalari Konfederasyonu - HAK-IŞ)	68 thousand	7, NSP (MSP); religiously oriented; insignificant in trade union activities	1976

Source: Shabon and Zeytinoğlu (1985), pp. 188-189.

Thus, the economic role of the armed forces has been most effective with respect to restoring orderly industrial relations by siding with the business groups. The rise of trade unionism was facilitated by the democratic environment in the 1960s and 1970s. The radicalization of industrial relations increased with upcoming ISI especially at its secondary stage. In contrast, the authoritarian regimes prevailing from 1971-1973 and 1980-1983 were capable of limiting trade unionism. The trade unions' loss of power was of considerable importance with respect to the distributional struggle associated with the stabilization programs and trade liberalization in general.

5.1.6 Business Groups

During the 1970s the division of the private sector aggravated, since the business groups, which were formerly represented by the UCT, splintered mainly into two separate organizations:
- TÜSIAD, the representative of the large conglomerates;
- UCT encompassing the bulk of smaller companies.

The propagated goal of the Istanbul-led TÜSIAD has been to force the Turkish industry out of its protectionist environment by making it competitive in foreign markets. This strategy called for increased capital concentration in order to expand capacity moving away from producing high-priced, low-quality consumer goods for domestic markets to exporting competitive consumer items. The foreign exchange earned from industrial as well as traditional agricultural commodities was intended to facilitate large-scale importation of technology needed to equip private industry for the production of intermediate and capital goods, which had been formerly assigned to the SEEs. The position of TÜSIAD was a response to secondary import substitution, in which mainly the Anatolian enterprises and SEEs were engaged. Hence, after the early phase of ISI the large conglomerates looked for new growth potentials and found these industries occupied by SEEs and small enterprises. In addition, the assembly industries in TÜSIAD felt threatened by a growing dependency on locally pro-

duced, highly protected inputs. For this reason, TÜSIAD pretended to follow an export-oriented strategy, though its member companies were still geared towards ISI until the end of the 1970s.

The reaction of that segment of the industrialists that did not belong to the TÜSIAD was unclear. On the one hand, they expected industrialist interests to be strengthened, while on the other they had to acknowledge that this organization solely represented the interests of a small business elite, while the chambers had to restrict themselves to the representation of smaller companies. The greatest concern of all other private sector groups, however, was due to the vast concentration process that was expected to be accelerated mainly for the following reasons. The lack of an organized capital market had reinforced the family-owned nature of industrial concerns. Banks, which in theory were the common source of financing for both industrialists and commercial groups, favored the latter that did not insist on long-term low interest rates. Holding companies, such as members of TÜSIAD, were able to attach different sources which were only available to them[115]. In addition, from the early seventies onwards, holding corporations started to buy up banks in order to finance their investment so that by 1980 all major holding companies owned or controlled at least one bank. The acquisition of banks was facilitated by several changes in legislation during the 1970s. Furthermore, international linkages enabled large companies to attach inofficial foreign exchange markets abroad. As the quota allocations became increasingly restrictive, holding companies found it advantageous to earn their own foreign exchange through diversification towards exporting firms. This tendency was even fostered by the government which allowed export companies to retain a part of their foreign exchange earnings. Apart from that, there was no doubt that Turkish exports (imports) have been always subject to underinvoicing (overvoicing). Given the unreliability of the quota allocations, the fast growing holding companies were forced to have a built-in-tendency towards export orientation.

In the mid-1970s, the large commpanies organized in TÜSIAD constituted a pressure group which was more homogeneous, smaller by group members and economically more powerful than the chambers. TÜSIAD became generally accepted as a second private sector organization[116]. The growth of the large holding companies was accompanied by a process of concentration, which altered the balance of power between the competing groups of the private sector. In fact, there was a tendency towards monopolization, so that by 1981 among the 1800 types of domestically produced products 1100 were manufactured by one company and 300 were produced by less than 5 firms, while competition was only prevailing in the food and textile sector[117]. The burden of the monopolization was first felt by merchants depending totally on the supply of the domestic industry. Large industrialists were accused of using their dominant position in the market not to satisfy demand but reduce production and increase prices[118].In particular, the Istanbul Chamber of Commerce adapted a more populist tone complaining about monopoly organization and inefficiencies resulting from import substitution and the increasing concentration of capital. The way by which this criticism was directed at TÜSIAD using phrases adopted from radical-leftist circles was intended to mobilize the Anatolian chambers which basically raised similar concerns[119].

The very early signs of upcoming interest in trade liberalization were observed when Turkey had to adjust its tariff and quota system as prescribed in the association treaties with the European Community. On the one hand, the TÜSIAD members were enthusiastically promoting the idea of a common market as being a part of Atatürk's way of westernization. On the other hand, the Anatolian chambers such as the Ankara and the Eskişehir Chambers of Industry wanted to preserve what they called their "own economic identity" by promoting domestic machine building instead of ordering turnkey projects and opening the country to the so-called "international monopoly capital"[120]. In 1974, industrialists within the UCT founded the inofficial Union of Chambers of Industry, which was meant to represent small and medium-scale industries, as they were mainly organized in the Anatolian chambers.

However, the support extended by all industrialists to import substitution was still general until the end of the seventies. When Prime Minister Demirel criticized industrialists on the ground of hiding behind protectionist barriers[121]. In this respect, he was only supported by the Istanbul Chamber of Commerce, which kept arguing that industries protected by trade barriers of the order of 150 percent could not possibly export[122]. In the same vein, the World Bank objected against overprotection of Turkish manufacturing industries prefering tariffs to the politically charged quota system[123].

It was again the Eskişehir Chamber of Industry that replied to these arguments maintaining that without the barriers the Turkish industry would be incapable of surviving[124]. This was confirmed by the Union of Chambers of Industry in its proposals for the Fourth Five Year Plan. The Union asked for continued protection on the basis that the number of industries capable of competing on the world market were few[125]. Hence, being aware of the protective elements of import substitution, large industrialists were not eager to changes until 1977, when the 1977 import program was delayed as a result of political cleavages and a lack of foreign exchange reserves. Consequently, the Istanbul Chamber of Industry began to question the premises of ISI[126].

In addition, the large chambers of commerce became more radical opponents, since quota allocations for importers had been completely stopped in February 1977 for 3 years. This was partly a result of the concessions that the ruling JP had to grant to Erbakan, whose NSP was to represent the Anatolian chambers in the First National Front Coalition. The reduction of import quotas was, of course, supported by all industrialists, who benefitted from decreasing import competition[127]. Furthermore, this policy ended the discussion on a reduction of consumption levels, which would have seriously affected the Istanbul Chamber of Industry, particularly the consumer durable sector.

Due to the stagnation of the economy, however, consumption levels finally declined leading to huge overcapacities in the industrial sector. Capacity utilization was further reduced by the reduction of import quotas. The subsequent price increases and shortages in intermediate and investment goods lowered the effective protection of the manufacturing industries, especially of those depending heavily on imports, such as the assembly industry. In this respect, a leading producer of domestic appliances complained about the high costs of domestically produced inputs hindering all export facilities in his sector[128]. Of course, this complaint was mainly directed against the protection granted to SEEs and Anatolian producers of intermediate products.

In this situation, many industrialists realized that a reform was perferable to the main-stream policy of generously fostering industry to expand capacity while restricting its access to raw materials. Hence, the deterioration of the economy led eventually TÜSIAD to declare the import substitution strategy as the source of all troubles, while it was cynical to note that much of the blame was ascribed to the government[129]. Nevertheless, in 1977 TÜSIAD was not yet in a position to formulate concrete policy proposals.

The division within the private sector was simultaneously reflected by political instability due to a lack of majorities in the parliament and upcoming terrorism. After the 1970 stabilization measures the JP had lost its monopoly with respect to private sector representation, so that a RPP-NSP coalition was formed after the elections of 1973. Anatolian businessmen had been alienated by the policies of the JP favoring "big capital". Hence, small businessmen turned towards some smaller parties, mainly Erbakan's National Salvation Party, who had defected from the JP in order to represent the Anatolian business circles[130]. The division of the business groups, which was due to differences in the questions of ISI, found the way into the parliament, were the particular business groups were represented by respective parties. Hence, the JP, the former representative of all business

circles, was succeeded by a couple of smaller parties adding to the instability in the political process.

Political instability was also due to the once-for-all devaluation. Demirel's experience with respect to devaluation created a generally recognized slogan in Turkey, namely: "The government that does a devaluation will fall"[131]. Meanwhile, devaluations had become a question of industrial protection. Given the highly prohibitive protection granted to industries, a devaluation automatically reduced net effective protection, since input prices increased substantially while there was not much scope for raising output prices. Thus, the business community was divided on the issue of devaluations, as some faced prohibitive and others less than prohibitive protection.

The political competition between various business groups had a considerable impact on the competition between political parties. The RPP-NSP coalition agreed on an increased industrialization of Anatolia by promoting heavy industries which was supported by the biggest Anatolian Chambers, namely Eskeşehir and Adana. This was due to the compromise position, which was reached between small and large industrialists. Nevertheless, TÜSIAD did not refrain from publicly criticizing the coalition being partly supported by the less active Istanbul Chamber of Industry. All other chambers, even the Istanbul Chamber of Commerce refused to join an anti-government meeting organized by TÜSIAD in April 1974[132]. TÜSIAD was not successful in removing Erbakan from politics. When the RPP-NSP coalition dissolved, he entered the First National Front Coalition with Demirel's JP. The relations between Erbakan and large industrialists even worsened, as the NSP governed Ministry of Industry tried to assume direct control of the import regime by eliminating certain categories in the Liberalized List (No. 1) and gaining direct supervision over the quota allocations. In addition, the Union of Chambers of Industry and TÜSIAD complained about the way the Ministry of Industry allocated investment certificates and government permits. Furthermore, industrialists challenged the Fourth Five Year Development Plan stressing plans

for the increase of religious school graduates, "National War Industries" and heavy industries, all of them being Erbakan projects. As a result, the JP identified itself with the complaints of the assembly industry and the consumer durable sector, while the NSP aimed at destroying or controlling these industries. Hence, the disputes between business circles were reflected in the fragmentation of the government. In this situation the private sector undertook its last attempt to reconcile the existing factions in a so-called Turkish Free Enterpise Council (Türk Hür Teşebüs Konseyi), but it failed mainly because of the opposition of the large Anatolian chambers.

Due to the support of industrialists' groups Demirel was able to stabilize his position within the UCT, even though the private sector expected another major devaluation that had been delayed because of the 1977 elections. Despite earlier promises, the National Front Coalition agreed on a devaluation which was to be conducted after the elections. As this decision was objected by most business groups, it was only TÜSIAD which openly supported the devaluation stressing the importance of having continuously small adjustments instead of large once-for-all devaluations.

During the election campaign of 1977, TÜSIAD in contrast to other business groups supported Ecevit's RPP, which was very close to the majority of seats. TÜSIAD's position revealed that large enterprises were even to put up with a social-democrat or socialist government provided that political stability was guaranteed and Erbakan was removed from government. Hence, the RPP minority government was immediately backed by TÜSIAD, but it failed to survive a vote of confidence. It was followed by the second National Front government which, however, was splitted because of inter-departmental and inter-party fights. The National Front coalition was not virtually recognized by industrialists, as it was made clear by members of TÜSIAD and the Istanbul Chamber of Industry[133].

The business-state relations did not improve when Ecevit assumed power with the help of some independents and a few JP defectors. Ecevit devalued the Turkish currency by 29% in March 1979 and implemented a stage by stage stabilization program aiming at short-run measures as devaluation and control of the money supply as well as structural changes in the long-run[134]. Although IMF and European Community officials visiting Turkey met a number of business groups in this crisis atmosphere in order to discuss their own set of demands, the private sector was not in a position to agree on a common policy. In January 27, 1979 the industrial chambers of Istanbul, Ankara, Eskişehir and the Aegean region as well as the Izmir and Istanbul Chambers of Commerce agreed on a recommendation package, that was presented at a meeting with Ecevit. Following the suggestion of the Istanbul Chamber of Industry, every group presented its own suggestions. Thus, the Istanbul Chamber of Industry argued against a devaluation as simply being inflationary, while there was a new consensus among the other groups that once a steady flow of foreign exchange in the form of aid and loans was obtained, a devaluation should not be delayed[135].

Since Ecevit kept on waiting for the IMF to back him with funds, his austerity package remained conceptual being opposed by everyone, especially the Istanbul Chamber of Industry. In early 1979, the Istanbul Chamber of Commerce and other groups joined TÜSIAD's call for devaluation, but the opposing Istanbul Chamber of Industry succeeded in blocking it. Being annoyed by the outcome of the policies, TÜSIAD started a campaign against the government placing ads in daily newspapers[136]. Ecevit tried to retaliate by promising legal sanctions, but he fell in the 1979 by-elections, in which the JP scored an impressive victory. The all-JP government came to the relief of most business groups, especially TÜSIAD, since Erbakan's NSP remained excluded. Most industrialists, however, would have preferred a strong RPP-JP coalition that would have dominated the parliament.

By the end of 1979, there was a common consciousness on part of most business groups that radical changes were needed to restructure the Turkish economy. This radical approach, which was also supported by the Istanbul Chamber of Industry, was implemented by Demirel and Özal on January 24, 1980, as discussed in the first chapter. Although Özal recommended to disregard vested interests of individual chambers or TÜSIAD, decisive parts of the reform package, such as the tax reform, were blocked in parliament, while others, i.e. the financial reform, were simply disregarded or circumvented by the business community. In addition, political turmoil and excessive political strikes had become the prevailing political problems. Thus, the implementation of the reform package was delayed until the military intervention on September 12, 1980, which created an entirely new political environment as trade unions, parties and other mass organizations were banned. Hence, the UCT and its member chambers, which had always been in close contact with politicians and their respective parties, were isolated from the process of economic decision-making. TÜSIAD, however, quickly adjusted to the new circumstances, as it was never allied with a particular party. The new military regime was immediately backed by all leading industrialists who tried to accommodate the relations with the military by contributing large amounts to foundations associated with the armed forces[137]. In addition, it was helpful that Özal became deputy prime minister, since he and his family were members of TÜSIAD. Hence, TÜSIAD was able to become the most dominant representative of the private sector, merging the interests of industrial as well as financial capital.

Facing the economic reform package the private sector eventually splintered into three groups. The first one favored liberalization enthusiastically backing Özal, as they were well-positioned to take advantage of the export opportunities. Since most of the small exporters had disappeared during the two decades of excessive import substitution, this group comprised mainly hold-

ing companies with a prominence of export orientation over import substitution being involved in the textile and food stuff production or in construction projects in the Middle East.

The second group encompassed mostly large holding corporations which had either large inventories and financial resources or banks at their disposal. Most of the early import substituting firms, especially the assembly industry belonged to this group. Owing to their financial resources they were in a position to sustain losses even starting to export at losses and undertake necessary adjustments. This group supported the military government for providing political and economic stability.

Finally, the third group included mostly small and medium-sized industrial companies that depended on the domestic market and could not afford financial or trade policy reforms, as they were not diversified. Many of those companies were to be hit by the import liberalization of intermediate and consumer goods. Since many of them, in addition, had depended on formerly subsidized inputs provided by SEEs, there was a wave of bankruptcies striking these companies, while the big holding companies made use of this situation and bought them up.

The first two groups were mainly represented by TÜSIAD members including holding companies from Anatolia. In contrast, the last category consisted of the bulk of small companies organized in the Anatolian chambers.

While it is obvious, for which reasons business groups may lobby for increased protection and import substitution, their incentives to argue for stepwise liberalization are not self-evident. As long as a small number of producers benefitted from import substitution, the burden of protection was to be sustained by the society, as it is also argued by Becker (1983). As increasing numbers of entrepreneurs shifted towards ISI, moreover advancing into secondary import substitution including production of in-

termediates, the rising costs of protection fostered opposition. The costs of protection did also fall upon industrialists, especially the conglomerates. Table 5.4 shows that the rate of capacity utilization in the Istanbul region, where most of the TÜSIAD members were located, was comparatively low. According to questionaires collected by the UCT, one of the main reasons was the availability of inputs and intermediate goods[138].

Most of the big holding companies actually faced the limitations of the domestic market. Thus, once they were no longer able to expand their domestic sales volume, they found the higher stages of import substitution occupied by SEEs and Anatolian companies and were therefore impelled to look elsewhere including exports for further expansion.

In addition, an increase in the country's foreign exchange position was the last resort for the powerful assembly industry which increasingly became endangered by the lack of imported inputs. Furthermore, trade liberalization was the only opportunity to get rid of local high-cost suppliers of intermediate goods and raw materials. For many firms the general lack of demand and the lack of imported inputs became a matter of existence. The number of bankruptcies and the respective capital involved reached a peak in 1978, as it can be obtained from Table 5.5 In 1978 and 1979, each year 77 bankruptcies have been recorded. The capital of the respective firms amounted to 124 million TL in current prices. Moreover, the average firm size shows that in 1978 the wave of bankruptcies affected relative large firms.

Unlike many smaller companies the larger holdings did not keep their free-rider position adopting a policy of wait-and-see, while simultaneously opposing every liberalization effort that was likely to harm them. TÜSIAD was the only organization, in which detailed policy proposals were launched. Since the liberalization of the trade regime which was expected to cause high

Table 5.4: Rate of Capacity Utilization in the Istanbul Region (Percent)

Year	Rate of Capacity Utilization
1980	50.0*
1981	60.0*
1982	66.8
1983	69.8
1984	71.6
1985	72.7

Note: * Values for 1980 and 1981 have been approximated.

Sources: UCT, Economic Report, various issues.

Table 5.5: Bankruptcies

Year	Number of Firms	Capital (Mill. of TL at current prices)	Capital (Mill. of TL at 1974 prices)	Average Firm Size (Capital in Mill. of TL at 1974 prices/Number of Firms)
1974	43	9	9	0.21
1975	61	22	20	0.33
1976	55	25	20	0.36
1977	64	28	18	0.28
1978	77	124	51	0.66
1979	77	48	12	0.16
1980	55	71	9	0.16
1981	101	188	5	0.05

Sources: UCT, Economic Report, various issues; Statistical Yearbook of Turkey, various issues; own calculations.

costs of adjustment, compromises on questions of distribution of these costs were more likely to be reached in small groups.

Being aware of their financial resources, the holding companies were in a position to sustain transitional losses and buy up small companies with export capacities. In some cases private conglomerates were supported by the state, as unprofitable daughter companies were taken over by SEEs. Due to their size and degree of diversification, holding companies could afford to expose themselves to the risks of liberalization and manufacturing exports. This was especially true for those conglomerates, that had already attached inofficial sources of foreign exchange, so that they virtually had already prepared necessary adjustments. Given the exclusiveness of TÜSIAD, it was easier to overcome the free-rider problem, even though the members differed with respect to sectors and levels of horizontal diversification.

5.2 The Collusion of Interests leading to Trade Liberalization

Towards the end of the seventies the interest groups were extremely divided on the issue of trade liberalization in general and on the way it was to be implemented. The military had a more general interest in improving the business climate, especially the hopeless balance of payments situation and the political unrest. The bureaucracy was paralyzed because of its affiliation with the political parties, with the exception of a small technocratic elite, which was not yet politically influential. Landed interests were divided into potential exporters and inward-oriented producers. Foreign creditors strongly advocated a trade liberalization leading to an export-oriented structure of the economy. Due to the economic bargaining power, the foreign creditors were in a position to insist on structural adjustments as a part of their conditionalities. The trade unions were still a militant supporter of secondary import substitution rejecting all attempts that could possibly lead to real wage declines or unemployment in the protected industries. Finally, the business groups were split into the small number of large industrialists

and the numerical majority of small producers. The division of interest groups was also reflected in the party system. The RPP was backed by the trade unions, the largest part of the bureaucracy and the urban poor[139]. The JP mainly represented the interests of large industrialists and the commercial groups. Most of the small industrialists, merchants and landed groups sided with the smaller parties, especially the NAP and the NSP[140]. Hence, the cleavages on trade liberalization added to the political splintering in parliament. Since the foreign creditors did not release any fresh money until the first steps of a trade liberalization were implemented, there was no opportunity to opt for continuing ISI, as it had been in the 1970s.

The division of pressure groups and political parties hindered the decision-making process. Hence, democratic governments did not succeed in carrying through their concepts of trade liberalization. This situation changed, as the military assumed power and banned all existing political parties. Groups with political power depending heavily on representation in parliament were immediately excluded from the decision-making process, as there were trade unions, landed interests, the lower ranks of the bureaucracy and the small Anatolian chambers. In contrast, large industrialists and the technocrats became more dominant.

The military reached its primary objective, as it succeeded in restoring "law and order". In this respect it was supported by all pressure groups, though they were partly directly affected by the harsh security measures[141]. As far as economic reforms were concerned, the authoritarian government depended on the technocrats and the large holding companies.

Hence, it was more than coincidence that the military and later the Özal government's liberalization policies fitted TÜSIAD's and the technocrats' attitudes:

- The underground economy, especially the inofficial money and foreign exchange market formerly known as the "Second Central Bank" was abolished making extensive use of the security forces.

- The tax reform as well as the land reform were passed, as it had been proposed in earlier TÜSIAD reports[142].

- The financial reform including the bank reform, did not restrict the oligopolistic behavior of banks owned by large holding companies. Hence, gentlemen's agreements among the respective banks to control the interest rate were inofficially acknowledged.

- The quota system which had been politically charged and subject to abuse through corruption and favoritism was abolished, while protection was given through tariffs, funds and subsidization. The present trade system is comparatively liberal, as it is not prohibitive by any means. Intermediate goods and raw materials, however, have been much more liberalized, while there is still considerable, though less than prohibitive protection for consumer durables production and assembly industries.

This bias of the new trade regime is revealed in Table 5.6, which shows the nominal tariffs and taxes charged only for imports. Basic inputs and intermediate goods are subject to a comparatively lower nominal tariff protection than consumer durables and machinery. Agricultural products have the lowest nominal tariff production, though it has to be noted that some products are not eligible for importation. The highest protection is given to the former assembly industries in the consumer durables sector, which is well represented in TÜSIAD. Consumer durables are among the products, which are subject to a specific or ad-valorem payment into funds. This shows that despite of the shift from import substitution to export orientation there is a systematic bias in the structure of protection.

Table 5.6: Excerpts of the 1984 Tariff Regulations

Customs Tariff No.	Commodity Description	New Customs Tax (%)	New Production Tax (%)	Payable to Fund (%)	Total Nominal Tariff Protection (%)
	1. Agricultural Products, Fishery and Forestry				
07.01-07.03	Vegetables	- Prohibited -			-
06.01.50-08.12	Fruits	- Prohibited -			-
02.01	Meat (not pork)	1			1
16.04	Prepared or canned fish	- Prohibited -			-
11.01-11.02	Cereal flours, ... , meat	- Prohibited -			-
44.03-44.21	Wood and products	- Prohibited -			-
07.01.31	Potatoes	0			0
10.03.90	Maize	0			0
09.01.11.12	Unprocessed coffee	75			75
	2. Consumer Durables				
85.15.20	Colour TV, 51 cm screen	40	20	400$/pc.	~110
87.02.11	Cars (over 1700cc)	60	10	70	140
	" (over 2000cc)	60	10	140	210
87.02.22	Pick-up truck	60	10	17.5	87.5
92.11.90	Video recorder	75	15	400$/pc.	~150
85.12.30	Electronic domestic applicances	60	10	70	80
84.15.10	Electrical home refrigerators	60	4	200$/pc.	~150
84.52.10	Electronic calculating machines	45	18	-	63
	3. Machinery				
87.02.12-21	Bus, lorries	60	10	17.5	87.5
90.17.11-90.17.13	Medical apparatus	20	-	-	20
87.01	Agricultural tractors	45	10	-	55
85.13.41	Automatic telephone centrals	30	10	-	40
85.08	Electrical equipment	40	12	-	52
85.01.10	Transformers	20	10	-	30
84.06	Diesel engines	15	-	-	15
84.53	Computer & accessoires	10	-	-	10
84.41.12.22	Sewing machines (industrial)	30	-	-	30
84.42	Machinery for leather and footwear	1	-	-	1
	4. Basic Inputs				
25.23	Cements	0	0	-	0
28.30.30	Ammonium	1	12	-	13
	Sodium sulphide	25	12	-	37
29.01	Hydrocarbons	1	12		13
	Oxides (iron, titan, lead)	20	12		32
40.01	Unprocessed rubber	5	-	-	5
39.02.41	Polypropylen	10	-	-	10
29.36-29.28	All kinds of vitamins	-	-	-	0
	5. Intermediate Goods				
56.01-56.04	Yarns and fibres	25	8	-	33
73.07-73.09	Iron or steel coils and rolls	1	8	-	9
84.55.91-.95	Parts of electronic machines	5	5	-	10
85.18.21	Changable condensators	1	-	-	1
85.25	Isolators	30	-	-	30
85.21.70-.84	Electronic devices	0	-	-	0
70.14.44-.45	Automobile parts	30	-	-	30

Source: UCT (1984), Resmi Gazete 26.12.1984 (Official Gazette).

It has be be noted that it was not the military which favored export-orientation. In contrast, as a result of the first liberalization measures in 1981 the military-owned OYAK suffered serious losses[143]. In this respect the army certainly had a disinclination towards trade liberalization. However, being a member of TÜSIAD, trade liberalization became the only feasible economic policy, after the trade unions and the chambers had been weakened.

Although it was still hard to find evidence for TÜSIAD's involvement in the implementation of the reform package, it cannot be denied that especially companies represented by this organization managed to turn out as winners as compared to others. This became especially evident, as TÜSIAD successfully lobbied for a rescue fund, which was to support large companies during the banking crisis in 1982. As Özal refused to support this idea, he was heavily attacked by TÜSIAD and finally was forced to resign[144].

Since then, the power structures within TÜSIAD has altered in favor of export orientation. The "older" industrialists, who have been a powerful group since the 1940s, are complaining that Özal's regime favors the "new" businessmen, who became powerful especially after the liberalization. Their distinctive characteristic is that they are all engaged in foreign construction and export business in the Middle East. Especially, the construction firms are accused of lobbying for increased investment in municipal infrastructure. Government procurement facilitates rent-seeking, thereby increasing the inflationary deficits of the municipalities have become the most important source of inflation. This conflict, however, has not led so far to a questioning of Özal's export-oriented policy. Since 1984, the so-called Extra-Budget-Funds (EBFs) have been of growing importance for the fiscal system and the trade regime[145]. The EBFs participate in almost all tax and tariff revenues. The fund revenues are distributed among several independent funds, which are assigned specific purposes. The largest funds are used to finance public investment in infrastructure (Public Participation

Fund), fertilizer subsidies (Support and Price Stabilization Fund) and subsidized home credits (Mass Housing Fund). Thus, among the beneficiaries of the funds are the construction industry and the agricultural sector. Even the military participates in the EBFs, as investment in the domestic defense industry is partly financed by a so-called Defense Industry Support Fund.

Summing up, it can be concluded that the implementation of trade liberalization reflects the interests of the country's leading pressure groups, the military, the large conglomerates and the high-ranking technocrats. The structural bias of trade liberalization can be explained by TÜSIAD's dominance in the business sector. The technocrats were responsible for the implementation of the reform package, which was to be performed in accordance with the foreign creditor's conditionalities. The military can be attributed a crucial role in the process of implementation as it facilitated political decision-making by weakening the trade unions and the UCT.

6. Conclusions: The Transition from Import Substitution to Export Orientation

6.1 The Implementation of Import Substitution Industrialization

The preceding sections have provided a record of the involvement of interest groups in the process of economic decision-making in Turkey. Looking at Chart 6.1, which is meant to summarize the influence of pressure groups in respective periods, it can be seen, how the particular vested interests determined the degree of inward or outward orientation. It is assumed that policies are an outcome of interest group pressure neglecting other determinants of policy-making. The vertical axis shows the percentage of interest group pressure for export orientation or import substitution regarding the devotion to one of those strategies as a matter of 0-1 decision. The channels which move along the horizontal time axis show, whether a group was lobbying for export orientation or import substitution. Channels depicted below (above) the horizontal axis show that the respective groups opted for import substitution (export orientation). The vertical order of channels does not reflect the degree of inward or outward orientation of the particular group. In the same vein, the origin of the vertical axis should not be associated with the geometrical locus of neutral trade regime, which treats exports and imports equally. The latitude of the channels indicate the percentage strength of a particular group. The percentages have been derived using the following methods: Firstly, it was arbitrarily decided whether the group was import substitution- or export-oriented at a specific point in time. Secondly, for each point in time, the most topical policy issues were chosen, while these issues were not necessarily directly related to the policy alternatives given in the chart. If a group was in a position to push through its interest on a specific subject it was given one point. In case of a compromise position, only one half was granted, while obvious defeats in political disputes were marked with zero points. Adding up these points for particular groups for specific points in time, gives the relative percentage strength of a group vis-à-vis the others.

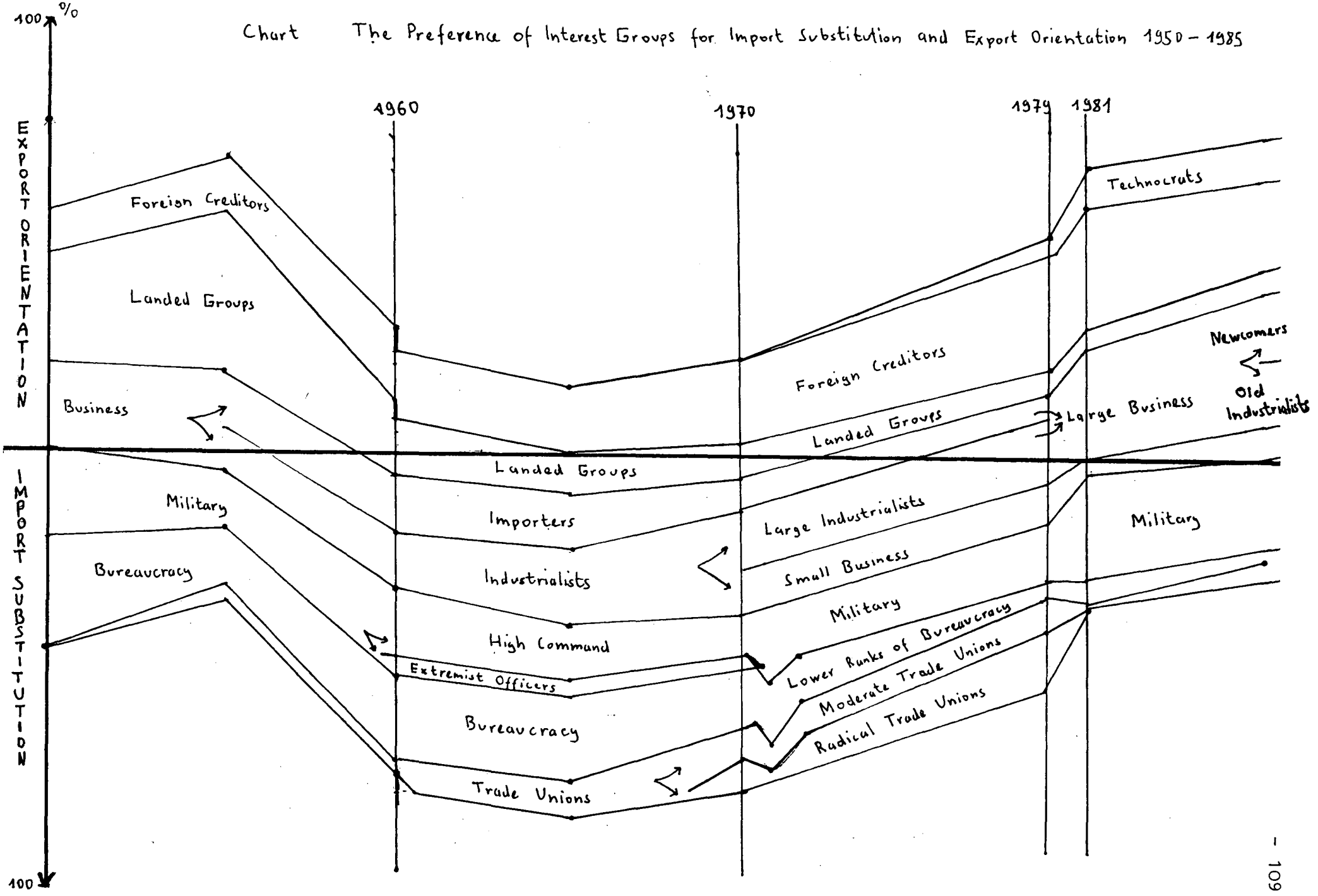


Chart The Preference of Interest Groups for Import Substitution and Export Orientation 1950 – 1985
100 %
EXPORT ORIENTATION
IMPORT SUBSTITUTION
100
1960
1970
1979
1981
Foreign Creditors
Landed Groups
Business
Military
Bureaucracy
Landed Groups
Importers
Industrialists
High Command
Extremist Officers
Bureaucracy
Trade Unions
Foreign Creditors
Landed Groups
Large Industrialists
Small Business
Military
Lower Ranks of Bureaucracy
Moderate Trade Unions
Radical Trade Unions
Technocrats
Large Business
Newcomers
Old Industrialists
Military

The sum of the channels above (below) the time axis shows the aggregated interest group pressure towards export orientation (import substitution), which should be reflected in the actual government policy.

Hence, if more than 50 percent of aggregated interest group pressure is under (above) the time axis the government's policy should reflect a dominance of inward over outward (outward over inward) oriented policies. As it can be seen the actual policies, as they have been discussed in earlier chapters, follow the major thrust of interest group pressure. In the early 1950s, there was a strong bias towards export orientation, even though this was the beginning of import substitution in its unplanned fashion. In 1960, all groups except foreign creditors opted for import substitution, as this was the beginning of the planned period. This conformity altered during the 1970s due to the emergence of new groups when the attitudes of the importers and large industrialists changed, pressure towards trade liberalization was enhanced. Industrialists and trade unions became stronger during the period of planned import substitution. The military increased its power considerably through coups, as they occurred 1960, 1971 and 1980. The military take-overs led to sudden shifts in the percentage strength of particular groups. Sizeable organizations such as land owners, trade unions and small business lost under authoritarian rule, while they were able to gain during democratic periods.

The prevalence of a number of powerful groups challenges the observations of post-marxists and exponents of the so-called dependency theory. The basic presumption in marxist approaches is the dominance of a so-called state-class, which is meant to be a union of government officials and capitalists[146]. In the same way, Evans (1979) argues that the emergence of import substitution industrialization is due to a coalition between government, domestic capital and multinational corporations, of which the latter played a minor role in Turkish politics.

However, the dominance of a single group or stable coalition that could push through its political demands vis-à-vis all other groups cannot be observed in the case of Turkey over time. This has been also shown for Latin American countries[147]. Especially, government and business groups have experienced considerable internal rivalry and clashes, while coalitions have been persisting only in the short-run. The competition between groups did not only erupt as a result of clashes on the degree of import substitution and outward orientation. Chart 1 shows that divergent views within the ISI strategy led to the splitting of groups, i.e. business, industrialists and trade unions. Thus, analyzing the political economy of developing countries, there is a fundamental difference between group competition within the framework of a generally accepted policy and strategic competition geared towards the acceptance of a development strategy, i.e. the choice between export orientation and ISI. In this respect, game theoretical approaches of the political market suffer from fundamental shortcomings[148]. Firstly, these models have to assume the prevalence of a stable structure and a constant number of interest groups (players). However, these conditions may not be found in developing countries, which do not face a stable traditional institutional framework as in developed democracies. Secondly, the number of interest groups is generally larger than two or three, as it is assumed in game theory. Hence, such games might reveal answers for specified political markets in the short-run. The relationship between interest group pressure and ISI or liberalization, does not allow for the omittance of one of the many groups (see Chart 6.1), since it involves long-run analysis. Hence, there was considerable competition among individual groups, though certainly not perfect competition as assumed in models of the neoclassical political economy.

In contrast to models of the political market there was not any considerable opposition against the implementation of ISI. The lack of opposition can be mainly attributed to the timing of implementation. According to Hirschman (1971) there are four distinct origins leading to an implementation of ISI, namely

wars, balance of payments difficulties, growth of the domestic market as a result of export growth and official development policy. The latter three seem also to apply to the situation in Turkey at the end of the 1950s. The balance of payment difficulties, which marked the end of the period of export orientation in primary commodities, were due to declining external demand. The very first import barriers on consumer goods were ad-hoc measures that were purely defensive in nature. The government had no clear idea on ISI, while during the mid-fifties business interests and landed groups still favored export-oriented policies. However, the protection facilitated unplanned import substitution. Merchant capital, producers of export goods and landed interests started to engage in these new industries, thus becoming a powerful lobby for protection after a few years. Hence, for many developing countries, as Hirschman points out, balance of payment difficulties lead to a bias towards non-essential industries, since the import of such goods is restricted first. It took the new import substituting producers about 5 years to achieve a strength, which facilitated them to lobby for planned ISI. But it was not only the business group in general, which sided with increased protectionism. At that stage there is a broad confluence of interests between the landed class, industrialists, importers, merchants, trade unions and bureaucracy. Landed groups and merchants were interested in a growth of domestic consumption, that was to offset the declining external demand. Importers were seeking quota rents, while the bureaucracy expected to improve its position through more planning and state intervention. Although these groups have competed in the distributional struggle, there was a broad consensus concerning the inward orientation of the economy.

Thus, the implementation of ISI is almost inevitable for developing countries, once governments have implemented protectionism as a short-run cure to balance of payments difficulties. In both East Asia and Latin America protectionist policies associated with the first stages of import substitution were strongly championed by local industrialists and bureaucrats[149].

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There are only very few exceptions namely Hong Kong and Singapore, where ISI could not transpire. This is due to the lack of a sizeable domestic market and the vested interests of entrepot traders. This special form of export-import trade may only work in a totally liberal non-protectionist environment, while due to their location these traders do not have promising alternatives in the case of an export crisis.

In contrast, export-import merchants and export traders in Turkey became importers or importer-industrialists. In the same vein, manufacturers of exports and landed interests became inward oriented during this process of adjustment. This flexibility seems to refute the argument, that import substitution is needed to develop a national entrepreneurial drive. Thus, in practice, a massive discrimination of exporters did not occur, as they were ready to adjust in order to benefit from the more profitable ISI.

Static trade theory also presumes that consumers as a strategic group are likely to challenge ISI for price-raising effects. Nevertheless, even in the most liberal and democratic periods of ISI, which fostered the establishment of numerous mass organizations, a consumer-oriented pressure group was not organized. The reason is that most consumers in developing countries are suppliers of labor and capital. It is much more efficient and effective for individual consumers to engage in trade unions, business groups and other professional associations. Thus, the implementation of ISI did not result in political conflicts in Turkey. In this respect the implementation was quite similar in Latin America and East Asia.

6.2 Politico-Economic Determinants for the Crisis of ISI

The distortions associated with ISI lead to substantial rents for the domestic industry, which thereby becomes increasingly stronger both politically and economically. In contrast to industrialized countries, protected industries engaging in political lobbying did not decline in Turkey[150]. This is related

to the following reasons: As the government offers continuous protection, the rent-seeking industries earn supernormal profits. These rents can be reinvested into additional lobbying activities and real capital for import substitution. Thus, as a consequence of the rent-seeking activities the production of import substitution goods, i.e. capital-intensive production, becomes increasingly profitable over time. The attractiveness of import substitution causes a spread effect, which goes beyond the initial producers of import-substitution goods. Other companies catch up looking for market niches which have not been yet occupied by the first generation of industrialists. The extent of the spread effect depends on the barriers-to-entry on the political market for protection. Under a pluralist democratic regime the barriers-to-entry are lower, since even small companies can organize themselves and engage in rent-seeking. In contrast, under authoritarian rule the barriers-to-entry are substantially higher limiting the number of rent-seeking firms. When ISI has accomplished a high vertical and horizontal extension, protection will be viewed as a quasi-property right[151]. Hence, the longer the duration and the broader the implementation of ISI, the more opposition a government will face in getting rid of it.

The duration of ISI is partly a function of the foreign exchange constraint, since industrialization, i.e. ISI, heavily depends on imports of intermediate inputs and machinery. In an economy, which only consists of a manufacturing sector turning from export-orientation towards import substitution, this constraint will be reached in a very short time. As excessive ISI reduces foreign exchange earnings considerably, the growth of the industrial sector especially import substituting industry declines. This is one of the so-called self-liquidating effects inherent in ISI. Hence, in this case the manufacturing sector is obliged to realize its export opportunities in order to finance the expansion of domestic industries including import substituting producers. All of the East Asian NICs, with the exception of Hong Kong, passed such an adjustment using protection to develop infant industries even after the shift to an export-oriented strategy[152].

The switch to an export-oriented industrialization strategy will be delayed, when the country has other foreign exchange earnings than exports of manufactured goods. In the case of Turkey, the crisis of import substitution was delayed considerably by the remittances of foreign workers and agricultural exports. Since early stabilization programs such as the 1970 program, included depreciations of the currency which resulted in considerable increases of foreign currency earnings, imports of necessary inputs could be sustained and there was no need to abandon ISI. For industrialists, it was less costly to lobby for the allocation of foreign exchange earnings than for a change of policies towards export orientation. Such policy shifts and a subsequent structural adjustment of manufacturing production were only initiated, when sustained growth of protected industries reached such a high need of foreign exchange that could not be provided by the more or less stagnating traditional exports. This bottleneck was aggravated when the oil shock reduced the foreign balances in real terms. However, countries that can rely on steadily increasing foreign exchange revenues from traditional exports (such as was the case with oil producers) will not easily shift from import substitution to export orientation.

A foreign exchange shortage is a necessary but not a sufficient condition for the abandoning of ISI. Another is related to a gradual deterioration of the political and economic situation associated with ISI. Hirschman argued that the ultimate crisis of ISI is not caused by failures associated with the implementation of ISI but rather reflects political and institutional deficiencies[153]. Looking at the Turkish experience in the 1970s, it seems reasonable to assume that such deficiencies were closely related to economic phenomena and incentives created by ISI itself. As it can be easily seen from Chart 6.1, the ISI period was characterized by a division of lobby activities into numerous groups and factions, while periods of export orientation show a tendency towards integration of functional interest groups, such as capital and labor. The growing diversion of interests under ISI made it more difficult for governments to find acceptance, as the

diversion of interests was immediately reflected in a highly fragmented party system.

The splitting of groups resulted from increased regulation, in which every small faction including small companies was in a position to realize gains from rent-seeking. Business interests eventually became divided over the degree and direction of import substitution. Trade unions were splitted and became radical, as they represented increasingly smaller groups of labor. Institutions like the bureaucracy and the military, which are supposed to be neutral, increasingly developed vested interests through their own involvement in ISI. Hence, there is, in addition, a political exhaustion of ISI.

Some authors argue that exhaustion of ISI is a result of investment in the production of increasing varieties of consumer goods at the expense of investments in capital goods industries[154]. If the latter could be avoided (industrial deepening), domestically produced capital goods would substitute imports and prevent a foreign exchange crisis. The implementation of such a policy would require a stable political system guaranteeing the control of the working class, preponderance of officials and technocrats, and depoliticization of mass organizations. These requirements would be met best by bureaucratic-authoritarian states.

This analysis does not fit to the case of Turkey. It is certainly true that a democratic environment strengthened political demands by mass organizations. However, it was the democratic process which enabled smaller and medium-sized companies of the Anatolian chambers to produce capital goods and intermediate inputs. These were exactly the groups which were discriminated by military rule in 1970 and 1980. The Turkish conglomerates had refrained from deepening on a large scale since the mid 1970s. In this respect large private companies behaved differently as compared to those in Latin American countries. In the case of Turkey "deepening" was conducted by SEEs and smaller companies, while secondary import substitution in general added to the exhaustion of ISI.

6.3 Political Factors Affecting the Timing and Sequencing of Liberalization

From the public choice theory it is obvious that the government's willingness and ability to turn towards export orientation depends on some preconditions. If the economic situation of a country is in disarray and the government is in danger to lose economic control completely, there will be some willingness to go for reforms[155]. The democratic government under Demirel, which actually went for reforms had not much to lose. Firstly, the government did not have a majority in parliament, so that it was not expected to remain in office for a longer period of time. Secondly, the government was in a dilemma, as it could choose between a devaluation as envisaged in the IMF stabilization program or a foreign exchange gap that would lead to a stop of all imports and a fiscal breakdown. The Demirel government considered the first alternative to be the less risky. Hence, one of the preconditions for the implementation of a stabilization program was the external crisis, i.e., the foreign exchange gap and the overindebtedness. In this situation the foreign creditors had a strong bargaining position vis-à-vis the Turkish government. Nevertheless, the minority government did not have enough political backing for the implementation of an entire stabilization program. The structural aspects of such a program entailed considerable political risk. Short-run immobility of labor and capital could have caused a decline in real income and real wages. In contrast to protectionism, trade liberalization accrues costs to the interest groups, which are decisive in the policy making process. While protection can be supplied in accordance with the exclusion principle, overall liberalization has some characteristics of a public good. Even if the groups are well aware that liberalization may be needed to provide aggregate welfare in the long-run, no group is willing to bear the short-run costs. Thus, groups rather behave as free-riders expecting other groups to carry the costs of liberalization. The free-rider position makes it difficult for governments to formulate generally accepted plans of timing and sequencing. In addition,

the government faces an optimization problem, as it has to consider to what extent short-run losses in welfare can be offset by long-run gains. Weizsäcker (1978) argues that electorates impute present day economic conditions to the ability and willingness of the present government to solve economic problems. Given these difficulties associated with voting behavior strong democratic governments with a comfortable majority or authoritarian regimes may be positioned best to carry out a policy shift. The former can afford short-run losses in popularity and subsequent losses of votes, so that their time-horizon under rational behavior should be long-run. However, the case of Turkey shows that during the exhaustion phase of ISI democratic governments lack the support of stable majorities in parliament, since the interest groups become extremely divided. Chart 6.1 clearly shows that in 1979 there was a balance of power between groups favoring export-oriented policies and groups proposing ISI. This balance of power, which doomed the democratic government to impotence, was disturbed by the military coup.

The primary aim of the military in Turkey was to end the political crisis, i.e. strikes, terrorism and the political impotence of the government, while economic reforms were of secondary importance. Chart 6.1 shows that despite the military's modest preference for ISI, the coup actually facilitated the implementation of structural reforms and stabilization programs. Authoritarian regimes, which suspend a democratic constitution, are by definition independent of short-run voting-power. When an authoritarian government takes over, large pressure groups exerting voting-power become less influential relative to small and exclusive groups, which lack voting-power. Since the military coup strengthened the small group of large industrialists relative to trade unions and small business, there was a shift in the direction of interest group pressure. The trade unions and groups of small business, which both had been advocating ISI, lost their political influence, while the large industrialists who favored export orientation, became the dominant interest group. Finally, the military was even prepared to put up with a strategy of export orientation provided that political stability was restored.

Thus, the change in the political regime was only a necessary condition for the implementation of trade liberalization. The more crucial condition is the change in the political power of interest groups in general and business groups in particular.

The ability of any government to induce reforms is dependent on the business groups' willingness to carry through structural adjustments. In politics as well as in economics, adjustments will occur only as long as the private returns exceed private costs. Otherwise, the free-rider problem will prevent adjustment. North (1979) concludes, that for this reason only small, powerful and exclusive groups were able to foster adjustments in history. As it was mentioned before, individuals behave as free-riders facing the costs of liberalization. However, small and exclusive groups may solve the free-rider problem through negotiations, as they are more likely to reach a compromise position on the sharing of the costs of adjustment. In Turkey, TÜSIAD was a forum, in which such negotiations took place resulting in concrete policy proposals. Government that were looking for the support of interest groups, could rely on these proposals. It is interesting to note that TÜSIAD did not only comprise export-oriented companies but also capital-intensive firms, which had been formerly advocating import substitution. The common characteristic of these firms is their high dependency on foreign exchange, imported intermediate inputs and machinery. When secondary import substitution threatened the availability of foreign exchange and industrial imports, these firms became less profitable and consequently turned against ISI.

The bulk of small companies in UCT did not come up with a clear position on questions of liberalization. Small and medium-sized companies opted for the status-quo and opposed attempts to reduce industry protection. Hence, the sequencing of trade liberalization and the export-oriented adjustment have been reflecting the dominance of the large conglomerates. Protection has been substantially reduced for raw materials, intermediate products and machinery, while the consumer durable sector, which is well

represented by TÜSIAD, is still heavily protected. In the same vein, the liberalization of the internal capital market has been delayed. An important feature of the large holding companies was the rich endowment with financial resources which enabled them to finance necessary adjustments and losses in their import substituting daughter companies. Hence, one of the preconditions for liberalization was the regulation of financial markets by gentlemen agreements, from which large industrialists benefitted.

In contrast, rigidities on the labor market were solved by regulations replacing the collective bargaining process. As trade unions were weakened through the military coup, they were not in a position to oppose the mandatory fixing of nominal wages. Given the inflationary pressure, real wages have been declining thereby supporting the process of adjustment.

6.4 The Political Viability of Export Orientation

After the 1984 liberalization program, the Turkish economy and exports became much more export-oriented. The present pattern of production now resembles that of East Asian NICs and has little in common with patterns prevailing during the period of the 1950s or the import substitution during the period of the 1960s and 1970s. However, it has to be noted that the present trade regime is by far more restrictive than the liberal regime at the beginning of the 1950s. Nevertheless, this goes in harmony with the political experience of the East Asian success stories, as those countries kept systematic protectionism even during their export orientation phase.

The adjustment process was easened by an export boom to the Middle East and North Africa. Especially the war between Iran and Iraq fostered Turkey's position as an exporter. The question remains, to what extent declining export demand may lead to a reversal of export orientation. Such a reversal seems to be less likely than in the 1950s, since the composition of Turkish exports has become increasingly diversified featuring traditional

exports such as agricultural products, processed food and textiles as well as construction, tourism and consumer durables. For this reason, Turkey is no longer likely to suffer from a balance of payments crisis as a result of declining export demand.

However, it has to be questioned whether this diversification of exports has altered the political power structure. The newcomers among foreign exchange earners, namely tourism and construction, can also survive in a protectionist environment, so that it cannot be expected to form strong anti-ISI lobbies. The conglomerates have become increasingly export-oriented, though. They have to export in order to meet their foreign exchange requirements for imported inputs. Hence, the structural adjustment of the economy reflects the new relative prices introduced by the new policy regime. However, the question remains, to what extent the society as a whole has changed. Despite major changes in political and economic life in Turkey, there is still a consistency across time, as far as interest groups are concerned. When the return to democracy will be completed, the UCT and more important trade unions are likely to regain power. Likewise, the old political structure, as it was reflected in the party system of the seventies, is still present. Özal's party, for instance, encompasses the old JP and NSP. In the same vein, most of the other parties, which have been newly founded after the military coup, consider themselves as heirs of former parties. However, it is not likely that these grouping can challenge the present political system, since the present election code favors large parties relative to smaller ones. Hence, small vested interests are excluded from parliament, while governments are supported by stable majorities[156].

Finally, it has to be asked, what kind of institutional mechanisms can restrict excessive protection of specific industries. The answer has to remain tentative taking account of the fact that institutional mechanisms are a function of interest group pressure. There are a few measures which provide incentives for a restriction of protection. Some of them have been applied

during the adjustment process in Turkey. The most important mechanism is the exchange rate regime, which is charged with a high political burden. Thus, it has to be ensured that the determination is free from political impact. This can only be provided by a system of managed floating, which is easier to implement in periods of export orientation, since it benefits exporters. Such an exchange rate regime is still to be implemented in Turkey in order to prevent the overvaluation of the currency.

Furthermore, some means have been applied in Turkey to restrict future tariff increases. The bulk of the Turkish tariff revenues goes into funds, with which housing, investment in infrastructure and subsidization of agriculture are financed. Thus, the construction industry, landed groups and the bureaucratic managers have an interest in high fund revenues. These groups have an incentive to lobby for the optimum level of fund duties, which maximize the amount of fund revenues. Hence, an evasion by non-tariff barriers as well as prohibitive protection can be excluded due to the pressure of these groups[157].

In such an institutional framework the pressure of tariff-seeking groups can be partly offset by revenue seeking groups, thus adding to the stability of the import regime. The idea is to create systems, where countervailing interest group pressure leads to a stable institutional framework. Another example of such regulations is the present tax system in Turkey. Before 1980 most of the small businessmen were in a position to circumvent taxation by recording less than actual turnover. The new personal income tax scheme allows consumers to deduce their consumption from the tax base within specified limits. Tax deduction is granted, when the bills are presented to the authorities. Hence, consumers have an incentive to collect bills, thereby limiting the volume of inofficial sales, since the duplicate of the bills form a basis of taxation of small businessmen and traders.

The recent experience in Turkey shows that arrangements, as the tax and the tariff system, prove to be stable, even though they provide some other opportunities of abuse. Hence, policy measures have to be embedded into institutional schemes that resistant to interest group pressure. The invention and analysis of such schemes should be given more attention in further research, since they may help to stabilize the political process of export-oriented adjustment.

Table A1: Real Growth Rates Across Sectors, 1923-1984

Years	Real GDP Growth Rate (Chain Index)	Percentage Share of GDP			GDP Growth by Section (Chain Index)			GDP at 1968 Prices (Billion Turkish Liva)
		Agriculture	Industry	Services	Agriculture	Industry	Services	
1923	100	43	11	46	100	100	100	10.5
1924	114	48	8	44	128	89	108	12.0
1925	114	46	9	45	110	122	116	13.6
1926	118	52	8	40	134	103	105	16.1
1927	85	42	11	47	69	117	101	13.7
1928	111	46	7	48	120	69	112	15.2
1929	124	53	8	39	143	146	103	18.9
1930	101	50	8	42	95	108	107	19.0
1931	109	52	9	39	114	117	101	20.7
1932	87	42	12	46	71	114	102	18.1
1933	116	44	12	43	122	120	110	21.0
1934	106	43	13	44	103	110	107	22.1
1935	98	42	13	44	96	101	99	21.7
1936	125	51	11	38	153	101	107	27.2
1937	101	50	12	39	96	111	104	27.5
1938	109	48	12	40	105	115	113	30.0
1939	108	42	14	41	104	118	111	32.5
1940	96	46	12	41	99	87	92	31.3
1941	89	43	14	43	83	99	93	28.0
1942	107	45	12	43	110	90	107	29.7
1943	89	48	12	40	96	94	81	26.1
1944	93	46	11	43	88	84	102	24.7
1945	83	41	10	48	75	76	93	20.4
1946	135	48	11	41	157	142	115	27.7
1947	103	42	12	45	90	120	113	28.4
1948	119	48	11	40	137	111	106	33.9
1949	94	44	12	44	86	98	102	31.9
1950	109	45	12	43	111	109	107	34.8
1951	113	48	11	41	120	103	108	39.2
1952	111	48	11	42	110	120	111	43.3
1953	112	46	12	42	109	118	105	48.4
1954	97	41	13	36	86	109	105	46.9
1955	109	41	13	45	110	111	107	51.0
1956	104	42	14	44	105	110	102	53.2
1957	109	40	14	44	106	114	109	58.0
1958	105	42	14	43	109	102	101	60.7
1959	103	41	15	44	100	103	106	62.6
1960	103	41	15	44	102	101	105	64.7
1961	101	41	14	45	95	113	103	65.6
1962	105	38	16	46	105	102	106	69.0
1963	110	38	16	46	110	111	109	75.7
1964	104	36	17	47	99	111	106	78.9
1965	102	34	18	48	96	109	105	80.8
1966	112	34	18	48	111	115	111	90.3
1967	104	33	19	49	100	108	105	93.8
1968	107	31	20	50	101	113	109	100.9
1969	106	30	21	50	101	105	106	106.6
1970	106	29	20	51	102	101	109	112.3
1971	109	30	20	50	113	109	107	122.3
1972	106	28	21	51	99	110	108	129.7
1973	104	24	22	54	90	111	109	135.0
1974	109	24	22	53	110	108	108	146.9
1975	109	25	22	53	111	109	108	159.9
1976	109	25	23	53	108	110	109	174.1
1977	105	23	24	53	99	110	106	182.7
1978	104	23	24	53	103	107	104	190.6
1979	99	23	23	54	103	94	102	189.5
1980	99	24	22	54	102	94	100	187.5
1981	113	22	25	53	104	132	110	212.9
1982	114	22	26	52	109	131	109	223.3
1983	103	21	27	52	98	107	104	230.6
1984	106	21	27	52	104	109	105	245.1
1985	105	-	-	-	-	-	-	257.4

Sources: UCT (1983), Turkey Through Statistics During the Republican Era; Statistical Yearbook of Turkey 1985.

Table A2: Inflation Rates 1957-1984

Year	Wholesale Price Index 1963 = 100	Chain Index
1956	49.0	n.a.
1957	58.4	119.2
1958	67.1	115.0
1959	80.5	120.0
1960	84.6	105.1
1961	87.2	103.1
1962	91.9	105.4
1963	100.0	108.8
1964	101.2	101.2
1965	109.4	108.1
1966	114.7	104.8
1967	123.4	107.6
1968	127.3	103.2
1969	136.5	107.2
1970	145.7	106.7
1971	168.9	115.9
1972	199.3	118.0
1973	240.1	120.5
1974	311.8	129.9
1975	343.2	110.1
1976	396.6	115.6
1977	492.1	124.1
1978	750.8	152.6
1979	1230.7	163.9
1980	2550.6	207.2
1981	3488.4	136.8
1982	4369.1	125.2
1983	5708.0	130.6
1984	8577.5	152.0

Source: Statistical Yearbook of Turkey, various issues.

Table A3: Exchange Rate Quotations in Turkey, 1946-1984

Year	Official Rate	Effective Rate	Remittance Rate	Travel Rate	Tourist Rate	Special Export Rate	Other Rates	Black Market Rates	Degree of Over- or Undervaluation
1946	2.80							3.45	23.2
1947	2.80							3.55	26.8
1948	2.80							4.55	62.5
1949	2.80							4.30	53.6
1950	2.80							3.95	41.1
1951	2.80							3.86	37.9
1952	2.80							4.85	73.2
1953	2.80							5.50	96.4
1954	2.80							6.72	140.0
1955	2.80							10.25	266.1
1956	2.80				5.75			11.35	305.4
1957	2.80				5.75			13.25	373.2
1958	2.80	9.00			5.75			14.75	63.9
1959	2.80	9.00						14.50	61.1
1960		9.00						13.50	50.0
1961		9.00						13.75	52.8
1962		9.00						12.75	41.7
1963		9.00						12.50	38.9
1964		9.00						12.50	38.9
1965		9.00						12.25	36.1
1966		9.00						12.30	36.7
1967		9.00						12.75	41.7
1968		9.00			12.00			13.75	52.8
1969		9.00			12.00			13.80	53.3
1970	15.00					12.00		15.90	6.0
1971	14.00		14.00			13.00		15.35	9.6
1972	14.00		14.00			13.00		14.60	4.3
1973	14.00		14.00					14.70	5.0
1974	14.00	13.99	13.85					14.85	6.1
1975	14.00	15.10	13.00					16.85	11.6
1976	14.00	16.67	17.50					18.10	8.6
1977	14.00	19.44	20.00					26.25	35.0
1978	14.00	25.25	-	37.50				37.90	50.1
							Trade		
1979	14.00	47.43	47.10	48.05			35.35	54.00	13.8
1980	14.00	90.13				26.50	Student	104.55	16.0
						61.30	Import		
1981	14.00	132.62						159.00	19.9
1982	14.00	186.62						215.00	15.2
1983	14.00	282.82						315.00	11.4
1984	14.00	444.74						450.00	1.2

Source: Pick's Currency Yearbook, World Currency Yearbook, various issues.

Table A4: Turkish Cabinets Since 1950

Formed	Prime Minister	Support
May 1950	Adnan Menderes (DP)	Majorities in three elections: 1950: 408:79; 1954: 490:45; 1957: 419:183
May 1960	Gen. Cemal Gürsel	Military
November 1961	Ismet Inönü (RPP)	Coalition of RPP and AP formed under pressure from outgoing military
June 1962	"	Majority coalition of RPP with two minor parties, NTP, RRNP
December 1963	"	RPP minority cabinet
January 1965	Suat Hayri Ürgüpli	Non-partisan government to supervise elections
October 1965	Süleyman Demirel (JP)	JP majority cabinets, reconstituted after 1969 elections
March 1971	Nihat Erin	Non-partisan cabinet installed by military
May 1972	Ferit Melen	"
April 1973	Naim Talu	"
January 1974	Bülent Ecevit (RPP)	RPP-NSP coalition wins 233:217 majority
November 1974	Sadi Irmak	Non-partisan, bureaucratic government
March 1975	Süleyman Demirel (JP)	National Front coalition (JP, NSP, NAP, RRP), 222:218 confidence vote
June 1977	Bülent Ecevit (RPP)	Minority government loses confidence vote
July 1977	Süleyman Demirel (JP)	Second National Front coalition (JP, NSP, NAP) wins 229:219 confidence vote
January 1978	Bülent Ecevit (RPP)	RPP cabinet including three minor parties and nine JP detectors, 229:218 confidence vote
November 1979	Süleyman Demirel (RPP)	JP minority government
September 1980	Adm. Bülent Ulusu	Military
December 1983	Turgut Özal (MP)	Installed after MP wins 211:188 majority in November elections; November 1987 elections boost the majority to 292:158

Note: For Abbreviations see Table A7.

Table A5: Share of Exports by Items, 1965-1983

(%)	1965	1970	1976	1980	1983
1. Agricultural Products	75.7	74.7	64.0	57.5	32.8
- Cereals	2.2	1.6	3.6	6.2	6.6
- Vegetables and Fruits	19.9	23.4	19.1	25.9	10.3
- Agricultural Products for Processing	49.3	44.0	37.4	20.8	9.3
2. Mineral Resources	4.5	6.7	5.6	6.6	3.3
3. Manufactured Products	19.7	18.5	30.4	36.0	63.9
a) Processed Foodstuffs	9.1	7.1	5.0	7.2	11.7
b) Industrial Products	10.6	11.5	25.4	28.8	52.2
- Textiles and Clothing	0.5	4.3	13.4	14.6	22.7
- Hides and Leather Industry	1.5	0.8	2.6	1.7	3.4
- Forestry Industry	n.a.	0.5	0.4	0.1	0.3
- Chemical Industry	n.a.	1.2	2.4	2.6	2.1
- Rubber and Plastic Ind.	1.2	0.3	0.2	0.5	1.3
- Petroleum Products	n.a.	0.1	0.8	1.3	4.1
- Glass and Ceramics	0.1	0.2	1.0	1.2	1.9
- Cement	n.a.	0.5	0.8	1.4	1.4
- Iron and Steel Ind.	0.4	0.0	1.1	1.2	7.1
- Non-ferrous Metals Ind.	3.7	2.5	0.9	0.6	1.4
- Metal Products and Machinery	n.a.	0.3	0.8	1.0	2.1
- Electrical Equipment and Products	n.a.	0.1	0.1	0.4	3.3

Source: UN, Yearbook of International Trade Statistics, various issues.

Table A6: Turkey's Exports by Main Sectors, 1963-1983 (Million $)

	Agriculture	%	Mining	%	Industry	%
1965	352	75.9	21	4.5	91	19.6
1970	443	75.2	45	7.7	100	17.1
1975	793	56.6	106	7.5	503	35.9
1980	1672	57.4	191	6.6	1047	36.0
1983	1881	32.8	189	3.3	3658	63.9

Source: UCT, Economic Reports, various issues.

Footnotes

1 A survey on prevailing doctrines and cross-country performance is given in Krueger (1984). The latest study differentiating between "good" policies and "bad" policies has been undertaken by Krueger (1987).

2 See McCormick and Tollison (1981), p. 3.

3 For a survey of these models, see Baldwin (1985) and Quibria (1986).

4 A similar study on interest groups in Turkey has been recently published by Shams (1988). However, his work is not based on theoretical findings on interest group formation and group behavior. Furthermore, he does not explicitly derive the sources of power and interest patterns of pressure groups.

5 For a survey of quantitative analyses for industrialized countries, see Anderson and Baldwin (1981). Estimates for less developed and newly industrializing countries have been made by Alikhani and Havrylyshyn (1982), Amelung (1987), Lee Kiong (1985), Lächler (1986), Pangestu and Boediono (1984), and Tan (1984). However, as these estimations are poor in econometric terms, they do not allow for more than tentative conclusions with respect to the political power of interest groups and "endogenous" government behaviour.

6 The review of Turkey's development history presented below draws on an extensive amount of primary and secondary sources. I will therefore refrain from citing specific references. In general, it can be said that this chapter is partly based on Gülalp (1985) and (1980), Ahmad (1977), Çağlar (1973), Sönmez (1980), Alpar (1974), and Keyder (1987).

7 See Ceylan, Sadi (1985), pp. 143-144.

8 Table A1 in the appendix features growth rates between 1923 and 1983.

9 See Altinkemer (1986), pp. 8-10.

10 However, there had been no doubt that this new party was only tolerated as a loyal opposition rather than as a competitor to the RPP. See Yerasimos (1987), pp. 87-88.

11 See Bener (1968).

12 See Erōgul (1977).

13 For further developments of the Turkish currency, see Table A3 in the appendix, featuring overevaluation and all major devaluations.

14 This reform envisaged distribution of land to landless farmers, improvements in land tenancy and consolidation of badly fragmented small holdings. See Saglam (1972), pp. 156-160.

15 For a detailed presentation of government programs see Öztürk (1968).

16 See Aker (1968), p. 141.

17 Data on the inflationary development from 1957-1984 can be obtained from Table A2 in the appendix.

18 Table A4 in the appendix provides a list of all Turkish governments between 1950 and 1987, which is meant to assist the reader in understanding the fluctuations in Turkish political life.

19 See SPO (1963).

20 See SPO (1967).

21 See SPO (1969).

22 See SPO (1979).

23 A chronological list of all measures applied between 1980 and 1982 can be obtained form Sönmez (1982).

24 For an analysis of the negotiations between the Turkish government and international organizations see Wolff (1987).

25 Rahmi Koç, the chairman of the largest industrial group in Turkey put forward: "Before the 12 September coup we were obliged to do everything under the democratic system. It needed months to take decisions and pass legislations or appointments. Thus, everything was only to be realized in a very complicated way taking a long time, while everything was regarded from the political viewpoint. The difference under military rule is, that since there is no obligation to pass decisions in parliament, it can act very quickly. In addition, even if the military rule does wrong, it can correct that in the short-run, because the military rule has no worry, that it might lose votes and seats. The biggest difference is that given right decisions in time there is a very worth-while saving of time". See Cumhuriyet, 24 January 1982.

26 Table A5 and A6 feature the changes in the Turkish export structure.

27 A system of so-called "negative lists" allows for free importation of all goods that are not explicitly mentioned in the lists. In contrast, a system of "positive lists" prohibits importation of goods not mentioned on the list. See UCT (1984), pp. 190-192. According to the new lists mainly imports of food stuff, textile and furniture are prohibited, as it can be obtained from YKB (1984).

28 See Schick and Tonak (1987).

29 See SPO (1985), pp. 30-32.

30 A broad assessment of the military's business activities in developing countries in general and in Turkey, Guatemala, Indonesia, Egypt and Nigeria in particular is given in South (March 1988), pp. 9-17.

31 The military contingent in the assembly declined from about 15 to 20 percent in the Eighth Assembly (1946-50) to 4 percent in the Tenth Assembly (1954-57). Similarly, the percentage of cabinet ministers with a military background fell from 30 or 35 percent to 15 percent, while there was not a single military figure in the cabinets of the Tenth Assembly. See Frey (1965), pp. 180-83, 280-82.

32 See Özbudun (1966), p. 21.

33 According to a study by Kişlali 11.7 percent of officers were sons of military men, 34.7 percent of civilian bureaucrats, 7.9 percent of industrialists and tradesmen, 5 percent of workers, 13.3 percent of artisans and petty merchants, 14.2 percent of peasants and 12.9 percent of liberal professionals.

34 According to Özbudun (1966), p. 19, tax evasion in commerce and industry was quite common, while peasants and landlords were legally exempted from taxation.

35 Vaner (1987) provides a broader assessment of these cleavages. In his study the two groups are named "Neo-Kemalists" and "Nasserists" in order to terminate their ideological boundaries.

36 See Özbudun (1966), p. 36.

37 See Dodd (1979), p. 145.

38 See Özbudun (1966), p. 34.

39 In October 1960, power was formally returned to an above-party government encompassing high-rank bureaucrats and technocrats. In addition, the composition of the Constitutional Assembly reflected an RPP majority, which altered the military's power. After the 1961 elections government was taken over by a multi-party coalition.

40 See Weiker (1963), pp. 143-146 for a broader discussion of the relationship between the NUC and the peasants.

41 For a more detailed information concerning the industrial and political activities of OYAK see Serozan (1986), p. 53. Since OYAK was given the legal status of a foundation, it is exempted from various kinds of regulation and taxation. An analysis of organizational and legal features of OYAK can be obtained from Aysan and Özmen (1981).

42 See Şaylan (1981), p. 194-195.

43 See Weiker (1981), p. 31.

44 Officially, the decisions on future development strategies had to be determined by a so-called "High Planning Board" (Yüksek Planlama Kurulu). In this institution there was a balance of votes between politicians and bureaucrats, since the former were represented by the Prime Minister and three ministers, while the bureaucrats were represented by the head of the SPO and three chiefs of the departments.

45 See Roos and Roos (1971).

46 See Saylan (1981), p. 196-197.

47 See SPO (1963), First Five Year Development Plan 1963-1967, p. 117: "In view of the foreign exchange difficulties likely to occur during the plan period, importance was attached both to expanding exports and promoting import substitution".

48 See SPO, FFYP, p. 471. At that time, the imports that had priorities with respect to development were put in liberalization lists and their share had been 70% of total imports.

49 Evidence for these political demands can be obtained from the First Five Year Development Plan, pp. 440-443 and 70-92.

50 However, the landlords in Anatolia should not be associated with the "latifundistas" in Latin America. The ownership in Turkey pattern clearly indicates that even the smaller peasants cultivate their own piece of land, so that the position of the landlords in Turkey is due to their political leadership. Further aspects of rural societies in Turkey can be derived from Kiray (1984), Margulies and Yildizoglu (1987), and Tachau (1984), pp. 113-143.

51 Evidence can be obtained from an empirical study on voting behavior by Özbudun (1980).

52 See Dodd (1979), p. 130.

53 The following state agencies served as an instrument of price support: Soil Products Office, Sugar Factories Corporation, Agricultural Sales Cooperatives, Sümerbank, State Monopolies (Manufacturing of tobacco products and alcoholic beverages) and the Agricultural Credit Cooperatives.

54 A broader analysis of the price support mechanism and its inflationary impact is given in Ulusan (1980).

55 See Ulusan (1980), p. 126.

56 External debt amounted to 0.489, 0.557 and 0.610 billion US$ in 1959, 1960 and 1961 (see Statistical Yearbook of Turkey (1963), p. 349).

57 See OEEC (1957), p. 10; OECD (1964), p. 39; OECD (1963), p. 50.

58 See OEEC (1961), p. 32; OECD (1964), p. 39.

59 In fact, the meeting in which this policy advice was to be discussed did not take place, since it was interdicted. See Mumcuoglu (1980), p. 382.

60 See Gümrükçü (1984), p. 454.

61 See Saybaşili (1976), pp. 123-124.

62 See Chap. 2, Section 3 and 4.

63 See Saybaşili (1975), p. 224.

64 See Öncü (1980), p. 466

65 Commercial importers were essential wholesalers who would act as intermediaries by buying goods abroad and distributing them nationally.

66 See Öncü (1980), p. 467.

67 Evidence is available from numerous quotations in bulletins, the Istanbul Chamber of Industry issued those days, for instance ICI (1956).

68 See Alexander (1960), pp. 353-358.

69 This quotation is derived from the UCT's 1964 recommendations regarding the First Five Year Development Plan, as given in UCT (1964), p. 84.

70 See Bener (1968), p. 187.

71 For data sources, see Table 4.3 on page 68.

72 Items on the so-called Liberalization List were freely eligible for importation, as long as the central bank did not experience a severe foreign exchange gap. Items, for which the amount of foreign exchange available for importation had been restricted, were on the Quota List. Goods not enumerated on either lists were not eligible for importation. Further information on the functioning of the quota and licensing system can be obtained from Krueger (1974), chap. 6.

73 The radicalism within the Turkish armed forces is assessed in a study by Vaner (1987), which cannot be given a broader attention in the text.

74 See Vaner (1987), p. 255.

75 Since 1965 there was a close collaboration between the JP and the moderate faction of the military. In addition, shortly after the 12 March coup, Gen. Gürler is said to have telephoned Demirel and told him: "We did not do this against you, Süleyman Bey." (See Vaner (1987) and Ahmad (1977) for evidence).

76 See Heper (1984), p. 79.

77 See Dodd (1979), p. 145.

78 Payasliogˉlu (1978), provides an extended study of the close interlinks between politicians and the SEE.

79 See Saylan (1981), p. 192-193.

80 See World Bank (1975), pp. 196-197.

81 See Dodd (1976), p. 126.

82 Evidence can be obtained from contemporary OECD country reports, for instance OECD (1967), pp. 30-31.

83 The representatives of TÜSIAD argued that "TISK's strategy is unwisely aggravating class antagonism and jeopardizing Turkey's chances of entering the Common Market with a Western-style democracy". (See Bianchi (1984), p. 269).

84 DISK proposed the "Yugoslavian" model of industrialization, while TISK favored a mixed economy encompassing the cooperative, the state and the private sector. Both union federations assigned the state sector the leading role in heavy industrialization. See Gümrükçü (1981), pp. 464-466.

85 See Alexander (1960), pp. 353-358.

86 See Barkey (1984a), Chapter 6 and 7.

87 The major parts of this program have been partly reprinted in Eskişehir Sanayi Odasi (1981).

88 See also Gevgilili (1973), pp. 180-184.

89 See Barkey (1984b), pp. 55-56.

90 The Izmir Chamber of Industry publicly denounced Erbakan and refused to recognize his presidency.

91 See Bianchi (1984), p. 256.

92 See UCT Minutes (4/15/1970).

93 The need for policy changes was stressed by Demirel in a speech he gave upon a visit of the Istanbul Chamber of Commerce, as it is given in the END published by the UCT (1970).

94 See Saybaşili (1976b).

95 See Bianchi (1984), p. 257.

96 In 1969 the Chambers of Industry had already managed to create the Turkish Organization of Cooperating Chambers of Industry (Türkiye Sanagi Odalari Işbirligi Teşkilati), which, however, proved to be short-lived.

97 See Vaner (1987), p. 255.

98 See Table 3.3 on page 55 for data on the distribution of import shares between the public and the private sector.

99 This fragmentation weakened the polarization into radicals and moderates. Officers alloted their respective inclinations among almost all existing parties. The moderates distinguished into a left wing sympathizing with the new line of the RPP, and a right wing close to the JP, the DP, the Republican Reliance Party (RRP). The NMP collaborated with the military radicalism on the right. Even Erbakan's NSP nominated its own military candidates for the elections of 1973 and 1977. A broader analysis of intra-military conflicts is given in Vaner (1987).

100 In fact, the military was concerned about the cleavages. Communiqué 6, addressed by General Evren on 12 September, called upon all soldiers to respect the hierarchy. However, the respect for military hierarchy was never explicitly challenged.

101 The interests of large industrialists will be discussed in Section 5.1.6. Meanwhile OYAK had boasted partnerships in widely varying sectors including the automotive (OYAK-Renault, MAIS A.S.), cement, petrochemicals (Petkim, Yasaş), construction (OYAK-Kutlutaş), food (Pinar, Eti), electronics industries (AES), as well as insurance, tourism and agriculture (Hektaş).

102 See Şaylan (1981), p. 192-193.

103 See Heper (1984), p. 76.

104 Internal political problems are discussed in Aysan and Özmen (1981).

105 See Heper (1984), p. 76.

106 See Şaylan (1981), p. 193.

107 Initially, the military chose to take action only against those civil servants who were blamed for administrative wrongdoings or a punishable offense. During the first week of the regime only the extremist governors and mayors were replaced by more moderate bureaucrats or retired officers. Between September 12, 1980 and September 12, 1981, a total of 18000 civil servants received administrative or penal punishments. The next step was to retire as many civil servants as possible (see Heper (1984), pp. 66-67).

108 See Sections 3.1.2 and 4.1.2 for evidence on the bureaucrats' general interest in ISI.

109 Evidence can be obtained from Heper (1984), p. 80. Similarly, the decision to join the EC was really made by three bureaucrats. In fact, this shows a lack of predicatability in the behavior of the civil bureaucracy in Turkey. Not only are rules ununiformly applied, but they change frequently, since critical decisions have not been the result of organizational processes but the work of a few bureaucrats. This characteristic of bureaucracy, which carries the flavor of the Ottoman empire, is considered to be a Turkish phenomenon. Thereby, the high-ranking bureaucrats become politicians exposing themselves to struggles with the local bureaucracies and the management of SEEs. As Dodd (1979), p. 140, correctly mentions, this may be due to the conscious adaption of French patterns in public administration. For field research on these dynamics of the Turkish bureaucracy see Roos and Roos (1971).

110 See Şen (1979b), p. 91 and Şen (1979a), pp. 12-13.

111 Özbudun (1980) provides a study on vote-shifting in the rural sector.

112 See Wolff (1987), pp. 68-76.

113 Further information on the DCFE can be obtained from Schick and Tonak (1987).

114 For a more detailed discussion of the debt crisis see Wolff (1987) and Schick and Tonak (1987).

115 For instance project credits, that were derived from the World Bank and allocated by the Industrialist Development Bank of Turkey, required "certificates of promotion" as well as 150 percent collateral on all loans, both of which only holding companies were able to provide. See Öncü (1980), p. 474.

116 As a result of this accpetance TÜSIAD was entitled to join the official meetings between government and private sector representatives (see Saybaşili (1976b)).

117 Data are derived from UCT Minutes (2/18/1981).

118 See Barkey (1984a), p. 149.

119 These complaints were made public in Cumhuriyet (June 6, 1973) by officials of the Izmir Chamber of Commerce.

120 These lines of argumentation are taken from articles in magazines, such as Ertan (1973) and Küçük (1973).

121 See Eskişehir Sanayi Odasi (1981), pp. 232-236.

122 See UCT (1978), pp. 75-76

123 See World Bank (1975).

124 See Eskişehir Sanayi Odasi (1981), p. 234.

125 See SOB (1976), pp. 26-28.

126 See Minutes (16.11.1977): "We created an industry that gulps down foreign exchange".

127 See Minutes (19.1.1977): "Turkish industry has reached its retrenchment stage. The main cause is importation. Imports stand in opposition to industry. Chambers of commerce will not defend industry, they are for imports".

128 See Kamhi (1980), pp. 98-100.

129 See also Barkey (1984a), p. 158.

130 The other parties favored by business groups were the following: the fashist National Action Party, the Republican Reliance Party, the Democratic Party and the Turkish Union Party.

131 See Kurdas (1975), p. 28.

132 See Barkey (1984a), p. 193.

133 Ibrahim Bodur, head of the General Council of the Istanbul Chamber of Industry and generally a pro-JP businessman, officially declared that they did not consider the government serious enough to have a dialogue with". See Cumhuriyet, October 20, 1977.

134 See TÜSIAD (1978), p. 9.

135 See Eskişehir Sanayi Odasi (1981), pp. 316-317.

136 See, for instance, Cumhuriyet, May 16, 1979: "The only way to produce a great deal and achieve a state of welfare is to create incentives for a person in a system of competition. With mandatory measures production cannot be increased. Only the economic structure will get spoiled. Eventually the regime will be transformed".

137 In fact, there was a competition among businessmen with respect to donations. The respective foundations, for instance, the Foundation for Strengthening the Air Force (Hava Kuvvetleri Güçlendirme Vakfi), had been set up to foster the modernization of the Turkish military.

138 The results of these questionaires on capacity utilization are presented in the Economic Reports published annually by the UCT.

139 Evidence on the supporters of the RPP can be obtained from Samim (1987).

140 The NAP and its supporters have been broadly analyzed by Agaogullari (1987). A similar study on the religious right, as it was organized in the NSP, has been done by Toprak (1987).

141 Nevertheless, the support for the military was initially general. This became evident in the constitutional election in 1982, when about 93 percent of the population approved the new constitution and confirmed Evren as President of the Republic.

142 After the transition to democracy in 1983 the landed groups successfully lobbied against some measures of the land reform.

143 In Cumhurriyet it was reported that OYAK initially suffered serious losses due to the breakdown of the domestic market and the abolition of prohibitive protection. The military-owned automobile producer OYAK-Renault was even forced to export at losses in order to survive this transitional period.

144 The conflict between TÜSIAD and Özal erupted politically, when Güney Sanayi, one of the leading textile producers, had to declare bankruptcy. As it can be obtained from daily newspapers, TÜSIAD and the military supported ideas of rescuing the conglomerate through state intervention.

145 Evidence on the EBF's source of revenues, administration, projected and actual revenues can be obtained from the Resmi Gazete (Official Gazette), which has recorded the establishment of more than 50 EBFs since 1980.

146 Applications of the marxist approaches partly are surveyed by Sellin and Töpper (1981) and Simonis (1981).

147 Kaufman (1979) has shown convincingly that a broad range of different coalitions supported early industrialization efforts in Latin America.

148 For game theoretical applications to protectionism see Magee and Brock (1982).

149 Haggard (1986a) provides similarities and differences with respect to economic policy in Latin America and East Asia. For a more detailed discussion of the East Asian cases see Haggard (1986b).

150 According to Hillman (1982) senescent industries in industrialized countries face an environment, in which efficient lobbying can only retard but not stop gradual decline.

151 North (1979) provdes a broader discussion on the formation of property rights in economic history.

152 See Haggard (1986a).

153 For original statements see Hirschman (1971). More recent quotations for the case of Turkey are available in Barkey (1984).

154 See O'Donnel (1979) and Kaufman (1979) for a broader treatment of the deepening process and authoritarian states.

155 See Lal (1987) for an elaboration of this subject.

156 The present election code, which was put into effect in 1983 under military rule and amended by the Özal government in 1987, provides high barriers to represenation in parliament. Political parties face thresholds of 10 percent of total votes at the national level. In addition, there is an even more restrictive threshold at the local level, which is 20, 25, 33 or even 50 percent depending on the number of seats, which a province has in parliament. In practice, a relative majority of 36 percent is sufficient to represent the majority of seats in the assembly.

157 However, it has to be noted that interest group pressure may also limit future tariff reductions. Furthermore, this system has a built-in-tendency to be extended to other import items. Since some funds participate in tax revenues, the equivalent should apply to the determination of tax rates.

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