

**INSTITUTIONAL CHANGE AND CONTINUITY IN TURKISH CAPITALISM
AND STATE-BUSINESS RELATIONS IN HISTORICAL PERSPECTIVE**

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Abstract

The aim of this thesis is to analyze the different Turkish models of capitalism. Since the foundation of Turkish Republic in 1923, there have been three different models of capitalism in Turkey: The state-led model between 1923-1980, the neoliberal model between 1980-2002 and the AKP model that has been continuing since 2002.

This thesis argues that, in Turkey, the different models of capitalism have influenced both the economic institutions and the relation between the government and the business groups. Under these different models, the influence of the state on the economic management has never disappeared, yet, it transformed. So, using Vivien Schmidt's concepts of state-led and state-enhanced capitalism, this thesis argues that, the model of capitalism in Turkey between the years 1923-1980 was state-led capitalism, in which state involved in the economic management directly. So, the institutions of the model were aiming to protect the state control over the economy. However, with the implementation of the neoliberalization program in 1980, the state intervention on the economy has transformed into indirect influence, in which economic institutions were liberalized to some extent, but the influence of the state has never disappeared. Especially under the AKP model of capitalism, the governing party controlled the economic institutions by putting them under the authority of the Prime Ministry.

Furthermore, the role of the state on the economic management also influenced the state-business relations. Even though creating a national bourgeoisie has always been a state project of the Turkish Republic, since under different governments different groups of business firms were encouraged, a polarization between secular and religious businessmen has emerged.

By following a historical approach, this thesis seeks to explain the dynamics of the state intervention on the economic management. For this aim, the institutional changes and the state-business relations in these three different models of capitalism have been analyzed under three successive chapters.

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List of Abbreviations

AKP- Justice and Development Party

ANAP- Motherland Party

AP-Justice Party

ASKON- Anatolian Businessmen Association

CHP-Republican People's Party

CME- Coordinated Market Economy

DP-Democrat Party

DPT-State Planning Organization

FDI-Foreign Direct Investment

IMF- International Monetary Fund

ISI- Import-Substitution-Industrialization

LME-Liberal Market Economy

MNCs-Multi-National Corporations

MUSIAD- Independent Industrialists' and Businessmen's Association

OYAK- Army Mutual Assistance Association

SEEs-State Economic Enterprises

SMEs-Small-medium Enterprises

TMSF- Savings Deposit and Insurance Fund

TOBB- Turkish Union of Chambers and Commodity Exchanges

TUSIAD- Turkish Industry and Business Association

TUSKON- Turkish Confederation of Businessmen and Industrialists

USA- United States of America

USSR- Union of Soviet Socialist Republics

VoC- Varieties of Capitalism

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Introduction

In Turkey, the instable nature of politics has influenced the economy since the foundation of the Turkish Republic in 1923, and resulted in the emergence of three major economic models: The state-led model between 1923-1980, the neoliberal model between 1980-2002 and the Justice and Development Party (AKP) model which was introduced in 2002 and continues to date. The institutional structure and the relations between the governments and the business groups vary in these three periods, and the main aim of this thesis is to analyze the change and continuity in economic institutions of Turkey under the three different economic models and also the changing nature of government-business relations, in a historical perspective.

When the Turkish Republic was founded in 1923, it was already carrying the burden of the Ottoman Empire's economic problems, namely the dependency on the West and the debts of the collapsed Empire. These problems required the newly established state to take over the economy and be the main actor. That is why the etatist economic model and the dominance of State Economic Enterprises in the economy marked the first decades of the Republic under the Republican People's Party (CHP) government. Even though the Democrat Party (DP) government, which followed CHP, tried to liberalize the economy through agriculture-led development and privatizing State Economic Enterprises (SEEs), lack of necessary infrastructure prevented it, and state influence on the economy had also continued under the DP governments. After the coup d'état that overthrown the DP government, an Import-Substitution-Industrialization (ISI) strategy was implemented, in which the state substituted foreign goods for domestic goods. In the ISI period, the statist legacy on the economy continued with the establishment of the State Planning Organization (DPT) and the implementation of Five-Year Plans.

The year 1980 was a significant milestone for the Turkish economy, since on January 24 of the year, with the implementation of the neoliberalization program, the Turkish economic model transformed from the import-substitution to the export-led model. Even though neoliberal principles such as deregulation, competition and liberalization of foreign capital were implemented, the state did not completely withdraw from the economy in the neoliberal period, but started influencing economic management indirectly through rent distribution and rule by decrees.

Finally, in 2002, when AKP came to power, the successive AKP governments consolidated power of the governing party on the economy, through reducing the independence of regulatory authorities and linking them to the Prime Ministry. The Turkish state, even though it has been implementing neoliberal policies since the early 1980s, has never retreated from the economic management. Instead, the role of the state has transformed from leading the economy to enhancing it. Another characteristic of the AKP period was increasing crony capitalism, which was re-enforced with the increasing dependence of the regulatory authorities on the government party. So, under successive AKP governments, the indirect influence of the state on economic management was rather turned into a model of crony capitalism where the condition of doing business was to have good relations with the government party.

Thelen argues that, “as the world around institutions shifts, their survival depends on their active, ongoing adaptation to the social, political and the market context in which they are embedded.”¹ In all three different periods, political and economic institutions had to adapt to the changes in order to survive. And, in Turkey, institutional change regarding the economic institutions occurred as displacement and convergence, which means that even though institutional structure did not change significantly, and continued to be the protector of state influence on the economic management, the groups that the institutions served changed. While the implementation of the neoliberalization program and transformation to the neoliberal model

¹ Kathleen Thelen, “Varieties of Capitalism: Trajectories of Liberalization and the New Politics of Social Solidarity,” *The Annual Review of Political Science*, 2012, p. 139.

of capitalism resulted in institutional displacement together with institutional convergence, transformation to the AKP model of capitalism only resulted in institutional convergence. Furthermore, even though economic models were different in the three periods, the state influence, in any of the periods, could not play a supportive role in the economic management, since the state lacked a stable institutional structure in favor of the business. Rather, the Turkish state increased uncertainties in the economy. Since the state intervention in to the economy never had definite limits and the scope of the intervention was never predicted, different business groups felt the need to be organized to protect themselves against the fear of uncertainties.

Aside from the economic institutions, another change related to the difference of economic models was the change in the state-business relations. Since the foundation of the Turkish Republic, creating a national bourgeoisie was a part of the project of a strong national economy. For this aim, different governments protected different groups of businessmen, in line with their interests and political views. Hence, today, we have two groups of business people in Turkey: Religious business people that gather under TUSIAD, and Muslim business people that use Islamic capital and gather under three major organizations: MUSIAD, ASKON and TUSKON. The economic instabilities made these business people coordinate their activities under business organizations in order to protect themselves against uncertainties. Even though the goal of the TUSIAD, which was founded in the 1970s was to counteract the uncertainties in the economy and it was independent from political influence, the Muslim business groups were founded, they were influenced by the state policies, as the Islamic political parties gained influence in the governments.

The literature on the institutional change in advanced capitalist economies argues overwhelmingly that change has occurred as liberalization, which means that some kind of convergence towards the liberal model of capitalism has occurred. We have, however, very little understanding of the processes and direction of institutional change in late-industrializing countries. Hence, this thesis will contribute to the literature on capitalism in late-industrializing

countries. As the state in Turkey, which is a late-industrializing country, exhibits erratic state behavior that causes uncertainty in the economic sphere and nurtures the uncertainty with ad-hoc institutional changes, the need to create protective business organizations for business groups has emerged. Yet, as the business environment in Turkey has two different groups of businessmen, who are gathered under different business organizations, different types of relations occurred between state and those business groups.

This thesis seeks to address the question of how the state intervention affected the institutional structure of the Turkish economy and the state-business relations, resulting in the three Turkish models of capitalism. For this aim, a historical approach will be followed to analyze the Turkish capitalism until August 10, 2014².

Hence, in the first chapter, I do literature review on institutional change and Turkey's position in comparative capitalism literature. In the second chapter, I analyze the state-led model of capitalism from the foundation of the Turkish Republic to the neoliberalization program of 1980 and I argue that the main motivations behind state-led capitalism was to create a Turkish bourgeoisie and to adapt to the changing world order. In the third chapter, I argue that the neoliberal era can be explained through the model of state-enhanced capitalism, in which the state did not retreat completely, and continued to influence the economy indirectly. Finally, in the fourth chapter, I explain the main features of the AKP model of capitalism and what distinguishes it from before. I argue that that even though under the AKP era the role of the state has increased compared to the rest of neoliberal period, but rather than undertaking economic activities, by holding regulatory authorities liable to the Prime Ministry, the party created a model of crony capitalism under the state-enhanced capitalism of the Turkish neoliberal era.

² August 10, 2014 is the date of Presidential Election in Turkey where Recep Tayyip Erdogan, the party leader of AKP became President of Turkish Republic. Since the major institutional changes under AKP governments were implemented during his prime ministry and since the effect of the current changes cannot be observed yet, limiting the research to AKP governments under Erdogan's prime ministry would give us a broad understanding of the institutional change in AKP era.

Chapter 1. Literature Review

1.1. The Literature On Institutional Change

Streeck and Thelen define institutions as “building blocks of social order [...that...] represent socially sanctioned, that is, collectively enforced expectations with respect to the behavior of specific categories of actors or to the performance of certain activities.”³ Institutions, by defining what is ‘right’ and what is ‘wrong’ shape and organize the behaviors of actors. Accordingly, the institutional change occurs generally towards the direction of the expectations regarding the behaviors of the actors. The major role of institutions in a society is, as Douglas North explains, “to reduce uncertainty by establishing a stable (but not necessarily efficient) structure to human interaction”⁴ and “by providing a structure to everyday life.”⁵ Hence, the well-established institutions should decrease the uncertainty and provide a secure environment for actors.

Institutions show variation in different countries, and one key stream that focuses on this is the comparative capitalism literature. The literature focuses on the economic governments, organizational differences and the interactions of institutions in different societies. How politics interacts with the markets and institutions is the basic question of the approach. The most prominent comparative capitalism school is the ‘Varieties of Capitalism’ (VoC) of Peter Hall and David Soskice. Hall and Soskice, by focusing on five spheres⁶ in advanced economies, created two distinct types of economies in the capitalist system: Liberal Market Economy (LME) and

³ Wolfgang Streeck and Kathleen Thelen, “Introduction: Institutional Change in Advanced Political Economies,” in *Beyond Continuity: Institutional Change in Advanced Political Economies* (Oxford: Oxford University Press, 2005), 1–39., p. 9.

⁴ Douglas C. North, “An Introduction to Institutions and Institutional Change,” in *Institutions, Institutional Change and Economic Performance* (United States of America: Oxford University Press, 1990), 3–11., p. 6.

⁵ Ibid., p. 3.

⁶ Industrial relations, vocational training and education, corporate governance, inter-firm relations and relations with employees

Coordinated Market Economy (CME).⁷ In LMEs (such as the USA and the UK), “firms coordinate their activities primarily via hierarchies and competitive market arrangements,”⁸ whereas in CMEs (such as Germany), “firms depend more heavily on nonmarket relationships to coordinate their endeavors with other actors and to construct their core competencies.”⁹ In both groups of countries, the strategic interactions and complementarities of the institutions create institutional stability. And, for actors that are affected by the institutions, the institutional stability results in relatively consistent behavioral patterns and strategies.¹⁰ It means that the lack of institutional stability in a country results in inconsistent and ad-hoc behaviors, and this inconsistency creates the need for protection from the instability of institutional structure.

Since VoC focuses only on advanced economies, including the emerging market economies has broadened the focus of the comparative capitalism literature. The common point of the emerging market economies is that they lack well-established industries, contrary to advanced capitalist economies. This lack creates the dependence on the foreign capital and the know-how to create a functioning economy, which finds its response in the comparative capitalism literature also. Furthermore, emerging market economies have different coordination mechanisms than advanced economies. For instance, to describe Latin American countries, Schneider developed the concept of Hierarchical Market Economies, which is characterized by “diversified business groups, multinational corporations (MNCs), low-skilled labor, and atomistic labor relations.”¹¹ Extending the approach to East Central Europe, Nölke and Vliegenthart introduced Dependent Market Economies to the literature, which have “comparative advantage in the assembly and production of goods based on institutional complementarities between

⁷ Peter A. Hall and David Soskice, *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage* (United States: Oxford University Press, 2001).

⁸ Peter A. Hall and David Soskice, *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage* (United States: Oxford University Press, 2001), p. 8.

⁹ *Ibid.*, p. 8.

¹⁰ Cornelia Storz et al., “Bringing Asia into the Comparative Capitalism Perspective,” *Socio-Economic Review*, 2013, p. 222.

¹¹ Ben Ross Schneider, “Hierarchical Market Economies and Varieties of Capitalism in Latin America,” *Journal of Latin American Studies* 41 (2009): 553–75., p. 553.

skilled, but cheap, labor; the transfer of technological innovations within transnational enterprises; and the provision of capital via foreign direct investment (FDI).”¹²

Furthermore, Vivien Schmidt noted the changing nature of European political economies and argued that political economists responded to the change by “ [f]irst taking labor out of the equation, then bringing the state back in only to devalue it in light of globalization and Europeanization before putting the firm front and center. Only recently has the state been brought back in yet again while labor has made a comeback.”¹³ Finally, Bruno Amable came with a different set of five models of capitalism: “the market-based model; the social-democratic model; the Continental European model; the Mediterranean model; and the Asian model.”¹⁴ The main aim of those extensions was to cover the countries and models of capitalism that LME/CME classification did not cover.

The comparative capitalism literature sees the direction of the change in developed countries as a tendency towards liberalization¹⁵ and provides solid empirical support for the argument, such as: “efforts to decentralize collective bargaining, neutralize unions, dismantle tripartism, privatize industry, cut back social benefits, reduce unemployment protection, promote equity investments, encourage part-time employment and lower minimum wages.”¹⁶ However, there are also other types of changes. For example, in the case of France, the state has always been a major actor in economic management, even though its role has changed. Schmidt draws the distinction between France and LME/CME countries arguing that:

While traditionally market capitalist countries such as Britain have moved towards more intensified market capitalism and traditionally managed capitalist countries such as Germany towards more competitive managed capitalism,

¹² Andreas Nölke and Arjan Vliegenthart, “Enlarging the Varieties of Capitalism: The Emergence of Dependent Market Economies in East Central Europe,” *World Politics* 61, no. 04 (October 2009): 670–702., p. 672.

¹³ Vivien A. Schmidt, “Changes in Comparative Political Economy: Taking Labour Out, Bringing the State Back In, Putting the Firm Front and Center” (European Studies Association Meetings, Montreal, 2007)., p. 1.

¹⁴ Bruno Amable, *The Diversity of Modern Capitalism* (New York: Oxford University Press, 2003)., p. 14.

¹⁵ See Streeck, 2008; Glyn, 2006; Howell, 2003; Coates, 2005.

¹⁶ Peter A. Hall and Kathleen Thelen, “Institutional Change in Varieties of Capitalism,” *Socio-Economic Review* 7 (2009): 7–34., p. 22.

traditionally state capitalist countries such as France have gone from ‘state-led’ to ‘state-enhanced’ capitalism.¹⁷

Yet, in the emerging market economies, the role of the state in the economy and also the hierarchical structure of the economy create obstacles against liberalization, which results in crony relations between the state and the firms.

Another major limitation of VoC is that it fails to take the role of politics into account, as several scholars pointed out, arguing that the firm-based approach of VoC cannot reflect the institutional change properly. For instance, Amable and Palombarini put their critique as, “firm-based approach of the Varieties of Capitalism literature cannot satisfactorily integrate the political aspects of institutional change.”¹⁸ Focusing on firms cannot give us any understanding about the political change that results in the institutional change. Hence, “[c]omparative political economy of capitalism requires that a link be made between institutional and political equilibriums and therefore between institutional and political change.”¹⁹ With the fixed LME/ CME dichotomy and only focusing on firm behavior, VoC literature does not draw on the link between politics and economy since it does not consider the effect of political change on firm behavior and institutional structure. The firm-based approach does not reflect the institutional change. In light of this, in countries that politics influences firm behavior, such as Turkey, firm based approach alone is not appropriate to explain the institutional change. Furthermore, Crouch argues that, “[t]hey [Dichotomies such as LME/CME] ignore any impact of change in the world economy and make no allowance for evolutionary development.”²⁰

Even one country can display different capitalist models in different periods. In her article about French capitalism, Vivien Schmidt describes the French model by dividing it into two phases: state-led capitalism and state-enhanced capitalism. While in state-led capitalism

¹⁷ Vivien A. Schmidt, “French Capitalism Transformed, yet Still a Third Variety of Capitalism,” *Economy and Society* 32, no. 4 (November 2003): 526–54., p. 527.

¹⁸ Bruno Amable and Stefano Palombarini, “A Neorealist Approach to Institutional Change and the Diversity of Capitalism,” *Socio-Economic Review*, 2009, 123–43., p. 123.

¹⁹ *Ibid.*, p. 124.

²⁰ Colin Crouch, “Models of Capitalism,” *New Political Economy* 10, no. 4 (December 2005): 439–56., p. 444.

the “[s]tate sought to direct economic activities through planning, industrial policy and state-owned enterprises”²¹ and also continued to implement rules in favor of business; in state-enhanced capitalism, state did not influence the economy directly. Rather, ‘state-enhanced capitalism’ refers to the capitalism in which “the state, having played a highly directive role in the past, continues to exercise significant albeit less direct influence”.²²

There are two types of institutional change. Change in the institutions of a country can either be gradual or abrupt. In abrupt change, critical juncture, which is described as “crucial founding moments of institutional formation that send countries along broadly different developmental paths,”²³ is the moment that causes the change. So, the abrupt institutional change leads to a different path of development. Yet, there are five models of gradual institutional change: conversion, layering, exhaustion, drift and displacement.

This thesis argues that in the Turkish economic institutions, institutional change happened through displacement and conversion. Institutional displacement happens “as new models emerge and diffuse which call into question existing, previously taken-for-granted organizational forms and practices.”²⁴ Hence, institutional displacement creates hybrid forms of institutions. And, in the case of institutional conversion, “existing institutions are adapted to serve new goals or fit the interests of new actors.”²⁵ Regarding the institutional change in Turkey, some of the institutional changes did not remove previous institutions; rather, they changed the nature of the institutions, and transformed them in order to save to the new actors, mainly to the new governments, which have direct or indirect control over institutions.

The next sub-chapter of the literature review will discuss Turkey’s positioning in the comparative capitalism literature. Since in Turkey, the state never retreated from economic management, it is essential to analyze the role of the state in order to understand the Turkish

²¹ Ibid., p. 529.

²² Ibid., p. 527.

²³ Kathleen Thelen, “Historical Institutionalism in Comparative Politics,” *Annual Review of Political Science* 2 (1999): 369–404., p. 387.

²⁴ Streeck and Thelen, “Introduction: Institutional Change in Advanced Political Economies.”, p. 19.

²⁵ Ibid., p. 27.

model of capitalism. However, while analyzing Turkey, it is important to remember is that the Turkish state, rather than providing a stable institutional structure to economy, increased uncertainties in economic management, which required firms to build their own protective organizations.

1.2. Turkey in the Comparative Capitalism Literature

Turkey is briefly mentioned in the original VoC framework as ‘Mediterranean Market Economy’, together with France, Italy, Spain, Portugal and Greece. Mediterranean Market Economy is a type of capitalism which is “marked by a large agrarian sector and recent histories of extensive state intervention that have left them with specific kind of capacities for non-market coordination in the sphere of corporate finance but more liberal arrangements in the sphere of labor relations.”²⁶ However, the main problem of the VoC’s classification of Mediterranean Market Economy is that, it does not take into account country-specific characteristics of Mediterranean countries.

In the case of Turkey, its classification under the Mediterranean Market Economy category excludes a very important characteristic of Turkish economy: the rise of the Islamic capital²⁷, in the second half of 20th century. Even though creating a Turkish bourgeoisie had been a state project since the foundation of the Turkish Republic, the rise of the Muslim bourgeoisie in the country as an alternative to the Republican bourgeoisie created a polarized environment in the Turkish business world. The Islamic capital especially gained significant power after 2002, when the first AKP government was elected. Under the successive AKP governments, the corporatist relations between the Muslim bourgeoisie and the governing party, which are also reflected in the economic institutions in the country, shaped the economic management under successive AKP governments.

²⁶ Hall and Soskice, *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*., p. 21.

²⁷ Capital that is acquired through methods in accordance with Islamic principles, such as interest-free banking

Furthermore, classifying Turkey as a Mediterranean Market Economy (even though the classification does not include AKP era, since Hall and Soskice wrote their seminal book on VoC in 2001) misses the important differences between the state-led era and the neoliberal era of Turkish economic management. In order to point this difference out, the state-led and state-enhanced models of capitalisms that Schmidt describes will provide this thesis with a theoretical framework to describe the Turkish model of capitalism. In the Turkish model, unlike the liberalization arguments of the various scholars of the comparative capitalism literature suggests, the role of the state exhibits a continuity rather than change, even after the implementation of the neoliberalization program. In the statist era of Turkish economy, the role of the state has been leadership to the economic management. Hence, state-led model of capitalism dominated the economy, and state was one of the major actors of economic management, even though there were some deviations from time to time. Between 1923 and 1980, different economic strategies were implemented to economic management: namely, etatism and import-substitution-industrialization. However, the state always had direct influence on the economy.

In the Turkish context, unlike North's definition of the institutions' role suggests, the institutions cannot provide a stable structure to economy. The behavior of Turkish state is named by Oktem and Tulun as "erratic state behavior" which is explained as: "Despite the presence of an institutionalized setting, the unpredictable behavior of the state in the economic sphere causes the increase of uncertainty in the economic sphere."²⁸ Moreover, "the state sets the rules of the game for the market to operate, and bends these very rules from time to time."²⁹ Under these conditions, Turkey, as a late industrializing country, required business organizations to provide protection to its members and reduce the risk of the markets. The lack of stability in the institutional structure is the reason and the unpredictability of the indirect state intervention

²⁸ Teoman Ertugrul Tulun and Kerem Gabriel Öktem, "Uncertainty- Turkey and the Varieties of Capitalism" (4th ECPR Graduate Conference, Jacobs University, Bremen, 2012)., p. 27.

²⁹ Ibid., p. 25.

to economy created the need for business groups to be organized in order to protect themselves against the fear of the uncertainties in institutional structure. Senses argues that

[t]here is a delicate balance between the role of free markets and government intervention. In a semi-industrialized country, the role of the state cannot be confined to regulation. It must also play a role in generating structural change by encouraging industrialization, taking initiatives in health and education, and reducing inequality through distributive policies.³⁰

Since Turkey is a late-industrializing country, for a long time after the foundation of the Turkish Republic, there has been scarcity of both the entrepreneurial resources and the capital. State was not able to provide a stable and trustworthy business environment, even though it was the major actor in the economy. When Turkey finished its industrialization process, due to continuing political instabilities, business groups' need to be organized has continued. Bugra and Savaskan evaluate the emergence and influence of different business organizations in Turkey as a result of being a late-industrializing country. They argued that "Like similar organizational forms found in other late industrializing countries, they [business organizations] appeared as viable institutional responses to the absence of organized capital markets as well as the significant risk and uncertainty that characterized these economies."³¹ However, as the state intervention and economic models change, different business organizations emerged. As the ideology of the business groups were the determinant of their influence in different governments, and as their ideology overlap with the government ideology, they became more influential.

The increasing influence of the Islamic capital was very effective in emergence of polarization of the business groups. Today, three business organizations, namely, MUSIAD, ASKON and TUSKON have Muslim bourgeoisie as their member base. Moreover, their influence in the economy has increased significantly, especially under AKP governments, as a result of the crony relations between them and the AKP governments. These three business

³⁰ Fikret Senses, "Turkey's Experience with Neoliberal Policies Since 1980 in Retrospect and Prospect," in *The Making of Neoliberal Turkey* (Routledge, 2016), 15–32., p. 28.

³¹ Ayse Bugra and Osman Savaskan, *New Capitalism in Turkey: The Relationship between Politics, Religion and Business* (Glos: Edward Elgar Publishing, 2014)., p. 36.

organizations have become important rivals to TUSIAD, which was the most influential business organization since the 1990s. Even though TUSIAD still has the most important and well-established conglomerates of Turkey as its members, influence of Islamic business organizations has been increasing significantly, as a result of the uncertain institutional structure of the Turkish economy.

In Table 1 below, the main characteristics of the three different capitalist models in Turkey is briefly described. In the second chapter of this thesis, the state-led era of Turkish capitalism is analyzed. Between the years 1923-1980, the government was directly influential in the economic management of Turkey, and state investments dominated the economy. Following Schmidt's argument, third chapter describes the model of capitalism in Turkey after neoliberalization as 'state-enhanced capitalism'. After January 24, 1980 decisions, the role of the state has been transformed from leadership to 'enhancing' role. However, unlike the French model, in Turkey both the direct and indirect influence of state on the economic management created instability, as a result of the 'erratic behavior' of the state. Even though the direct influence of state has decreased after neoliberalization, the indirect influence has not. On the contrary, state influence on the economic management has always remained important. In this period, Islamic capital had gained significance. As it is analyzed in the fourth chapter, in the AKP model of Turkish capitalism, 'state-enhanced capitalism' showed continuity. However, in the AKP era, the role of Islamic capital - and with it the corporatist relations between the state and the Muslim bourgeoisie that used the Islamic capital as investment - has increased more than ever, creating a polarization between Republican and Muslim business groups. So, in this thesis, the AKP model of capitalism is described as state-enhanced capitalism combined with the characteristics of crony capitalism. As explained in the related chapters, the Turkish model of state-enhanced capitalism draws a slightly different picture than the original version that Schmidt uses to explain the French model. In the Turkish model, even though the state was not a major

actor in economic management after the neoliberalization program, the crony capitalism increased the state involvement in the economy to a significant extent.

	1923 - 1980 (State-led capitalism)	1980 - 2002 (Neoliberal capitalism)	2002 – 2014 (AKP model of capitalism)
<i>Government role</i>			
Policies towards business	Interventionist and enabling	More liberal and enhancing	Crony capitalism, direct influence on economy, enhancing
<i>Business relations</i>			
Inter-firm relations	Co-operative, state-led	Competitive, networked relations	Competitive, networked relations, polarization between different vested interests
Investment sources	Mostly state investment	Foreign capital and Islamic capital	Foreign capital and increasing importance of Islamic capital

Table 1: Turkish Models of Capitalism, Continuities and Changes, 1923 to 2014

Chapter 2. Models of Capitalism in Turkey Before the Neoliberalization Program: 1923-1980

The first phase of capitalism in Turkey is the period between 1923 and 1980, which can also be named as ‘state-led capitalism’. Between the beginning of 20th century and the foundation of the Turkish Republic, the Ottoman Empire, which was predecessor of the republic, had been through different wars (Balkan Wars, World War I and War of Independence). These wars affected the economy of the newly founded Turkish Republic in a way that led the country to a national and state-led economy that is closed to the external influences, since the republic did not want to be dependent on the Western economic powers, as Ottoman Empire did in its last years.

When the Turkish Republic was first founded in 1923, it was already carrying the burden of the Ottoman Empire. The last years of the Ottoman Empire, which was the predecessor of

the republic, was dominated by the dependence on European powers, which created a negative perception of the involvement of Western Powers in the economy. Together with this negative attitude towards Europe, the post-war economic conditions in the years following the foundation of the Turkish Republic led the Republican People's Party (CHP), which was the founding party of the Turkish Republic, to implement a statist economic model in which the economic management was directly controlled by the state and closed to Western influence. Pamuk explains the effects of the successive wars on country's economy as:

Agriculture, industry and mining were all affected adversely by the loss of human lives and by the deterioration and destruction of equipment, draft animals and plants during the war years. GDP per capita in 1923 was approximately 40 percent below its 1914 levels.³²

Even though under DP governments the role of the private sector had increased, state was still the main actor of economic management. The state-led model of capitalism in Turkey was marked by “a protectionist international trade policy, extensive price controls, and an important role assigned to SEE's as the engine of industrial growth.”³³ Hence, under the state management of economy, economic sphere was more stable compared to the neoliberal era. The main aim of the state-led model was to strengthen the Turkish national economy. Moreover, creating a national bourgeoisie was also a part of the same project. This chapter will explain the different models of state-led capitalism in Turkey until 1980, neoliberalization program, and analyze the state-business relations in the period.

2. 1. Varieties of State-Led Economy in Turkey

The state influence on economy has been a constant factor in Turkey since the foundation of the republic. However, until 1980, state was one of the main actors in economy, and had direct influence on economic decisions, and enabled a functioning economy.

³² Sevkett Pamuk, “Economic Growth and Institutional Change in Turkey Before 1980,” in *Understanding the Process of Economic Change in Turkey*, ed. T. Cetin and F. Yilmaz (Nova Science Publishers, Inc., 2010), 15–30, p. 22

³³ Ayse Bugra, “Political Sources of Uncertainty in Business Life,” in *Strong State and Economic Interest Groups*, ed. Metin Heper (Berlin: Walter de Gruyter, 1991), 151–63, p. 160

When the republic was first founded, the state took the leading role in the economy. The state encouraged the Turkish businessmen with incentive policies, such as abolishing the tithe and tax-farming in 1930s. Besides, a five-year industrial plan that promotes the state as leading producer and investor in the urban sector was prepared and emergence of state economic enterprises in important sectors (such as textile, sugar, iron and steel, glass works, cement, utilities and mining) was ensured.³⁴ State Economic Enterprises (SEEs) began their operations in 1933, on the purpose of developing Turkish economy through state resources.

Even though state was the main actor of the economy, private sector was also operating at the time. But, since the successive wars affected Turkish economy negatively, they were not able to be independent actors, without necessary means. So, under the state-led economy, private sector functioned with state support. For example, in 1920s, Is Bankası, which was the first bank of the Turkish Republic that was founded for protecting national economy, gave incentives to Turkish businessmen to promote domestic bourgeoisie. Until the second half of 20th century, private sector in Turkey was dominated by small-medium enterprises (SMEs). Comparing the share of the SMEs and SEEs, we can see that SMEs were more influential in the economy. As Tezel explains, in 1938, SEEs accounted for only 1% of total employment in the country. Approximately 75% of employment in manufacturing continued to be provided by small-scale private enterprises.³⁵

In 1940s, World War II affected most of the countries in the world. Turkey did not participate in the war; yet, it was still affected by it since there was always the possibility of participating in the war, and preparation for the defense in case of participation and mobilization created significant costs for the country. In order to reduce the effects of the war, state increased its control over the economy. The most important attempt for this aim was the National Protection Law of 1940. The law included three articles. The first article gave the state the power

³⁴ Pamuk, "Economic Growth and Institutional Change in Turkey Before 1980."

³⁵ Yahya Tezel, *Cumhuriyet Döneminin İktisadi Tarihi (1923-1950)*, Second (Yurt Yayınları, 1986)., pp. 233-237

to determine prices, second article gave it the power to confiscate the products of the producers, and the third one gave it the authority to force the citizens for compulsory labor.³⁶ The harsh articles of the law created resentment towards etatist policies in the society. Furthermore, National Protection Law was not enough to eliminate the consequences of the World War II. Pamuk explains the effects of World War II on Turkey as:

The sharp decline in imports and the diversion of large resources for the maintenance of an army of more than one million placed enormous strains on the economy. Official statistics suggest that GDP declined by as much as 35 percent and the wheat output by more than 50 percent until the end of war. In response, the prices of foodstuffs rose sharply and the provisioning of urban areas emerged as a major problem for the government. Under these circumstances, etatism was quickly pushed aside.³⁷

Since etatism was pushed aside because it was seen as the main reason for the problems that emerged during the World War II, the legitimacy of CHP, which was both the party in power and also the founding party of the Turkish Republic started to be questioned, which resulted in the emergence of the right-wing DP as the first opposition party, later on ending single party rule in the republic. DP was founded in 1946, by the old members of CHP. In the elections of 1950, DP won the majority of seats by having 55.2% of votes, which gave enough seats in the Parliament to create a business environment at their own will.

Unlike the statist economic policies CHP adopted while it was in government, DP adopted rather more liberal policies. However, it should be noted that the main reason behind the transition to liberalism in Turkey was the need to adapt to the changing world order. At the time, Turkey's development process had just started. Hence, it needed foreign support in order to prosper. For this purpose, in order to be included in the post-war anti-Soviet alliance of the 1940s and to benefit from Marshall Aid, the need to liberalize the economy emerged. So,

³⁶ İbrahim Mert Öztürk, "İkinci Dünya Savaşı Türkiye'sinde Olağanüstü Ekonomik Kararlar: Milli Korunma Kanunu ve Varlık Vergisi," n.d., dergiler.ankara.edu.tr/dergiler/18/1842/19400.pdf. [translation by me]

³⁷ Pamuk, "Economic Growth and Institutional Change in Turkey Before 1980," p. 24

liberalization was not only peculiar to DP's economic policy. At the time, CHP's statist economic policy had also changed in the direction of liberalism.

Even though DP came to power by promising that it will allow the private sector flourish, it could not make the necessary institutional changes. So, the party also continued CHP's legacy of state-supported private sector. One of the major commitments of DP before the election was to privatize SEEs to create a free market economy. Yet, the economy did not have the necessary infrastructure for that. So, contrary to the expectations, the share of SEEs in the economy has increased from 37% in 1950 to 48% in 1960. Also, the share of public investments had increased from 38% to 50% in the same years.³⁸ Even though the promise was to leave the economy to the control of free market, in a newly founded state that did not have a well-established economy and which did not have necessary infrastructure to nurture the free market, DP could not fulfill its promise, and continued the state-led economic policies.

A significant difference of DP period from CHP period was the Marshall Aid that Turkey received before the election of the party. Unlike CHP, which did not have significant budget as a result of war costs, Marshall Aid helped DP to build a stronger economy. The aim of the Marshall Aid was to cover the damages of the World War II in European countries, and the reconstruction of Europe as an USA ally against the USSR and the danger of communism.

As also mentioned before, the main source of economic growth in DP period was agricultural development. Regarding this, two important policies of the party were critical. One of these policies was targeting small peasants: "The government began to distribute state-owned lands and open communal pastures to peasants with no land."³⁹ And, the second policy was targeting large farmers: "The Democrat government used Marshall Plan aid to finance the

³⁸ "MENDERES DÖNEMİNİN EKONOMİ POLİTİĞİ VE 1958 İSTİKRAR PROGRAMI," accessed June 1, 2016, <http://www.mevzuatdergisi.com/2004/04a/02.htm>.

³⁹ Pamuk, "Economic Growth and Institutional Change in Turkey Before 1980.", p. 13

importation of agricultural machinery, especially tractors, whose numbers jumped from less than 10,000 in 1946 to 42,000 at the end of 1950s.”⁴⁰

One of the most important factors in the success of agriculture-led growth was the Korean War, since the war created a strong international demand for wheat, chrome and other export commodities.⁴¹ So, Turkish exports met the international demand. However, when the war ended, international demand decreased. Another factor that ended the agriculture-led growth was the worsening weather conditions. The response of DP government against the challenges was to initiate a price support program for production of wheat, which resulted in high inflation, since the program was financed by money supply increases.

High inflation resulted in a “crises of economic governance” exposing the limits to trying to achieve economic stability within the framework of democratic institutions in a country going through early stages of institutionalizing and consolidating its democratic regime.⁴² The economic crisis made DP implement the IMF stabilization program and devaluation in 1958.

In May 27, 1960, DP rule was overthrown with a military coup. Even though the reason of the coup was the political polarization in the country, it also changed the economic model from an agriculture-led model to ISI. ISI is an economic strategy that advocates substituting foreign imports with domestic production. The main aim of ISI is to reduce dependency on imports and to create a national industrial base. In order to implement the ISI strategies properly, the statist economic planning was re-instituted, especially with the establishment of State Planning Organization (DPT). DPT is a very crucial institution to understand the state influence on the Turkish economy. It was founded on September 30, 1960, right after the coup d'état and the main aim of the institution was to design Five-Year Plans in line with government goals, and to mentor the governments on the determination of the economic, social and cultural goals to implement ISI successfully. In June 2011, DPT was re-organized as the Ministry of Development

⁴⁰ Ibid., p. 13

⁴¹ Ibid., p. 13

⁴² Ziya Oniş, “Crises and Transformations in Turkish Political Economy,” *Turkish Policy Quarterly* 9, no. 3 (2010): 45–61, p. 50-51

in line with the new understanding of planning in line with the EU membership process.⁴³ Yet the main aim of the institution, which was mentoring the government, has not changed. DPT's main mode of operation was through regional planning. However, establishment of the Ministry of Development transformed the mode of operation to national planning, which created a more centralized understanding of development, and increased state control in the developmental policies.

Yet, even though state influence on the economy was still significant, it was not the sole actor in the economy anymore. Pamukoglu explains ISI period as:

The public sector shouldered the responsibility of providing the consumer goods industries in the private sector with necessary inputs. In addition to cheap credit and trained technical personnel, through the State Economic Enterprises (SEEs)⁴⁴ the public sector concentrated in the production of agricultural and industrial inputs necessary for private industries.⁴⁵

The state-led economy under ISI model has a very essential feature that distinguishes it from the etatism of the first years of the republic. In the latter one, the private sector was not influential, since the post-war environment required the state to take the lead of economy. Yet, in ISI period, public and private sector were complementary. Hence, even though the state influence had decreased in ISI era, there was no complete withdrawal of the state from economic management. Rather, the state and private sector operated together. There were three different stages of the ISI period in Turkey. The first stage started in 1930s, in non-durable consumer goods (cotton and woolen textiles, sugar, cement, paper and glass products).⁴⁶ When production of non-durable consumer goods met the domestic demand in the 1960s, ISI continued in durable

⁴³ Barış Övgün, "Türk Kamu Yönetiminde Yeni Bir Örgütlenme: Kalkınma Bakanlığı," *Ankara Üniversitesi SBF Dergisi* 66, no. 3 (2011): 263–81., p. 263.

⁴⁴ Even though its roots went back to statist period of 1930s, SEEs have been used first time in 1960 Constitution of Turkey. In ISI period, SEEs have become leading producers in different sectors: mining, iron and steel, textile, sugar, cement, etc.

⁴⁵ Guliz Pamukoglu, "Import-Substitution Industrialization in Turkey" (Massachusetts Institute of Technology, 1990), <http://hdl.handle.net/1721.1/69265>, p. 33

⁴⁶ Ibid., p. 39

consumer goods (such as cars and domestic appliances). As the success of ISI increased, the importance of private enterprises has increased in the economy.

Following the 1960 military coup, Turkish armed forces began entering the economy through investments in banking, industry and commerce.⁴⁷ For the aim, the Army Mutual Assistance Association (OYAK) was established in 1961. OYAK is an example of how heavy the influence of the state on economy was at the time. After the coup, the military formed a junta government. And, OYAK, which was established with the aim of providing social services to military members, became one of the largest industrial groups of the time. By now, it owns a car manufacturer, a steel producer, and a financial bank, which shows that the legacy of the military state is still influencing the economy.

1970s was marked by the crisis of ISI in Turkish economy. The role of the global Oil Crisis and also the unstable political environment and the fragile political coalitions resulted in a domestic balance of payment crisis. Moreover, as rising budget deficits were met with monetary expansion, inflation jumped to 90 percent in 1979.⁴⁸ Increasing oil prices led to large-scale power cuts, which had significant negative effects on industry and agriculture. Moreover, the shortages of basic items resulted in the crisis of ISI. Furthermore, together with the economic crisis, political polarization in the country led to another coup d'état in September 12, 1980.

The reason why the years between the foundation of the Turkish Republic and the 1980 coup was called as 'state-led capitalism' is that, between those years, the influence of state on the economy was always strong. Furthermore, even though in the time period different economic strategies were implemented such as etatism and ISI, the state did not lose its influence on economic management. The main goal of the state in economic intervention was to enable the business to function, and also to sustain its impact.

⁴⁷ Ibid., p. 94

⁴⁸ Pamuk, "Economic Growth and Institutional Change in Turkey Before 1980.", p. 28

2.2. State-Business Relations in the Turkish Republic: Creating a National Bourgeoisie as a State Project

After the foundation of the Turkish Republic, the dominant group in business changed direction from non-Muslim to Muslim businessmen. The main reason behind the project towards creating a Muslim dominance in domestic business under CHP government was the goal of Turkification of the business, and strengthening the Turkish businessmen in the newly founded Republic. Since Turkish and Muslim identity generally went hand in hand, this policy also contributed to the dominance of the Muslim bourgeoisie.

The Turkification of the business environment in Turkey was implemented as a state policy. When the Turkish Republic was founded, one of the main strategies for the economic development was the creation of a national bourgeoisie. Both the statist regime and creation of a national economy as the basic strategy of a new state was adopted in the 1923 Congress of Economics.⁴⁹ Under the rule of the Ottoman Empire, which was the predecessor of the Turkish Republic, the main actors of the domestic business were non-Muslim businessmen. However, several tragic events that led to the decrease in the non-Muslim population in the Turkish Republic also resulted in the decrease of non-Muslim traders in the country.

Especially with the Armenian Genocide of 1915 and the population exchange between Greeks and Turks after World War 1, the number of non-Muslim population in Turkey has decreased drastically. Furthermore, the Wealth Levy of 1942 was determining tax rates arbitrarily, and demanding different tax rates from Muslim and non-Muslim businessmen. The rate that was demanded from non-Muslim population was so high that most of non-Muslim businessmen either had to migrate since they could not do business in Turkey anymore or had to work in working camps, since they could not afford the tax rates. Finally, the 6-7 September 1955 pogrom, which happened decades after World War 1 against Greek population also caused significant decline in the non-Muslim population. The impacts of those events against non-

⁴⁹ Galip Yalman, *Transition to Neo-Liberalism: The Case of Turkey in the 1980s* (İstanbul: İstanbul Bilgi University Press, 2009), p. 157.

Muslim population also found reaction in the business environment. As a result, as Bugra and Savaskan argue, “a Muslim identity became a core component forming the new Turkish bourgeoisie in the early phases of capital accumulation and business development.”⁵⁰ All those events mentioned against non-Muslim population in Turkey points to a ‘Turkification’ policy with a stress on Muslim identity, which also finds reflection in business community in the country, and the effects of the policy can even be seen today. The state economic policy of the Turkish Republic until the neoliberalization in 1980s was to protect the small enterprises, which got poor and vulnerable as a result of successive wars in the beginning of 20th century.

In 1930s, the CHP government created a new business community in Turkey, with state incentives. “The founders of large enterprises had usually been small merchants or public-sector employees when they entered business life.”⁵¹ Hence, in the first years of the Turkish Republic, there were already attempts to create a Turkish bourgeoisie, which have good relations with the CHP. Yet, the business groups that CHP gave incentives were Istanbul-based groups, which were committed to the secularism and etatism. Furthermore, most of them became rich by acquiring the properties of the non-Muslim that had to leave Turkey after the tragic events described above. The protection of Istanbul-based businessmen created the discomfort in Anatolian enterprises, and paved the way for the electoral victory of the Democrat Party (DP).

While CHP protected small enterprises that are based on Istanbul, which was the most developed city of the country, DP turned towards Anatolian enterprises, with the same aim. The main aim of protecting the small enterprises was to create a Turkish and Muslim bourgeoisie, since the Turkish bourgeoisie was considered, together with industrialization, as the key ingredients of the national economic development for the newly founded republic.⁵²

⁵⁰ Bugra and Savaskan, *New Capitalism in Turkey: The Relationship between Politics, Religion and Business.*, p. 31.

⁵¹ Ibid., p. 31

⁵² Serif Mardin, “Turkey: The Transformation of an Economic Code,” in *The Political Economy of Income Distribution in Turkey*, ed. E. Ozbudun and E. Ulusan (New York: Holmes and Meier, 1980), 23–53.

What distinguished DP from CHP was that, rather than focusing on Istanbul-based business groups like CHP did, DP supported the small and medium enterprises of Anatolia, which created the basis of the polarization in business environment of today. Pamuk describes the significance of the DP for Turkish economy as:

Democrat Party offered the first example of populist economic policies in modern Turkey. Not only did it target a large constituency and attempt to redistribute income towards them, but it also tried to sustain economic growth with short-term expansionist policies, with predictable longer-term consequences.⁵³

The growth model of DP was based on agricultural development. As the leader of the DP, Adnan Menderes was also a large landowner himself, so he understood the needs of the rural population, and gave significant importance to agriculture-led growth. Unlike CHP, which aimed to create a national economy, but through bureaucratic measures and in a state-led way, the main aim of DP was to provide opportunities to the small enterprises of Anatolia, and create a Muslim bourgeoisie. Hence, DP laid the foundations of the success of Anatolian Tigers, and also today's influencing business organizations.⁵⁴

1960s were the years that rather than SMEs, big business groups and conglomerates became significant. They were transformed from Istanbul-based business firms that had close relations with the CHP governments and grew big and institutionalized along as conglomerates. Yet, there still was no stable economic environment, and it created the need to be more organized for them in order to avoid the risks. Hence, in 1971, these business firms formed TUSIAD together.⁵⁵

⁵³ Pamuk, "Economic Growth and Institutional Change in Turkey Before 1980.", p. 26

⁵⁴ Understanding economic management under DP governments is essential in order to understand AKP today, since its legacy still continues, both in politics and in economic management. Its political legacy is subject of another research. Yet, regarding economic management, DP's state-supported liberalization policy and also incentives given in order to protect the Muslim bourgeoisie still continues today, under successive AKP governments. The main difference between those two governments is that, AKP owns more means than DP. Moreover, DP had to create the links between Anatolian businessmen and the state. However, when AKP came to power, there were already established links, as the inheritance of former right-wing governments. Thus, AKP can create a more developed web of relations between the state and business.

⁵⁵ In 1971, these business groups formed TUSIAD together.

Bugra and Savaskan argue “neither the establishment of the DPT and the implementation of Five-Year Development Plans starting in 1963, nor the mixed economy system hindered business people from openly expressing their views on policy issues.”⁵⁶ The reason of it was that, in the ISI period of 1960s and 1970s, there were coalition governments in power, which could not intimidate private sector, since they were not as strong as one-party governments of CHP or DP before them. A good example of this argument is the conflict between TUSIAD and PM Bulent Ecevit regarding Ecevit’s negative attitude towards foreign enterprises. In 1979, TUSIAD published four successive posters in newspapers, with the headlines “Realistic Exit”, “The Nation is Waiting”, “Sharing Scarcity of Providing Plenty?” and “The Enemy of Welfare and Liberties”, TUSIAD showed his discomfort with Ecevit’s economic policies. The environment that these posters created forced Ecevit to resign before the end of that year. So, the in ISI period, the private sector that gained more power compared to previous decades was able to influence politics.

Moreover, in the era, the influence of the political Islam was influencing the economy, and especially Anatolian Tigers. An example to that is the Necmettin Erbakan’s intervention to Turkish Union of Chambers and Commodity Exchanges (TOBB). Erbakan, being the mastermind behind the National Outlook Movement, which will be explained later, by organizing small and medium sized business enterprises of Anatolia, defeated governing Justice Party’s (AP) candidate to be elected as the President of the union in 1969. The significance of this event was that, the candidate of the winning party would always be the President of TOBB in the elections. So, it shows the increasing power of political Islam in the business environment. Yet, since the Ministry of Commerce did not ratify this result, Erbakan could not become the president. As Bugra and Savaskan argue, “after that, “the discrimination faced by SMEs enterprises remained a major theme in the policy discourse of the National Outlook movement and the outlook of political

⁵⁶ Bugra and Savaskan, *New Capitalism in Turkey: The Relationship between Politics, Religion and Business.*, p. 35

Islam in general.”⁵⁷ Moreover, it also constitutes an example for the polarization between two business groups. Yet, this also shows the general attitude towards political Islam at the time, and the motivation behind the polarization of the Turkish business that created the two distinct groups of businessmen in Turkey.

Also, another characteristic of the era was that the economic uncertainties, as a result of political instability in the country. Therefore, firms felt the need to be organized under a business organization, which led to the establishment of TUSIAD in 1971. TUSIAD provided the protection and independence to capital owners against the government intervention to business. Hence, they were able to criticize the government policies, and offer policy solutions regarding business.

⁵⁷ Ibid., p. 44

Chapter 3. Neoliberal Period of Turkish Capitalism: 1980-2002

The January 24, 1980 decisions marked the transition to neoliberalism in Turkish economy. However, in Turkish neoliberal model, the state did not retreat from the economy, in any period. Just its role has decreased. Onis describes the role of the state in Turkish neoliberalism as:

At one level, it [the state] is a major player in the economic arena and a major allocator of economic rents. As a result, the private sectors dynamism continues to be heavily dependent not only on its own narratives but also on its ability to achieve access to state resources and incentives. The retreat of the state from the economy is, therefore, a myth. At another level, however, associated with the politicization of rent distribution is a loss of confidence and a decline in the moral authority of the state in Turkey.⁵⁸

In 1980s, the neoliberal wave that was affecting the world affected Turkey, too. Hence, a new era began when the neoliberal program of January 24, 1980, which was prepared by the undersecretary of the Prime Minister, Turgut Ozal, was implemented. As a result of the implementation of the neoliberal reforms, Turkey abandoned import substitution industrialization strategy and adopted a new export-led model. The main articles of the reform package was as follows:

1. Fiscal discipline,
2. Public spending on high return and adjusting income distribution (healthcare, education, infrastructure),
3. Tax reform (low rate wide tax base),
Set interest rates in the market,
4. Competitive foreign exchange policy,
5. Free foreign trade regime,
6. Liberalization of foreign capital,
7. Privatization,
8. Deregulation (eliminating the entry-exit barriers in the markets),
9. Assuring ownership rights ⁵⁹

Since the beginning of the neoliberal period, in Turkey, the state has never retreated from the economics, rather, the form of inclusion of it has transformed. This transformation finds

⁵⁸ Ziya Oniş, "The Political Economy of Islamic Resurgence in Turkey: The Rise of the Welfare Party in Perspective," *Third World Quarterly* 18, no. 4 (1997): 743–66., p. 752

⁵⁹ Hasan Saygin and Murat Cimen, "Economic Policies in the Post-1980 World and Their Consequences," in *Turkish Economic Policies and External Dependency* (Newcastle: Cambridge Scholars Publishing, 2013), 5–13., p. 6

reflection both in state-business relations, and in institutional sphere. The changing nature of the inclusion of the state resulted in the transition from the state-led to state-enhanced capitalism, in which the state is not a main actor in the economic activities anymore, but controls them indirectly.

3.1. Neoliberal Transformation of Turkish Capitalism: Changes and Continuities

The neoliberal era of Turkey between the years 1980-2002 was marked by the extreme uncertainties about the economic parameters. Before the neoliberalization program, Turkey had been through an economic crisis and a coup. Hence, under these conditions, implementing the neoliberalization program resulted in budget deficits, accelerating rate of inflation, government inability to assure price stability and instable interest rates. Just as an example to instability of economic parameters, the interest rates were changed nineteen times in the year 1988.⁶⁰ The significance of the January 24 decisions for the Turkish economy is that, the decisions changed the economic model in the country. Before the 1980s, the Turkish economic model was state-led capitalism, as explained in detail in the previous chapter. Even though the role of state has decreased or increased from time to time due to the implementation of different economic strategies in the period, it was never insignificant. However, after January 24 1980, we can see a slight withdrawal of state from economic sphere, and reconfiguration of the economy, compared to previous decades. The January 24 decisions accelerated liberalization, especially regarding the trade and capital accounts in the country.

The implementation of the neoliberalization reforms could not create long-term stability in the economy. On September 12, 1980, the military staged a coup arguing that the government was not capable of ending the ideological conflicts in Turkey between the right-wing/left-wing groups. After the coup, the junta government banned the political organizations of the pre-neoliberal period, such as the trade unions, which resulted in the emergence of Islamic political

⁶⁰ Ayse Bugra, "Political Sources of Uncertainty in Business Life," in *Strong State and Economic Interest Groups*, ed. Metin Heper (Berlin: Walter de Gruyter, 1991), 151–63, p. 158.

parties, as will be explained later. Senses argues that, “Financial liberalization and integration with global neoliberalism under the guardianship of the military have rendered Turkey vulnerable to the establishment of the rule of market in almost all facets of life”⁶¹, since the non-democratic legacy of the junta government continued in the next democratically elected government.

Undermining the rule of law also undermined the longer-term viability of the transparency of the neoliberalization program, and created the basis of the increasing corruption in the next decades. Even though after the decisions were taken, the Turkish economy was liberalized and opened to world markets and the basis of Turkish industry changed from import-substitution to export-led industry; the authoritarian legacy of junta government prevented the long-term success of neoliberal reform. In the 1983 elections, ANAP (Motherland Party) won the 45% of votes, and formed a government under the Prime Ministry of Ozal. Yet, the legacy of the coup continued after democratically elected ANAP government, which replaced the junta government. The non-democratic environment that the coup created in political arena led Ozal to use his discretionary power when he became the prime minister after military government.

ANAP was the first example of the representation of Turkish-Islamist synthesis in the political arena Nasr explains the synthesis that the ANAP governments created as: “economically liberal, right-of-center, and mildly Islamic.”⁶² But different from the previous decades, the non-democratic legacy of the coup government continued, together with the new neoliberal economic model. Onis explains “The weakest link in Ozal’s economic thinking was the tendency to underestimate the importance of the rule of law and the need to develop a strong legal infrastructure for a well-functioning market economy. His preference was for ruling by decrees, hence bypassing normal parliamentary procedures and constraints.”⁶³ Even though ruling by

⁶¹ Senses, “Turkey’s Experience with Neoliberal Policies Since 1980 in Retrospect and Prospect,” p. 5

⁶² Vali Nasr, “The Turkish Model,” in *The Rise of Islamic Capitalism* (New York: Free Press, 2010), 232–52., p. 237.

⁶³ Ziya Oniş, “Turgut Ozal and His Economic Legacy: Turkish Neo-Liberalism in Critical Perspective,” *Middle Eastern Studies* 40, no. 4 (2004): 113–34., p. 115

decrees fastened the implementation of the neoliberalization program, it also created an authoritarian structure of policies, since the decrees did not require parliamentary approval. So, even though neoliberalism was achieved, democratic policies that back the neoliberalization were beside the point. Actually, “the liberalization of Turkey’s foreign trade and current account did not lead to the emergence of liberal economic order because the political and economic rules of the game did not change.”⁶⁴ Since the coup banned all the previous actors from politics, ANAP was the only actor without any competitors. This led Ozal, who was the leader of the party to use discretionary powers in his interests. Jenkins summarizes the problems emerging right after neoliberalization as:

Ozal introduced realistic exchange rates, reduced the foreign trade deficit, and freed interest rates from state control. Annual inflation fell from 107 percent in 1980 to 27 percent in 1982. However, he took an often cavalier attitude towards rules and regulations. He refused to heed warnings about the unsustainably high interest rates being offered by a brokerage house called Banker Kastelli. Banker Kastelli collapsed in June 1982 and 220.000 investors lost their savings. On July 1982, Ozal resigned from the government.⁶⁵

Economic strategies of the neoliberal period in Turkey can be described as ‘ad hoc strategies’, “which are inserted into an existing system, which may or may not fit into it, but become its components.”⁶⁶ Changes implemented through rule by decrees did not change the system completely; hence, there was no significant political resistance to them. However, they created a non-democratic environment and also contributed to uncertainties. As the Prime Minister Ozal’s discretionary power increased without the approval of parliament, the transparency of the economy decreased through centralization of power.

In 1980s, political arena also saw the rise of political parties coming from Islamic tradition. After the emerging of Islamic political parties, a rival model of capitalism emerged against the

⁶⁴ Roy Karadag, “Neoliberal Restructuting in Turkey: From State to Oligarchic Capitalism” (Max-Planck Institute for the Study of Societies, July 2010)., p. 15

⁶⁵ Garrett Jenkins, *Political Islam in Turkey: Running West, Heading East?* (New York: Palgrave MacMillan, 2008)., p. 146

⁶⁶ Umit Sonmez, “The Political Economy of Market and Regulatory Reforms in Turkey: The Logic and Unintended Consequences of Ad-Hoc Strategies,” *New Political Economy* 16, no. 1 (2011): 101–30., p. 104

neoliberal model. This new model can be referred to as 'Islamic capitalism', which defends capitalism in line with Islamic tradition, originating from the Welfare Party's 'Just Order'. In 1983, Welfare Party was founded under the leadership of Necmettin Erbakan. Erbakan was the leader of the National Outlook Movement, which advocated the social integration model called Just Order. The principles of Just Order was published in a book with the same name, and adopted as party doctrine. "Just Order adopted a more explicitly Islamic approach that involved a novel formula for redesigning economic institutions in order to conform to religious principles."⁶⁷ Just Order was advocating replacing banking system, tax and exchange-system with Islamic alternatives.

Onis links the success of National Outlook Movement and rise of it to the status of a mass political movement in 1990s to two set of factors. First is the internal factors such as "fragmentation of existing party system, a highly uneven distribution of income and a decline in the redistributive capacity and moral authority of the state."⁶⁸ . Second is the external factors which he describes as: "The massive inflows of Saudi capital into the country as well as the sizable inflows of remittances from migrant workers in Europe."⁶⁹ Those two groups of factors combined, National Outlook Movement, which defends a 'fair order' and equality, attracted Muslim businessmen who want to be involved in economic transactions in line with Islamic traditions. Furthermore, since the movement has been strong economically, it was able to obtain resources, which is another reason that attracts people.

In the 1995 elections, the Welfare Party formed coalition with the ANAP and True Path Party. Even though the principles of Just Order were not implemented later, the model was influential for attracting Muslim businessmen into the economy, and also created a different type

⁶⁷ Bugra and Savaskan, *New Capitalism in Turkey: The Relationship between Politics, Religion and Business.*, p. 55

⁶⁸ Onis, "The Political Economy of Islamic Resurgence in Turkey: The Rise of the Welfare Party in Perspective.", p. 763

⁶⁹ Ibid., p. 763

of capitalism within the classical model of capitalism in Turkey. Furthermore, this Islamic model of capitalism influenced the role of state under the following governments, too, which will be explained in detail in the next chapter.

The Constitutional Court banned the Welfare Party from politics in 1998 for violation of the separation of religion and state. However, the tradition of the National Outlook Movement has continued ever since. Party deputies were regrouped under the Virtue Party. The Virtue Party was successor of the Welfare Party, and it was also closed in 2001 for the same reason. After it was banned, the members of the party founded two political parties, since they followed two different traditions. One of the emerging new parties was the radical Felicity Party, which has never been influential in Turkish politics, and the other one was the reformist AKP.

Most of the regulations that took place in 1980s and 1990s were problematic. For example, the banking law, which was enacted in 1980, gave responsibility of supervision and regulation of banks to Treasury and Central Bank and created significant discomfort in banking sector. The banking system was the main holder of government debt, and with this law, creating disincentives for these public institutions to intervene when the finances of the banks deteriorated.⁷⁰

From 1996 to 2001 ANAP formed the coalition governments. ANAP's role in the neoliberalization of Turkey is essential. Most importantly, ANAP is the first political party in Turkey that left economic policy making to technocrats. U.S. educated technocrats were in major positions in the Central Bank, the Treasury and the State Planning Organization. Under ANAP governments, the state gave incentives to strengthen the private sector, which shows how state enhanced the business without being directly involved in it. However, those incentives lacked transparency, since their distribution was based on "creation of a large number of extra-budgetary funds through the diversion of tax resources from the parliament-controlled consolidated budget, allowing the government to disburse these funds without parliamentary

⁷⁰ Izak Atiyas, "Economic Institutions and Institutional Change in Turkey during the Neoliberal Era," September 2012, 45-69., p. 52

authorization.”⁷¹, as a result of the tendency for ruling by decrees.

To sum, the first phase of the neoliberal period in Turkey (between the years 1980-2002) has staged an enhancing state, which indirectly effects the economic management. However, the indirect involvement of the state was not always transparent. This non-transparent nature has even increased when the role of Islamic capital increased in investments, and affected the state-business relations in which the right wing governments had links with the Muslim business groups.

3.2. How Turkish Business World was Shaped in Neoliberal Era: Emergence of Turkish-Islamist Synthesis

One of the most important results of the 1980 coup was the closure of existing political parties, preventing leaders of those parties from entering the political arena and the suppression of left-wing political organizations. The new political environment after the coup resulted in the increasing strength of Islamist organizations; despite the goal of the Kemalist military junta was to eliminate extreme left and extreme right. As Bugra and Savaskan explains, “While the leaders of the junta tried to impose a doctrine of authoritarian Kemalism on the society, the idea of a ‘Turkish-Islamist synthesis’ emerged as an important component of the political environment produced by the coup.”⁷² This synthesis emerged mostly as a result of the backlash of military’s strategic calculations. In order to decrease the tensions between radical right and left groups, the military chose to leave moderate Islam free, as opposed to before, assuming that moderate Islam would decrease radicalism in the country. In this environment, political Islam surfaced in Turkey and different Islamic groups gained power in society, such as different religious orders and the Hizmet movement, which also had very good relations with AKP, until recent years. As the influence of Muslim groups on the economy has increased, the conflicts between them and Kemalist groups also increased. The polarization between TUSIAD and other three business

⁷¹ Bugra and Savaskan, *New Capitalism in Turkey: The Relationship between Politics, Religion and Business.*, p. 51

⁷² Ibid., p. 49

groups is also result of these conflicts. Anatolian based Muslim groups see Kemalism as their enemy, due to the elitist nature of Kemalist ideology. One of the Islamic opposition leader explain the meaning of Kemalism in the eyes of Muslim groups as:

[S]ecular Kemalism.. is an aberration, not the norm.. Kemalism never took root beyond the thin sliver of university-educated elites in urban centers of Ankara and Istanbul.. Turkey has always been an Ottoman Muslim state. ⁷³

In order to understand the motivation behind the increasing power of Islamic capital in Turkey, understanding the negative attitude of the Muslim businessmen towards Kemalism is essential. The main reason of this negative attitude dates back to DP era. As explained in the previous chapter, CHP, which was the first government party of Turkish Republic, supported Istanbul-based businessmen. When DP came to power, used this negative attitude of Muslim groups to create itself a support base among Anatolian businessmen. Furthermore, in the neoliberal era, all the right-wing political parties benefit from this polarization and used this negative attitude to gain the support of the Anatolian businessmen, by encouraging them to do business.

In 1990s, the Muslim business organizations became very influential in economic management. MUSIAD, which adopted the principles of Just Order in their economic transactions, published a report in 1994, called ‘The Muslim Person in Working Life: Way of Organizational Behavior in the Firms governed in the Direction of Islamic Principles’⁷⁴, in which they defined the notion of ‘Homo Islamicus’⁷⁵, and provided directions on how to adapt the Muslim identity with the capitalist economy. Calling Muslim businessmen as ‘Islamic Calvinists’

⁷³ Nasr, “The Turkish Model.”, p. 236

⁷⁴ Hünér Sencan, “İş Hayatında İslam İnsanı : İslami Duyarlılıkla Yönetilen Firmalarda Örgütsel Davranış Biçimleri” (MUSIAD, December 1994), <http://www.musiad.org.tr/download/Yayinlar/Ara%C5%9F%C4%B1rma%20Raporlar%C4%B1/%C4%B0%C5%9F%20Hayat%C4%B1nda%20%C4%B0slam%20%C4%B0nsan%C4%B1/%C4%B0%C5%9F%20Hayat%C4%B1nda%20%C4%B0slam%20%C4%B0nsan%C4%B1.pdf>.

⁷⁵ The concept of ‘homo Islamicus’ suggests that modern economy and Islam are compatible, and Islam-oriented behaviors in the economy is the solution to economic inequalities.

(referencing to Protestant work ethic), the report argued that, ‘homo Islamicus could and should acquire wealth and earn profit freely as long as it come from productive activities (not from speculation, gambling, hoarding, or destructive competition) and if such wealth is not used solely for individual consumption or hedonistic purposes.’⁷⁶ Rather than the neoliberal model, the National Outlook Movement was advocating a more just model, in which state’s influence was more perceivable, with its role of providing justice.

The dominance of vested interests had always been significant in Turkish business environment, yet, with the right-wing political parties forming government parties, the vested interests polarized under different business organizations. TUSIAD, which was the most importance organization in the 1970s, which included Kemalist and republican business people have rivaled by emerging Muslim business groups such as MUSIAD, ASKON and TUSKON in the next decades. Bugra and Savaskan explains the government-business relations in Turkey after the emergence of different organizations in the neoliberal era as: “The changes in this associational environment did not constitute a step toward the emergence of neo-corporatist forms; rather, they led to an intense polarization in which the activities of different voluntary business associations were shaped around rival social projects that reflected their positions on political developments in the country.”⁷⁷ This polarization that emerged in the first period of the neoliberal era had increased during AKP governments.

⁷⁶ Evren Hosgor, “Islamic Capital/ Anatolian Tigers: Past and Present,” *Middle Eastern Studies* 47, no. 2 (March 2011): 343–60., p. 349

⁷⁷ Bugra and Savaskan, *New Capitalism in Turkey: The Relationship between Politics, Religion and Business.*, p. 112

Chapter 4. The AKP Model of Capitalism: 2002-2014

Even though after the 24 January decisions the effect of market forces has increased and the influence of state on the markets has decreased, in the neoliberal period of Turkey, 2002, which was the date that Justice and Development Party (AKP) came to power was a critical moment. Just before 2002, in the years 2000-01, Turkey had a serious banking crisis, which required a reform package that was introduced by World Bank technocrat, Kemal Dervis who became the Minister of Economy in Turkey after the crisis. The reform package that Dervis introduced during his office, which is called “Strengthening the Turkish Economy: Turkey’s Transition Program” included structural changes of the economy and bank reforms in order to protect the banks from the political use through strengthening the independence of Central Bank. Underlying the program there are 15 legislative measures falling into 4 categories:

1. Financial sector restructuring,
2. Increasing transparency in the state and strengthening of public finances,
3. Enhancing of competition and efficiency in the economy,
4. Strengthening of social solidarity.⁷⁸

Dervis reforms were aiming to stabilize the Turkish economy and separate economy from political interests. The reform package remained intact after the election of AKP, in 2002. Hence, AKP carried on with the budgetary discipline and the economic recovery that was the result of Kemal Dervis reforms. This reform program was one of the main reasons why AKP gained an important public support, since the success of the reforms was attributed to AKP. Yet, AKP’s major stand regarding economic policy in 2002 was “entailing delegation of decision-making power to relatively independent agencies, and the establishment of rules that constrain the discretion of the executive.”⁷⁹ However, the party, which came to power with promises of transparency and independence from influence, change the direction of its policy as it won

⁷⁸ “Strengthening the Turkish Economy: Turkey’s Transition Program,” accessed May 3, 2016, <http://www.tcmb.gov.tr/wps/wcm/connect/9d473f48-f02c-4631-94e7-ee64593f250d/strengtheningecon.pdf?MOD=AJPERES&CACHEID=ROOTWORKSPACE9d473f48-f02c-4631-94e7-ee64593f250d>.

⁷⁹ Izak Atiyas, “Economic Institutions and Institutional Change in Turkey during the Neoliberal Era,” September 2012, p. 49.

successive elections and became more powerful. Actually, the influence of the state on economic institutions has never decreased significantly in AKP period, just as the other parties of the neoliberal era. Rather, as Vivien Schmidt's concept of 'state-enhanced capitalism', which is used in this thesis to describe the neoliberal period in Turkey defines, state exerted its power on economy through indirect methods. However, what distinguishes the state-enhanced capitalism of AKP governments from the previous governments was that, AKP exerted its influence on business groups more than ever before through institutional changes such as linking the regulatory authorities to Prime Ministry, and created an economic environment of crony capitalism, in which having good relations with the government is essential for business firms to succeed.

Even though the parties that follow the tradition of National Outlook Movement has not been very influential in economic sphere until AKP governments, AKP is the only exception in this. None of the political parties that emerged from Nationalist Outlook Movement were able to survive for long time, and they were closed on the ground that they were violating the principle of secularism of the constitution.⁸⁰ However, AKP managed to survive the same accusations.

In the AKP era, the indirect measures that the state implements to enhance the economy are usually implemented through patronage relations, and by the firms that are using Islamic capital, and which are generally organized under three business organizations mentioned. Furthermore, different than the original definition of 'state-enhanced capitalism', which is used to describe the neoliberal period in Turkey between 1980-2002, AKP era is marked both by state-enhanced capitalism and also crony capitalism, in which state controls economy by holding control of the economic institutions and protecting the firms that it has close relations, rather than undertaking the economic activity.

4.1. The AKP Model of Capitalism: Absorbing Neoliberalism into Conservatism

⁸⁰ Even though AKP was also tried on the same ground in 2008, the party was not closed.

The difference of AKP to the other political parties under the National Outlook Movement was that, unlike the previous parties following the same tradition, “the political discourse and policy orientation of AKP were formed against exclusionary discourse and reflected a more cautious attitude toward the affirmation of a religious identity based on difference.”⁸¹ With the inclusionary discourse that the party adopted in its first years, in the elections of 2002, AKP, came to power with 34.28% of votes, and the party has been forming single party governments ever since. However, even though the first AKP government was following a liberal discourse, both regarding the fundamental rights and freedoms and also the economy, in the following years, AKP became more conservative and even repressive towards opposition, and it’s discourse of ‘moderate Islam’ turned to a more radical one.

Regarding neoliberal tradition, even though AKP continued the implementation of neoliberal economic policies such as privatization and glorification of free market economy, at the same time crony capitalism that allowed businessmen who are close to the governing party to gain the profit became significantly common in Turkey.

In the year 2001, Turkey had a serious economic crisis, which created both political and economic instability. The instable environment prepared the ground for election of AKP in 2002. In order to decrease the effect of the economic crisis of 2001, Kemal Derviş, who was a technocrat and the vice-president of World Bank at the time, was given the role to implement some reforms and appointed as the Economy Minister of Turkey. The main objective of the reforms was to “Create an institutional structure that would assure bureaucratic autonomy and minimize political intervention in matters of economy.”⁸² The reform program contributed to the success of AKP in two important ways:

First, it created the basis of economic reforms that the AKP could subsequently capitalize upon to maintain its broad-based, cross-class coalition of support in a

⁸¹ Bugra and Savaskan, *New Capitalism in Turkey: The Relationship between Politics, Religion and Business.*, p. 59

⁸² Bugra and Savaskan, *New Capitalism in Turkey: The Relationship between Politics, Religion and Business.*, p. 53

high growth environment. Second, the economic crisis of 2001 effectively led to the demise of the coalition government in the ensuing general elections of 2002.⁸³

Dervis reforms stabilized the economy, however the effects of the 2001 crisis did not disappear immediately. In 2002 elections, absorbing the neo-liberal policies Kemal Derviş introduced to Turkish economy within a conservative agenda, AKP was able to have a big public support, in the environment that previous governing parties were associated with corruption and crisis in the eyes of the people. While AKP continued implementing Dervis reforms, macroeconomic developments of the era were marked by “Stable and high growth rates, the decrease of the inflation rate below 10 percent, fiscal and monetary stability, and the rising inflow of FDI.”⁸⁴ Moreover, another source of AKP’s success and support for the party was the political Islam and the legacy of the National Outlook Movement. Unlike the conservatist right-wing political parties before, AKP followed a more liberal and more integrative policy, when it was elected. In successive AKP governments, the party implemented neoliberal policies such as regulated economic growth and mass scale privatization more than ever.

4.2. Institutional Change and Continuity under AKP Governments

However, even though the party gave the impression of being liberal and withdrawing from different policy areas, actually, what AKP did was to transfer the power of the state to other actors. One of the best examples of this is the public administration reform of 2003. The reform transferred some of the powers of central government to local governments and as a consequence, “There has been a rise in the number of public contract awarded to conservative businessmen through AKP-run municipalities.”⁸⁵ So, even though public administration reform created a perception that reducing the power of central government actually has liberalized

⁸³ Ibid., p. 3

⁸⁴ Karadag, “Neoliberal Restructuring in Turkey: From State to Oligarchic Capitalism.”, p. 23

⁸⁵ Hosgor, “Islamic Capital/ Anatolian Tigers: Past and Present.”, p. 354

economy it was not the case, since actually the government was the one that supplied the resources to businesses by the hands of municipalities.

Even though AKP did not make significant changes in the institutional structure of the post-1980 era, the changes that it did decreased the independence of regulatory bodies. However, the institutions did not change. Rather, they converted to adapt to the interests of the new political actors. One of the most important institution regarding the issue is Savings Deposit and Insurance Fund (TMSF), which has the main goal of fighting corruption and dealing with fund management and insurance in Turkish banking system. Central Bank of Turkey oversaw TMSF since it was founded in 1983. Yet, in 2007, it became attached to the Prime Minister, which gave Erdogan, who was the prime minister at the time, direct control over the institution. Hence, the institution has lost its independence, and became attached to the governing party. Even though the institution was still able to fulfill its function, after 2007, it became politicized, seized variety of companies, and also assigned trustees to varieties of companies that were in conflict with the government party, especially from media sector, arguing that they were involved in corruption. After TMSF seized the companies from the media sector, these media channels were transformed into the means for the government propaganda.

Furthermore, even though the de jure institutions have transformed under successive governments after the introduction of neoliberalization program of 24 January 1980 towards more transparent ones, de facto implementation of them has been drawing a contrary picture. In the neoliberal period, two institutions were formed in order to increase the economic transparency: Turkish Competition Authority and Capital Market Boards of Turkey. Turkish Competition Authority was founded in 1994, with the goal of facilitating and protecting the competition in markets.⁸⁶ And, Capital Market Boards of Turkey was founded as the regulatory

⁸⁶ "Competition Authority - Turkish Competition Authority," accessed May 4, 2016, <http://www.rekabet.gov.tr/en-US/Pages/Turkish-Competition-Authority>.

and supervisory authority in charge of the securities markets in Turkey ⁸⁷ in 1981. Yet, in the AKP era, those two institutions lost their independence to some extent, and people who are close to government, filled the important positions in them that also linked these institutions to the party.

Moreover, another important institution that helped to the creation of the AKP model of capitalism is the Privatization Administration. The Privatization Administration was established in 1994, and Privatization High Board would consist of the prime minister, the minister of state “responsible for privatization” and the ministers of finance and industry and trade. The administration was responsible for deciding which SEEs was to be privatized. Yet, the amendments done in AKP era to the privatization law of 1994 were aiming to eliminate the judiciary power on privatization. The amendment of 2003 “simplified bureaucratic procedures, expanded and consolidated prime ministerial control over the Privatization Agency and eliminated the rules concerning partial public ownership of privatized enterprises.”⁸⁸ Moreover, the amendment of 2004 “allowed foreign investors to participate in the private management of ports and dock facilities.”⁸⁹ Finally, constitutional amendment of 2010 “eliminated the prerogatives of higher courts on privatization.”⁹⁰

In the AKP era, SME development went hand in hand with the privatizations, reflecting to the “worldwide trends toward descaling and decentralization of production and the increasingly significant role played by the SMEs in emerging flexible production system.”⁹¹ Comparing privatization revenues before and after AKP era, we can see the expanding scope of

⁸⁷ “Capital Markets Board of Turkey :: Our Mission,” accessed May 4, 2016,

<http://www.cmb.gov.tr/indexcont.aspx?action=showpage&menuid=0&pid=0&submenuheader=-1>.

⁸⁸ Bugra and Savaskan, *New Capitalism in Turkey: The Relationship between Politics, Religion and Business.*, p. 82

⁸⁹ Ibid., p. 82

⁹⁰ Ibid., p. 82

⁹¹ Ibid., p. 67

privatizations. Between the years 1986-2003, privatization revenues were 8.240 million \$. Yet, only in 2013, the number was 12.486 million \$. ⁹²

Analyzing the changes and continuities of the institutions of neoliberal era under AKP governments show us that AKP did not make significant changes in the institutional structure. Rather, it converted the neoliberal institutions to serve the interests of the party. Consequently, the transparency has decreased, and institutions became means of government interests.

4.3. Polarization of Business Groups: Republican vs. Muslim Division

To understand the economic model of AKP, understanding the relation between the government and the business is essential. Since 2002, there is a relative power shift of dominant business groups. The corporatist relations between AKP and the new dominant business groups are also affected from the change. Through the corporatist relations, the governing party makes sure that it does not have from the economy, and can practice its power through the business groups.

Importantly, the Saudi capital inflow resulted in the increase of ‘Islamic capital’ in Turkey at the time. Saudi capital was strengthening Anatolian ‘Tigers’ economic power, by providing them with the financial resources. All those factors resulted in the dominance of Anatolian ‘Tigers’, organized under business associations such as MUSIAD, TUSKON and ASKON in the economy after AKP came to power.

The capitalist model under successive AKP governments is marked by the polarization of business organizations. Especially in 1980s, TUSIAD was the major business organization that was also influential about the political economy of the country. However, the organization stayed as an elitist organization that was protecting large firms, and not SMEs. So, both in business environment and in society, it was perceived as “a club for the rich trying to convert its economic

⁹² “ÖZELLEŞTİRME UYGULAMALARI,” accessed May 30, 2016, http://www.oib.gov.tr/program/uygulamalar/yillara_gore.htm.

power into political influence.”⁹³ After 1990s, as rival business organizations, MUSIAD, ASKON and TUSKON were founded. They were positioned against TUSIAD, and they were representing the SMEs, especially in Anatolia. Under successive AKP governments, state formed close relations with Muslim bourgeoisie, and MUSIAD, as the major organization that represents them, became much more stronger compared to before. As Nasr explains, “by 2004, smaller and midsized enterprises accounted for a quarter of all Turkish exports. Fully 80% of such firms had not even existed at the time Ozal became prime minister.”⁹⁴ So, under successive AKP governments, Islamic business organizations that have Anatolian businessmen as their member basis became important rivals to the TUSIAD, which is considered as an elitist organization.

In AKP era, the Anatolian Tigers became stronger than before, and they contributed to economic growth. A good example to that argument is that, in 2004, Kayseri, which is a Central Anatolian city in Turkey, applied to the Guinness Book of World Records for the most new businesses started in a single day: 139.⁹⁵ We can argue that the legacy of National Outlook Movement inherited by AKP is one of the reasons of the rise of Anatolian Tigers in successive AKP governments. As mentioned before, the tradition stressed the importance of economic justice, and equal rights for everyone in the economy. So, the elitist business structure changed under AKP to give equal rights to other business firms. AKP also changed the previous state structure that protects the big and long-established firms that are usually members of TUSIAD. Rather than that, just like the tradition it came from aimed, it “changed the state’s institutional materiality so as to switch the relays and circuits of power to suit its own constituency’s interest.”⁹⁶ Hosgor argues that there is a symbiotic relation between Anatolian Tigers, interest-free banks and communal linkages. They use interest-free banking as it fits with the principle of Islam that prohibits interest. Moreover, communal linkages are essential for the success of these

⁹³ Bugra and Savaskan, *New Capitalism in Turkey: The Relationship between Politics, Religion and Business.*, p. 115

⁹⁴ Nasr, “The Turkish Model.”, p. 238

⁹⁵ Nasr, “The Turkish Model.”, p. 245

⁹⁶ Hosgor, “Islamic Capital/ Anatolian Tigers: Past and Present.”, p. 354

businesses. Both in party and in the economic sphere, communal linkages help them become stronger.

By taking MUSIAD, which is the most influential among Muslim business organizations, Onis and Turem clears the sharp division between Republican and Muslim business organizations in a table.⁹⁷

The clear division that Onis and Turem makes between TUSIAD and MUSIAD shows us that while TUSIAD is more secular and also more liberal regarding the state role on the economy, MUSIAD stresses the religious values and defends a more interventionist state on the economic management. However, while TUSIAD is more elitist and in favor of big conglomerates, MUSIAD is in favor of small businesses, which makes it closer to public interest. The elitism of TUSIAD is what creates the negative relations between it and the right -wing political parties.

	TUSIAD	MUSIAD
<i>Conception of Economic Globalization and Modernity</i>	Positive view, fundamentally secular	Positive view, qualified by the possibility of multiple paths and a synthesis of tradition and modernity
<i>Understanding of liberal democracy</i>	Good governance, secondary emphasis on extension of civil and individual rights	Good governance, major emphasis on one dimension of individual rights that is religious rights
<i>Understanding of civil and individual rights</i>	Liberal approach to questions of ethnic and ‘minority rights’, conservative in terms of	Primary emphasis on religious rights and freedoms, secondary emphasis on other types of

⁹⁷ See Table 2

	and attempts to question the boundaries of secular state	individual rights
<i>Desired relations with the state</i>	Redefinition of the relationship between business and state, key commitment to the notion of the small and 'optimal state'	Redefinition of the relationship between business and state, qualified commitment to the optimal state as well as more favorable Access to state resources for its members
<i>Commitment to EU membership</i>	Strong, instrumental view, an intermediate step towards other objectives	Qualified and defensive, heavily instrumental view
<i>Type of interest association</i>	Elitist, claiming to represent the entire business community, no conception of conflict between its own interests and the interests of the public at large	Claiming to serve the public interests, but closer to a narrowly defined interest organization, major emphasis on promoting the interests of its members
<i>Global reach of activities</i>	Extensive activities beyond national frontiers designed to influence the policies of key states such as the USA or supranational entities such as the EU	National based activities. Global reach limited to the economic plane

Table 2: Business Associations and Democracy in Turkey: A Stylized Comparison ⁹⁸

⁹⁸ Ziya Oniş and Z. Umut Turem, "Business, Globalization and Democracy: A Comparative Analysis of Turkish Business Associations," *Turkish Studies* 2, no. 2 (2001): 94–120., p. 107.

Conclusion

As an emerging market economy, Turkey's economic model and its change over time cannot be analyzed through the literature on advanced economies, since Turkey does not have the well-established institutional structure, and also does not have the predictable and stable relations between the state and the business. Hence, while analyzing Turkey, the characteristics of the country's economics that should be taken into account are the erratic state behavior and state influence on the economy that does not disappear in any of the periods analyzed. The main aim of this thesis was to analyze the scope of the state intervention and its influence on the capitalist institutions and on business firms.

The Turkish Republic, which was founded in 1923, has been through different models of capitalism in different eras. As explained in different chapters of this thesis, these different models can be grouped into three. Using Vivien Schmidt's categorization, this thesis argues that while the first model of capitalism between the years 1923-1980 was the state-led capitalism, after the implementation of the neoliberal program, Turkish capitalism transformed to the state-enhanced capitalism. However, the state-enhanced capitalism of the neoliberal era also has two different periods. While the period between the years 1980-2002 is marked by the transition to neoliberal era, and enhancing role of the state that withdrew from the economy, the crony relations between state and the Islamic capital, which has become important in the last decades, mark the period after 2002, which is called in this thesis as the AKP model of capitalism. As shown in Table 3, in any of these periods, institutional change happened as gradual change, and there were no critical junctures that resulted in abrupt changes. And, the two models of the institutional change in Turkish economic institutions are conversion and displacement. In the period of the state-led capitalism, conversion and displacement took place together, since while the governments protected the institutions of the previous era, converted them for their own interests, they also built new institutions to serve the purposes of the different economic

strategies implemented. In the era of neoliberal capitalism, displacement was the major model of institutional change, since displacing the old institutions for the neoliberalization was necessary. And, in the AKP model of capitalism, conversion was the major model of institutional change, since even though the model has its own idiosyncratic characteristics; it is a neoliberal model, which does not require displacement of institutions.

	1923- 1980 (State-led capitalism)	1980- 2002 (Neoliberal capitalism)	2002- 2014 (AKP model of capitalism)
<i>Institutional change</i>	Gradual	Gradual	Gradual
<i>Model of institutional change</i>	Conversion and displacement	Displacement	Conversion
<i>Determinant institutions</i>	SEEs, private sector operating through state incentives, DPT, Five Year Plans	Rule by decrees, Turkish Competition Authority, Capital Market Boards of Turkey, Privatization Administration	No significant institutional change, but linking regulatory authorities to PM (TMSF, Privatization Administration)

Table 3: The Institutional Changes in Turkey, Models and Directions of Changes and Determinant Institutions, 1923 to 2014

The economic management in Turkey has always been dominated by the influence of the state. Despite the two critical moments in the economy, Turkish economy has never had a critical juncture, which results in a change of the state involvement. However, the economic institutions change gradually. With the neoliberalization, the method of state involvement has transformed. This transformation also affected the relations between state and the business organizations. This thesis analyses the institutional changes in different periods and the changing role of the state. Focusing on institutions by using a historical perspective has showed that, in all three different periods, rather than significant changes shaped by the critical junctures, the institutional changes in the Turkish economic management were gradual. Moreover, the methods of these institutional changes were convergence and displacement. While displacement took place in neoliberalization

period by creating new and hybrid forms of institutions that combines neoliberal institutions with rule by decrees and previous institutions that establishes state control over the economy, under the AKP model of capitalism, institutions of the previous models of capitalism transformed to serve the interests of new actors that have close relations with the AKP government, and institutional control was guaranteed by linking them to the Prime Ministry.

In the period between 1923 and 1980 of the Turkish economy, which is called as the ‘state-led economy’ in this thesis, the state was one of the main actors in the economy. Especially under the first CHP government, which was the first political party to govern the Turkish Republic, etatist economic policies that led to the state dominance over the economy were implemented. The main reason for this was that creating a national economy was seen as the only solution to prevent the Western dominance on the economy, which the Ottoman Empire suffered in its last decades. In this period, SEEs were of main importance, and seen as the main actors of industrial growth in the Turkish economy. Even though the private sector existed, it was operating through state incentives. However, under the DP governments, which followed the CHP, the role of the private sector on the economy increased, even though the state still remained as an important actor in the Turkish economy. Under the DP governments, especially the agricultural sector gained major importance. When the DP government was overthrown with a coup d’état, the state’s role on the economy increased again, since ISI strategy under state control became the new economic strategy, until the implementation of the neoliberalization program in 1980. The major institutions to continue the state’s influence on the economy were DPT and the Five-Year-Plans that had the main goal of determining the state action on economic management.

The instable nature of the economy and politics also shaped the business behavior. Creating a national bourgeoisie has been a state project, since the foundation of the Turkish Republic. However, different political parties supported different business groups, in line with their ideologies. CHP supported Istanbul-based enterprises, which later transformed into big

conglomerates. And, the uncertainties that both the different economic models and also the various political crises created resulted in these different groups to organize among themselves to protect themselves against uncertainties. TUSIAD was the first of these organizations that was established in 1970s, by the owners of the Istanbul-based enterprises. TUSIAD was more influential in politics, unlike the Islamic business groups that would emerge in later decades, and it was able to change the behavior of politicians regarding the economic management.

When the year 1980 came, the institutional change towards liberalization of the economy was implemented, and the economic strategy was transformed from the ISI to the export-led strategies. The neoliberalization of the Turkish economy was enhanced by the state, through controlling the neoliberal institutions and creating an authoritarian environment on the economic management. After the implementation of the neoliberalization program on January 24, 1980, the state withdrew from the economy slightly compared to the previous decade, but the complete withdrawal of the state never took place. Especially since Ozal ruled the country by decrees in the 1980s, the rules and regulations regarding the economy were arbitrary and did not create a trust environment. In the 1990s, in order to increase competition in the Turkish economy, two important institutions, namely the Turkish Competition Authority and the Capital Market Boards of Turkey were founded. This decade was also marked by privatizations, and Privatization Administration was created to secure the environment for these processes.

Another characteristic of the neoliberal era was the rise of the Islamic capital, which was supported by the National Outlook Movement and the principles of the Just Order. Islamic capital would create an important source of investment in the future, and it would create the base for the polarization of business groups in the AKP era. Islamic capital supported the Anatolian small enterprises, which were neglected by the CHP governments. When in the 1990s Anatolian enterprises became strong enough to organize influential business organizations, they placed themselves against TUSIAD.

There are two important differences between the AKP model capitalism and the neoliberal model before the AKP governments, even though both of the models were enhanced by the state. First of the differences is related to the influence of the state in institutional structure. Under the AKP governments, the state exerted its influence on the economic management by linking the regulatory institutions such as the TMSF and the Privatization Administration to the Prime Ministry, which reduces the independence of the institutions and politicizes them.

The second important difference is that under the successive AKP governments crony relations between the state and the business firms increased significantly and having good relations with the government party became important for doing business in the country. These crony relations resulted in the increasing role of the Islamic capital on the economy. As a result of the increasing role of Islamic capital, the business groups that the Islamic capital supported also became important actors in the economy, which resulted in the polarization of the business sphere under successive AKP governments.

As this thesis has demonstrated, the Turkish models of capitalism show a historical continuity, which finds reflection both in the institutional structure and also in the state-business relations. Even though the role of the state transformed from direct role to indirect role after the implementation of neoliberalization program, the state was always influential on the economy. This transformation also founded reflection in the institutional sphere. On the one hand, institutions adapted to the neoliberal economic policies, on the other hand, as explained in the related chapters, they were never free from state influence. The changing role of the state is explained in this thesis through Vivien Schmidt's distinction of 'state-led' and 'state-enhanced' capitalism.

Furthermore, Turkey, as an emerging market economy, lacks the well-established institutions. This lack creates an uncertainty for the business firms, since they can never be sure about to what extent state intervention on the economic management is exercised. This

uncertainty is the main reason for the emergence of different business organizations in Turkey. However, the emergence of different interest groups in the country that are supported by different governments, combined with the state project of creating a national bourgeoisie, has led to the polarization of the business groups. Furthermore, as investors also changed and as Islamic capital gained importance, religious business organizations has become important rivals to republican TUSIAD.

As a concluding remark, it should be noted that the analysis of this thesis ends with August 2014. After the election of Recep Tayyip Erdogan as President in 2014, the former Prime Minister created an ever-stronger state, which increased its intervention on the economy. That is why, the AKP model of capitalism also transformed after August 2014, which constitutes a topic for further research.

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