1
The state

INTRODUCTION

This chapter looks specifically at the changing nature of the Turkish State since the establishment of the Turkish Republic in 1923, and in particularly since the 1980s. The underlying idea behind this is that the state is the locus of a struggle to redefine the relationship of a society to international capitalism. The unenviable position of the Turkish State in trying to please different and often competing demands of various classes will be highlighted. The state must inaugurate a process of accumulation which somehow reconciles (or chooses between) the demands of peasants, workers and civil servants, etc. on the one hand, and the realities of foreign capital domination and world economic forces on the other. It will be maintained that in the early days of the Republic, the state was used as an instrument to create a local bourgeoisie under a very strict authoritarian bureaucratic rule. Throughout the history of the Republic, the state has been confronted by the simultaneous need to promote capital accumulation, sponsor a ruling class and legitimise class rule. Until the 1980s, populism, nationalism, developmentalism and foreign aid had enabled the state to carry out its difficult tasks. When there were difficulties of legitimacy, the military came to the rescue. However, further integration of Turkey into the global economy in the 1980s necessitated the abandonment of the primary principles of populism, nationalism and developmentalism. Export oriented industrialisation and export orientation of agriculture meant the main principle that underlined the state policies was to be that of the free market economy. The new industrial elite who came to control the state apparatus in the 1980s had a vested interest in liberalising the economy along the lines imposed by global capitalism and its organisations like the IMF and the WTO. The shift from a nationalist state apparatus to a liberal one has not been smooth under a crisis-ridden economy and society.

STATE INTERVENTION IN TURKEY

The Turkish State emerged from the ashes of the Ottoman Empire, which collapsed in the aftermath of the First World War after a long period of decay under European influence. The newly established Republic (1923) had the mammoth task of reconstructing the economy, which was almost completely ruined as a result of the Empire's integration into the world capitalist system as an open market and supplier of raw materials (Avcıoğlu 1968; Keyder 1981; Yerasimos 1975).

The dominant elements in the mainly agrarian economy inherited by the young Republic were merchants and landlords. As the economy was characterised by the export of agricultural products and the import of manufactured goods ever since the 1838 'free trade treaty', agriculture was the 'primary channel of integration into the world economy' (Keyder 1981). The influence of merchants and landowners on the state is quite evident in the policies followed between the establishment of the Republic in 1923 and the Great Depression of 1930. A large number of measures were taken to commercialise agriculture and increase its productivity. On the other hand, the state attempted to industrialise the country through joint investment with foreign capital as well as through the establishment of State Economic Enterprises in the aftermath of the world depression. Large scale import substituting industrialisation (ISI) type production units were established by the state with a view to complementing private enterprise rather than supplementing it.

The world recession of the 1930s provided an opportunity for the new Republic to follow inward-looking development strategies during what is generally referred as the étatist period (1930–39). The relative freedom from external influence in this period enabled the nationalist Kemalist regime to establish import substituting industries in textiles, sugar, cement, paper, mining, etc. Through the introduction of five-year development plans, the state guided the economic growth in both industry and agriculture with little reliance on external sources (Kepenek and Yentürk 1994:60–79). Through significant internal borrowing and taxation, the state managed not only to establish what was going to be the backbone of the Turkish industry in the coming years but also to develop the infrastructure and transportation facilities. In the étatist period the state's active involvement in capital accumulation and investment in economic enterprises took private interests into very careful consideration. The state entered into economic areas where private enterprise failed or was not strong enough, such as the building of infrastructural establishments, main industrial institutions, electrical power stations, railways and the iron and steel industry. The burden of capital accumulation on internally financed industrialisation was shouldered by the masses. On the other hand the private sector was given every encouragement in their capital accumulation process.

Various class interests were represented in the newly established national assembly and big landlords were still a powerful group within the state. However, due to the state's encouragement and support of private investment between 1923 and the 1950s, the industrial bourgeoisie did increase its strength, though not becoming a dominant force within the state. A significant point to make is that the governments since 1923 have had no intention of eliminating the entrenched interests that had been instrumental during the independence war (1918–22) instead they have followed strategies that help the nascent bourgeoisie to accumulate wealth and capital and take a leading role in industrialisation and development. It must also be emphasised that there was no unified interest among the various sections of the bourgeoisie. The different class interests represented within the state were a significant factor, among others, in the abandonment of a single party system in favour of a pluralistic democratic system in 1950.

The Second World War represents a watershed in the history of the new Republic. During the war years, a new mercantile bourgeoisie emerged through black marketing, profiteering and corruption allowed by the shortages of goods and increasing prices (Kazgan 1999:94). The new bourgeoisie consisting of rich landlords and merchants played a significant role in the opening up of the Turkish economy, which had remained largely closed to external influences since the Great Depression of the 1930s. The landlord and merchant power block that gradually came to control the state hoped that western capital and technology would further intensify their interest and power.

Turkey faced a major dilemma in the aftermath of the Second World War: how to reconcile the aims of nationalistic industrialisation necessitated by the Kemalist principles which had governed the state since the 1920s with the pressures put on the country by the designers of the new world order to integrate with the world economy through the liberalisation of its international trade.

Though very appealing, the adoption of trade liberalisation meant compromising the efforts to reduce the country's dependence on foreign sources of finance. For about four decades after the Second World War Turkey struggled between the opposing choices of trying to keep its relatively independent course of industrial development and further integration into the global economy through liberalisation. Policy-makers found it very difficult to completely relinquish the idea of an 'organically integrated national economy' which was deemed to be a *sine qua non* of an independent economy. However, Turkish policy makers were not in a strong position to pursue the notion of the organically integrated economy; a child of the first Five Year Development Plan of 1933 (Tekeli and İlkin 1982).

The 1950s witnessed the strengthening of Turkey's integration into the world economy. The new government elected in 1950 made every effort to take advantage of the aid bonanza in relation to the reconstruction of Europe. This desire was facilitated by the international conjuncture of the post-war period in which the US attempted to establish its hegemony at the expense of the Soviet Bloc. The fact that the Soviets demanded land from Turkey in the aftermath of the Second World War forced the Turkish State to seek western aid. At any rate, the US wanted Turkey to be part of the New World economic order being created. It was not a coincidence that Turkey was allowed to take advantage of military aid within the framework of the Truman Doctrine and economic aid through the Marshall Plan. Despite the fact that Turkey had not been actively involved in the Second World War, the US did not hesitate to let Turkey benefit from the money allocated for the reconstruction of Europe. In the same vein, Turkey joined the IMF and the World Bank in 1947, the IFC in 1956 and the IDA (International Development Association) in 1960. Other International institutions Turkey joined following the Second World War include the ILO (International Labour Organisation), GATT, OEEC (Organisation for European Economic Co-operation) and OECD.

By joining western institutions, Turkey was gradually moving away from the étatist policies which had marked the period between the world recession and the end of the Second World War. Both internal and external pressures existed to gradually relinquish étatist policies. The desire of the big merchants and landlords to have access to foreign capital could not have been met as long as the state continued to have strong control over the economy. This preference was partly the result of the economic and political expediency that forced the state to follow policies that adjusted the economy to the changing international conditions, and partly due to the influence of the US and the World Bank on the state. The Soviet threat for Turkey's security coupled with the US's desire to contain the expansion and the influence of the Soviets in eastern Europe were quite conveniently in place for Turkey who was suffering from severe balance of payments problems. Turkey's strategic importance for the US was the main factor behind the leniency with which aid was provided to Turkey through bilateral and multilateral channels. However, the US administration would not play into the hands of the Turkish Government by providing funds for industrialisation. Instead both the US and the World Bank insisted that priority should be given to agriculture, in order to take advantage of Turkey's comparative advantage. Furthermore, the US and the World Bank strongly recommended that the role of the state in the economy should be reduced and measures should be taken to lure foreign capital into the country (US State Department 1948; Thornburg *et al*. 1949; World Bank 1951).[1]

Obviously the recommendations of the US and the World Bank would not have mattered at all if there were not political and economic groups in Turkey who were already against heavy state involvement in the economy and thus were prepared to introduce changes to lead to the liberalisation and privatisation of the economy. From the early 1950s onwards, the Democratic Party Government shelved the industrialisation policies envisaged by the 1946 Five Year Development Plan and introduced a set of policies to pave the way for the liberalisation of the economy and to emphasise agricultural development as the engine of the economy. As a result, Marshall Aid came to Turkey and ensured that Turkey played the role of food and raw materials supplier in the new international division of labour.

In conjunction with western aid and Turkey's participation in liberal organisations like the GATT, some of the principles of the 'integrated national economy' were compromised but not entirely abandoned. Protectionism still continued to be fairly strong until the 1980s in the form of import substitution. The state oscillated between liberalisation and protectionism for about three decades from the late 1940s. Even liberal business people did not see any problem with protectionism as long as it facilitated capital accumulation in the private sector (Sunar 1974). To a large extent it was the

US defence considerations during the cold war that forced the US to be lenient in giving aid to Turkey, in conjunction with the Marshall Plan, and giving Turkey room to continue to follow protectionist industrial policies (Hershlag 1968:150–160). The fact that throughout the 1950s Turkey aimed at obtaining as much foreign financial help as possible without due considerations for a 'sound fiscal policy' was to get the country into trouble with the international finance institutions. The IMF and the World Bank in particular were concerned that Turkey was using foreign funds to avoid adjustments to achieve economic stability (Yalman 1984). In the World Bank's view, the resultant decline in saving rates, chronic budget deficits and over-valued exchange rates were signs of using foreign funds for postponing adjustment rather than facilitating it (World Bank 1985). The resistance of Turkey to implement liberalisation policies to the letter led to the deterioration of relations between the country and the Bretton Woods institutions in the middle of the 1950s, yet these institutions did not have sufficient power at the time to impose their policy preferences on Turkey. The attempts to reconcile the objectives of industrialisation and adjustment in the late 1940s and the 1950s produced incoherent policies as far as reliance on foreign resources and liberalisation were concerned. The prerequisites of the regime's desire to westernise clashed directly with the aim of reducing dependence on foreign economic resources. Therefore the attempts to speed up industrialisation were of an ad hoc nature and justified the label 'planless industrialisation' (Yalman 2001:147).

As the 1950s were a period of expansion of world capitalism, foreign capital came to invest, in co-operation with Turkish capital, in luxury consumer goods. A highly protected and thus profitable internal market contributed to the development of assembly industries in Turkey. In proportion with the rise in importance of the domestic market, the private sector moved into the industrial sector while the state sector concentrated on the production of intermediate commodities as inputs for the private sector (Gülalp 1983:51).

Despite the growing importance of the industrial classes within the state and political parties, the exigencies of the Turkish election system forced governments to follow populist policies, through which the state attempted to please various interests that were in conflict with each other at times. This is very clear in the agricultural pricing policy. Although in the long run the state tried to ensure a transfer of resources from agriculture to industry, short-term political considerations prior to elections resulted in high floor prices for certain crops. In short, the class configuration in Turkey did not allow the state to follow a coherent industrial policy as no single class could control the state on its own. This was also reflected in the composition of the state bureaucracy. The Turkish bureaucracy, particularly in its higher echelons, was not free from the influence of various factions of the dominant classes. With every change in government, high level bureaucrats would be changed thus preventing the formulation of long-term policies.

ECONOMIC POLICIES IN THE 1950s

A string of economic measures introduced in the 1950s included: the devaluation of the Turkish Lira, the slackening of import quotas, the importation of agricultural technology, the encouragement of foreign capital investments, state guarantees for external borrowing by the private sector, permission to foreign companies to search for oil and refine it within Turkey, the establishment of the Turkish Industrial Development Bank to extend cheap foreign currency credits to private investors, the liberalisation of imports by 60 per cent, and attempts to privatise some of the state economic enterprises.

The economic programme of the Democratic Party in the early 1950s was geared to attract foreign capital through a series of measures aimed at opening up the economy. Some of the measures introduced did not seem to work, as investment capital failed to come in to the country in significant amounts. However, the amount of foreign capital in the form of short or long-term credit lending did reach such levels that a financial crisis emerged in 1958 which necessitated a request to the IMF to start a rescue operation (Kazgan 1999:97–108). The stabilisation programme aimed to control inflation and increase exports through monetary measures, price controls and reorganisation of the trade regime. However, the ensuing devaluation did not increase the export earnings, and the availability of short-term trade credits further exacerbated the balance of payments problems.

Western recommendations concerning the priority to be given to agriculture and the minimisation of the state in the economy were not followed in a systematic way, as the state did not hesitate to abandon them when it deemed it necessary. The striking thing about the so-called 'free market economy' policies of the 1950s was their haphazard and *ad hoc* nature. Policies were introduced but were not followed through. Only the external borrowing aspect of the 'free market' programme seemed to be working. The opening-up of the economy became limited to official aid, import credits and other commercial credit, which fuelled imports. In the 1950s, Turkey's integration into the world economy was largely limited to partial liberalisation of the import regime based on short-term borrowing. Increased debt servicing from 1954 onwards started to wipe away a large chunk of the meagre export earnings.

Productive investment by foreign capital remained very limited following the measures taken to attract foreign capital in the 1950s. Although the optimists argued that the TNCs, which came to Turkey through licensing and know-how agreements, helped their Turkish partners to overcome their difficulties in technological, organisational and capital problems, direct foreign investment was restricted only to certain sectors. The incoming capital was mainly directed to joint ventures with Turkish partners. Foreign companies who invested in conjunction with law number 6224 (the 1954 Foreign Capital Incentives Law), in pharmaceutical, electrical, agri-business, transport, consumer durables, petrol and petro-chemicals and banking helped their local partners in technology, capital formation and organisational problems. Well known TNCs like General-Electric, Pfizer, AEG, Sandoz, Pirelli, Unilever, Mobil, BP and Shell went into joint ventures with Turkish partners (Bulutoğlu 1970; Hershlag 1968; Kazgan 1999) but this represented only a small step in terms of the diversification of the economy.

Given that Turkey was not able to diversify its economy to increase export earnings, which had been based on a few primary commodities (cotton, tobacco, hazelnuts, raisins and figs) since the 1920s, a free market economy meant increasing debts. The foreign trade deficit, which stood at US$22.3 million in 1950, shot up to US$193 million in 1952, and by 1958 Turkey's overdue debt was US$256 million (Kazgan 1999:101). The country's inability to service its debt generated a crisis of confidence, which in turn reduced the amount of programme credits necessary for vital development needs. Turkey was forced to accept an IMF stabilisation programme in 1958, which extended a further US$359 million credit as well as postponing the overdue debts of US$420 million.

Although the 'free marketeers' came to power in 1950 they were not powerful enough to ensure a comprehensive liberalisation of the economy. Not only were *étatists* still a powerful force in the parliament, but also the nature of the economy did not lend itself to a wide-ranging liberalisation. To begin with, the economy was agrarian in nature and based on primitive technology. Second, the few state run industrial units in existence were not profitable enough to attract foreign take-over. Furthermore, these establishments were Kemal Atatürk's legacy and no one would dare to completely transform them, as Kemalist ideology was deeply entrenched in Turkish society. In addition, the Government taken over by the Democratic Party in 1950 was not financially sound enough to carry out extensive reforms, which would have disrupted the already troubled economy. Therefore, throughout the 1950s, the Democratic Party oscillated between state intervention and 'free marketism'. Despite attempts to liberalise the economy, state intervention in the economy still remained very strong. For one thing, the state was not able to sell most of the state economic enterprises to the private sector, as it lacked sufficient capital to buy. Furthermore, the private sector had become used to obtaining cheap goods and services from the public sector. The state was also expected to invest heavily in infrastructural development. Consequently, state involvement in economic investments did show a significant increase in the 1950–60 period.

State intervention in price formation, the rate of profits and foreign currency allocation and distribution became a daily event as a consequence of the failures in short-term debt servicing and in securing further external funds. The haphazard nature of state intervention generated a general instability in the economy. The envisaged plans and programmes were quickly shelved and newly introduced ones also suffered the same fate. In this vein, the promise to emphasise agricultural development in congruence with the principle of comparative advantage was soon replaced with policies giving priority to industrialisation. In this period of ups and downs only one thing was constant; the reliance on short-term external borrowing from both official and private sources. The US$1882 billion borrowed between 1950 and 1960 stimulated imports and further added to the balance of payments problems, which had been in the red since 1947 (Kazgan 1999:104).

In the mid 1950s, under pressures from the import-substitution (IS) industrialists and importers, the Menderes Government refrained from devaluing the Turkish Lira but concentrated on other stabilisation measures such as increasing taxes and the control of bank credits. However, all the measures taken to maintain the import requirements of the economy failed abysmally towards the end of the 1950s and the Menderes Government had to adopt an IMF-guided stabilisation package in 1958 (Krueger 1990). The debt crisis of the late 1950s forced Turkey to accept the first austerity programme in August 1958 and consequently US$420 million of Turkey's debt was re-scheduled and US$359 million new credit was extended. The measures introduced to control inflation were not very successful and a stagflation dominated the economy between 1959 and 1961. Likewise, the devaluation of the Lira in August 1958 was not effective enough to increase exports. On the contrary, import expansion due to the decline in world market prices and the availability of further credit imports worsened the balance of payments. Despite all its efforts, the Menderes Government was not able to achieve macro-economic stability throughout the 1950s. The inconsistent policies of the 1950s, which oscillated between state intervention and liberalisation under the auspices of the IMF and led to economic and financial crises, came to a sharp end in 1960 with a military intervention.

THE PLANNED PERIOD 1960–80

The coup signified a shift from a relatively free market oriented approach to a planned economy. The military rule and the civilian rule that followed it emphasised state planning in the economy. The justification behind planning was to enhance the common good by using the scarce resources more rationally (State Planning Organisation 1963).

Despite the claims that planning may be a harbinger of a regime change towards socialism thus threatening the existing order, the plans themselves did not acknowledge any contradiction between the state sector and the private sector. The Turkish bureaucracy which put the plans into action under the auspices of the military saw the two sectors as complementary rather than mutually exclusive and thus antagonistic (Barkey 1990; Öniş 1992a). Three consecutive five-year development plans (1963–67, 1968–72 and 1973–77) brought about a fast and steady economic growth. The Second Five-Year Development Plan (1968–72) eased up the concerns about the regime change with its more market-friendly approach than the First Five-Year Development Plan (1963–67). While it stated its loyalty to private ownership, it declared that state enterprises were to play a significant role in areas where the private sector did not have capabilities. Thus, development plans envisaged a mixed economic framework in which the interest of the private sector was served by the services and production provided by public enterprises (State Planning Organisation 1969). This was evidenced in the Third and Fourth Five-Year Development Plan periods when private investors were provided with all sorts of state incentives in spite of the fact that the private sector was not able to meet the targets set by the plans (Kepenek and Yentürk 1994; TÜSİAD 1980; TOBB 1974). The Turkish bourgeoisie fear of the state power holders as a potential threat to its well-being was intensified by the 1961 Constitution, which provided the legal framework for the working class to unionise. In addition to the bourgeoisie's criticism of planning within the mixed economy, the plans themselves carried internal contradictions in that the main aim of reducing dependence on foreign resources was not compatible with the high rates of envisaged economic growth given the low levels of domestic savings and capital formation. The targets introduced in the plans were obligatory for state enterprises and directive for the private sector investments. In the vanguard of the newly established State Planning Organisation, import-substituting policies characterised the period under consideration. State investment constituted more than 50 per cent of the total investment and controls were introduced to govern the foreign trade and foreign exchange regime. A relative de-linking from the world economy was reflected in the fact that the ratios of exports and imports to the GDP remained 4.5 and 6 per cent respectively. The inward-looking development policies aimed at increasing the levels of profitability in industry and agriculture, while attempts were concentrated on the expansion of the internal market through populist income distribution policies.

The origins of import-substitution policies in Turkey go back as far as the 1930s, but the real impetus came in the 1960s (Berksoy 1982; Boratav 1974). The period between 1930 and 1980 was characterised by increasing involvement of the state in the economy and by almost entirely inward-oriented industrialisation. State intervention was pervasive in the protection of national industries against foreign competition; in the production and provision of certain basic goods and services; and in the provision of legal, bureaucratic and institutional structures to regulate the process of industrialisation, labour relations and income distribution (Erdilek 1986; Gülalp 1980). Measures were taken to ensure the enlargement of the internal market for the sustainability of import-substituting industrialisation (ISI). After the introduction of a pluralist democratic system in 1950, policies to keep the incomes of rural producers and wage earners fairly high had positive consequences for the enlargement of the internal market, which in turn had a positive effect on the development of inward-looking industries. Once ISI took root, the transition from primary import-substitution to secondary import-substitution in the early 1960s was fairly painless, despite some ups and downs (Sönmez 1980). Foreign currency earnings from the export of primary products, external credits and workers' remittances, mainly from Germany, were the most important sources of finance for the easy stage of ISI, and continued to be significant in the early days of the secondary phase of ISI. However, the increasing need for higher technology and inputs necessitated a stable foreign currency income, which could not entirely be met by the export of primary goods and workers remittances from western Europe. As the Turkish capitalists continued to expect resource transfers from public sources to the private sector, rather than relying on their own savings and capital formations, the policy-makers had to approach outside sources including the OECD for funds which were accompanied by some conditions (Bulutoğlu 1967; Öniş and Riedel 1993).

Given that the productivity of Turkish industry was quite low and the industry was not competitive in the world market, the crisis with ISI was inevitable (Arın 1986). In the early days of the planned period, the need to increase foreign currency earnings was simply overlooked. Protection offered to new industries was far from being well planned or organised and included import restrictions, customs duties, quotas and prohibitions. Pampered by such policies, Turkish industrialists were not concerned about technological improvements or cost reducing measures that would increase the competitiveness of the sector. The fixed rate foreign currency policy, which led to the overvaluation of the Turkish Lira, made exports expensive and imports cheap. The state was largely responsible for the unproductive and non-competitive nature of IS industries, as it implemented a protective industrialisation strategy without differentiating between the various sectors of industry.

By the end of the 1970s, the import dependence of industry had reached such serious dimensions that the state could not meet its debt obligations for the money borrowed to continue to pamper the inward-oriented and inefficient industries (Çelebi 1991). Furthermore, the protective measures, which included high tariff walls, import quotas, low interest rates and preferable exchange rates for industrialists, had reached such proportions that industrial interests did not have much incentive to invest in higher technology in order to improve the competitiveness of the industry. However, despite the low productivity of industries, the profitability levels of private industrial establishments were kept high by a large number of so-called 'encouragement measures' offered by the state. Most of the encouragement measures were of a financial and monetary nature. Through overvalued currency and high protective tariff walls, Turkish industry was protected against outside competition. As a result of these measures, a group of rent-seeking Turkish business people went from strength to strength, to such an extent that monopolies in certain areas emerged. Business people were provided with the opportunity to borrow from government sources at rates much lower than the rate of inflation, and thus were able to accumulate capital and wealth at the expense of the Treasury. Furthermore, the private sector was provided with cheap inputs produced by the State Economic Enterprises (SEE) which had been making considerable losses for some time (Boratav and Türkcan 1991). One positive consequence of the state pampering of private capital was the fact that the level of investment in various sectors of the economy showed a considerable increase, though production was largely for the internal market. The impact of western financial institutions on the Turkish economy and politics remained very low in this period. The amount of foreign direct investment remained very low throughout the 1960s and the early 1970s. The fact that the country was able to meet its foreign currency needs from exports, workers' remittances, and private financial sources meant that it was less vulnerable to the imposition of the international finance institutions such as the IMF and the World Bank and other international organisations and treaties like the OECD and the European Common Market (Kazgan 1999:113).

It was during this period that the private sector in industry managed to accumulate capital and develop expertise in an attempt to take a leading role in the economy. Strong state support for industrialisation efforts strengthened the fledgling industrial class who relied heavily on state enterprises for cheap inputs and the expertise developed in such enterprises. Policies like Convertible Turkish Lira Deposits and government protection against foreign exchange risks for short-term borrowings by the private sector were two of the main mechanisms of resource transfer to the private sector. Populist policies aimed at meeting welfare needs generated a stable atmosphere in which the private sector flourished. A relative atmosphere of freedom brought about by the 1961 Constitution helped develop civil society organisations and trade union movements. This overall positive picture gradually started to disappear in the aftermath of the first oil crisis in 1973. Although there was a mild crisis stemming from the balance of payment problems and the difficulties of meeting debt obligations, which necessitated an IMF austerity programme in 1970, Turkey managed to maintain the relative prosperity of the economy.

Despite opposition from the industrial bourgeoisie, the Demirel Government that implemented an IMF requested devaluation policy in 1970 saw this as a necessary evil as it thought this would speed up Turkey's integration into the world economy. The acceptance of the IMF's stabilisation package represented the victory of adjustment over industrialisation. Yet the relationship between governments and the business community was not an easy one as there was no consensus among coalition partners as to the concessions given to business and the implementation of an IMF stabilisation package in the mid 1970s. However, for a short period of time the devaluation policy and the stabilisation package seemed to have done the trick of alleviating the balance of payments problem by speeding up exports and allowing the transfer of workers' remittances. The rate of GDP increase registered 6.7 per cent in 1963–67, 6.6 per cent in 1968–72 and 7 per cent in 1973–76. Both the agricultural and industrial sectors showed positive growth. The rate of industrial growth was as high as 10 per cent on average between 1963 and 1976 (Kazgan 1999:110, Table 3).

Yet the crisis emerged in parallel with a fairly high average rate of economic growth, at 7 per cent per annum. Due to lack of competitiveness in the world market, IS industries could only sustain themselves as long as the state was able to continue to provide cheap input, capital and finances. Although the State Planning Organisation had a large domain of influence between 1960 and 1970, its vision of industrialisation through supporting both the public and private sector prevented it from putting more emphasis on a highly selective group of industries. Therefore it is not surprising that in Turkey the state ran into a huge deficit of balance of payments. The deficiencies of ISI could have been overcome, according to Barkey (1990), if the cleavages within the private sector had not been so severe as to ruin the ability of the state to formulate and implement policies to correct such deficiencies. The conflict and struggle between different factions of the private sector to influence state policies in order to increase their share of the economic rent, prevented the state from following long-term policies to improve Turkey's economic performance. Such conflicting and competing pressures on the state 'led to its ultimate paralysis' (Barkey 1990:110–139 and 149–168). The 'zero sum game' nature of the pursuit of economic rents made it almost impossible to co-operate on a policy which would have had long-term development objectives. Different groups attempted to influence state policies in different directions in order to obtain the lion's share of the rents provided by state interference in the economy. The conflict was reflected in the political-economic stalemate in the relations between the state and the private sector throughout the period from the 1960s to the 1980s.

The problem of foreign currency shortage was exacerbated by the oil crisis and by the world-wide economic recession in the 1970s. The crisis faced by the Turkish economy was evident from the fact that there was a severe drop in overall production, a sharp decline in the rate of economic growth, a slow-down in investment, a debt crisis, and high inflation. The impact of the first oil crisis in 1973–74 was compounded by the US arms embargo, the undeclared western economic embargo as a result of Turkey's intervention in Cyprus and by the cost of this intervention. The balance of payments, already in the red, had gradually become even worse due to the quadrupling of oil prices. The balance of payments was further exacerbated by the fact that industries were run by subsidised petrol and that the over-valued Turkish Lira encouraged imports of capital goods. Despite some increase between 1973 and 1976, export revenues could only meet 37 per cent of the imports. Perhaps one positive impact of negative interest rates, the overvalued Turkish Lira against the US dollar and increased imports was the expansion of the economy by about 9 per cent annually between 1973 and 1976 (Kazgan 1999:110, Table 3).

Petro-dollars accumulated in petroleum producing countries due to high prices in the 1970s had ended up in the US and western banks who were extremely eager to lend to less economically developed countries. Along with countries like Brazil, Argentina and Mexico, Turkey did not hesitate to borrow heavily on a short-term and low interest basis. The rapid economic growth based on short-term borrowing reached its pinnacle in 1979 and then started to decline. The debt burden brought about by short-term borrowing and insufficient export earnings was compounded by the necessity to import foodstuffs, which in turn was triggered by the scarcity of agricultural goods. From 1977 onwards, there were significant signs that a debt crisis was to emerge and in 1978 Turkey defaulted on the interest payment. Fresh funds were obtained from the IMF in 1979 after long and tough negotiations which forced Turkey into accepting the implementation of a string of belt tightening adjustment and austerity measures as well as guaranteeing the payments of both the public and private debts (Kazgan 1999:132–133).

During the negotiations throughout 1977 and 1978, shortages in almost everything, but most importantly in fuel, electricity, cooking oil and gas, contributed to escalating instability in the country. There were several government changes between 1977 and 1979. After several attempts by a few new governments at austerity measures, a comprehensive austerity package was introduced in June 1979 in the wake of an agreement signed with the IMF. Some of Turkey's debt was re-scheduled and some of the short-term debts were converted to long-term debts. Despite some improvements in the balance of payments due to declining imports and increasing workers' remittance, the economy was far from recovering. The rate of inflation soared up from 25 per cent in 1977 to 52.6 per cent in 1978 and 63.9 per cent in 1979. Positive economic growth throughout the 1970s dropped to 0.3 per cent in 1979 (Kazgan 1999:133). External developments and difficulties compounded the chaos in the country. The second oil crisis had a shocking impact on the country, which at the same time experienced a declining terms of trade due to falling prices of agricultural commodities in the world market. Furthermore, the US decision to increase interest rates in the late 1970s worsened the debt burden of the country, which had borrowed with little regard for the floating exchange rates. Under the bottlenecks of the debt crisis and import-substitution the existing industries were operating at around 50 per cent capacity in the 1980s. This was largely due to the expansion and diversification of the economy throughout the 1970s. Cheap credit guaranteed by the state had enabled the private sector to increase the capacity of the manufacturing sector. New holdings reminiscent of the Korean Chaebols had developed rapidly and through joint ventures with TNCs had contributed to the diversification of the economy. The construction sector, the most dynamic sector in the economy for a long time, had made significant strides in gaining large-scale international contracts, specifically in oil-rich Arab countries. Furthermore, the banking sector had expanded significantly, taking advantage of the liberal policies encouraging foreign capital in the 1970s. The fresh funds needed for the operation of all these were not forthcoming as the country had lost its credibility due to the debt crisis. Structural adjustment policies, which would supposedly transform the nature of the economy and ensure its export orientation, were heralded as the solution.

The economic crisis in the late 1970s was paralleled by social and political crises in which armed clashes between extreme right and left in most cities made life extremely difficult for the ordinary citizen. Furthermore, Parliament was not able to function properly due to the uncompromising behaviour of various parties both in power and in opposition. The proliferation of political parties between 1960 and the late 1970s was a direct result of the cleavage of interests between the factions of the private sector. In attempting to please a number of conflicting rent-seeking groups, the state lost its ability to produce coherent long-term policies. There were continuous changes in the government and most of the coalition governments were short-lived due to conflicting interests, not only between coalition partners but also within each of the political parties participating in the coalition. While political parties were at each other's throats for a better share of the economic rent for their own supporters, the country was experiencing a very serious economic and political crisis. The deficit of the balance of payments was increasing rapidly, shortages of many consumer goods were becoming severe and political stability was in real danger as a result of demonstrations and street clashes between the militants of the extreme right and left. In other words, the economic crises of the late 1970s were accompanied by political crises. The two elections since the 1971 military ultimatum could only bring unstable coalition governments who were unable to control the economy and the social tension and street clashes in the country. The crescendo of the social and economic chaos was the 1980 military coup that brought down a Justice Party minority government. With the benefit of hindsight, it is possible to argue that the contradictory policies of trying to invest in industrialisation and trying to ensure the flows of funds to the private sector were the main reasons behind the public deficit and balance of payments problems. A number of observers agree that the demands of industry in general and the private sector in particular for new funds forced the governments to recourse to external borrowing, which meant a great deal of compromise from the development plans' main objective; that of reducing dependency on foreign resources (Celasun and Rodrik 1989; Kepenek and Yentürk 1994; Tekeli and İlkin 1993).

This crisis had serious repercussions on income distribution and industrial relations. Until the end of the 1970s Turkish industrialists were indifferent to the state's populist policies concerning wages and agricultural crop prices (Boratav 1991). In a sense, such policies were a godsend for the protected import-substituting industries, which relied on the expansion of the internal market. However, with the economic crisis and the emergence of an export-oriented accumulation model, industry started to demand regulations and policies which would curb labour costs, open up the economy, ensure its competitiveness in the world market, and establish free market principles. For the import-substituting industrialisation which characterised the 1960s and 1970s, high wages and high agricultural incomes were necessary for the formation of a large internal market.

With the proposed restructuring of the economy towards export-promotion, wages became a high cost of production and thus had to be curbed through state regulations. Such demands also came from the international financial institutions, which claimed that the state's involvement in the economy was largely responsible for the existing crisis which had led to high price rises, production difficulties, balance of payments problems and social and political upheavals.

In the late 1970s, the Turkish bourgeoisie complained that development plans, though useful, lacked sufficient discipline to prevent economic instability and to ensure efficient use of scarce resources. In order to influence industrialisation policies, industrialists organised themselves under the umbrella of the TÜSİAD (The Organisation of the Turkish Industrialists and Businessmen) and the TOBB (the Union of the Chambers of Industry) in 1975. The immediate aim of these two organisations in the late 1970s was to force the state to take the necessary measures to create a vertically integrated industrial structure. In the process they expressed their willingness to obey development plans which would impose the discipline to adopt fiscal and monetary policies to fight economic instability (TÜSİAD 1976, 1977). The envisaged structure of Turkish industry was to combine capital intensive modern industries with labour intensive export-oriented industries. Given the low level of technology in Turkish industry, it was deemed necessary to go into joint ventures with the TNCs. The industrialists demanded a new integration with the world market in which the state would actively promote such transition and provide sectoral planning and other necessary conditions. One thing was clear, in the late 1970s the Turkish industrialists were not completely in favour of Turkey's further integration into the world economy through full liberalisation including trade liberalisation. They wanted the state to provide sufficient protection for industry and find the necessary foreign resources for development at the same time. However, this was not compatible with the conditions set by international lenders and their organisations. The IMF insisted on the implementation of stabilisation measures before lending any furher loans in 1977 and 1978. On the other hand, the European Economic Community (EEC) was insistent on the trade liberalisation stipulated by the Annex Protocol. The Ecevit Government in 1977–78 was caught between the Turkish industrialists who wanted state support for ensuring their entering the world market as strong contenders, and the IMF and the EEC who insisted on liberalisation and structural adjustment. This eventually brought about the downfall of the Ecevit Government who could not please either side. The incoming minority government of Demirel in 1979, though slightly relieved by the two debt resceduling agreements signed by Ecevit's Government, was not able to reduce economic and social problems, nor was it able to reconcile the demands of the industrialists and the international institutions, and it was forced out of office by the army in 1980 (Yalman 2001:172–194).

DEVELOPMENT SINCE 1980

The 1980 coup represents a threshold in the integration of Turkey into the world economy. Under the auspices of the army, Turkish policy-making became an arena in which the IMF and the World Bank had a strong influence. Soon after the coup the Government signed a three-year stand-by agreement in 1980 which could be interpreted as the death of Turkish policy-making and as an infringement on Turkish national sovereignty (Wolff 1987:105). The set of performance criteria for the fiscal and monetary policies imposed simply bypassed the legislative functions of Parliament and centralised the decision-making process. The ironic thing is that the World Bank, which became involved in five Structural

Adjustment Loans (SALs) to Turkey, insisted on the continuation of development planning as a 'medium-term strategy' in order to link the short-term objectives of stabilisation policies with the long-term structural adjustment policies (World Bank 1987:23–24). The Fifth Five-Year Development Plan, which was prepared by the Government with the direct participation of the World Bank, specifically stated that planning was basically a vehicle to establish a free market economy which would emphasise growth with stability.

The sorry state of the economy in the late 1970s forced the Government to emphasise the virtues of the free market economy as suggested by international finance institutions. The stabilisation policies, introduced on 24 January 1980, have been the subject of a long-lasting debate.[2] The essence of the package was to install and strengthen the free market economy. One of the main intentions was to gradually cut back the state by way of privatising the State Economic Enterprises (SEEs) and limiting state expenditure. The integration of the Turkish economy with the world economy was also very high on the agenda. Although the immediate intention of the SAPs was to solve the foreign currency problem and stabilise prices, the long-term desire was to introduce structural transformation measures which would open up the economy and integrate it into the world capitalist economy. Plans and programmes were designed to emphasise a development strategy, which would give priority to export-oriented industrialisation. The policies followed by Turkey since the 1980s reflect a gradual application of the principles of the Washington Consensus which aim to replace a state system with a market system through the opening of the economy, the restructuring of public expenditure priorities, the liberalisation of the financial sector, privatisation, deregulation and the provision of an enabling environment for the private sector.

As a first step in this direction, foreign trade and the foreign exchange system were liberalised at a speed that surprised even the IMF and World Bank officials (Boratav 1991:85). Since 1980, economic policies have continuously encouraged activities which would bolster up exports. To facilitate such policies, other fiscal and monetary measures were also introduced at very high speed. Such policies included the continual devaluation of the Turkish Lira and a flexible exchange rate policy based on daily adjustment. Furthermore, industrialists were supported by policies such as tax rebates and export credits, so that the competitiveness of Turkish products in the world market can be ensured and export business becomes profitable for capitalists. In the pre-1980 period, financial markets were developed in order to speed up the emergence of large scale firms comparable with their foreign counterparts, as even the biggest Turkish firms were quite small compared with large foreign firms. The credit mechanism was the most important tool used in this process (Nas and Okedon 1992).

In order to increase export capacity, domestic demand was restrained through a very tight wages policy and a strictly controlled agricultural prices policy. This started a tendency in which the gains made in wages and agricultural incomes between 1950 and 1980 were gradually eroded. Consequently, income distribution became highly unequal, discriminating against wage earners and the salaried (Arıcanlı and Rodrik 1990). The cutting back of the state on the whole speeded up the process of impoverishment as it meant increased unemployment as a result of privatisation, and ensuing rationalisation and a lower standard of living as a result of the cuts in social welfare provisions.

Another significant change was the continuous manipulation of the rate of interest. Prior to 1980, interest rates were well below the rate of inflation. Since 1980, interest rates have been kept extremely high in the belief that they will reduce internal demand and encourage saving. However, in the absence of proportional wage increases, internal savings have remained very limited, and have been channelled to foreign currency accounts. Additionally, the impact of high interest rates has been very negative on manufacturing industry, as the price of capital borrowings increased to unmanageable proportions. A number of small firms went bankrupt and the tendency towards monopolisation speeded up (Şenses 1994). Some measures were introduced to offset the negative consequences of high interest rates and they included tax exemptions and encouragement premiums offered to business people. The reaction of industry to high interest rates is very interesting. Instead of investing in new technology, which would have improved the competitiveness of industry, the manufacturing sector preferred to invest in order to improve their unused capacity. In the period since 1980, most investments have been made in tourism, housing and small-scale manufacturing industry. Consequently, investments in industries with a capacity to compete in the world market have been extremely limited.

In the decades prior to 1980, the state played a leading role in areas where private capital was not capable of investing large sums, such as steel and iron works and petroleum refineries. Such state investment came to a virtual stop in the 1980s. This disproved the belief that private capital would fill the gap created by the state's retreat. Despite all efforts, private investors kept away from large-scale industrial adventures. Turkish industry, which had been used to negative interest rates, faced a real economic crisis as a result of the high interest rates after the 1980s. Capital fled to the commercial and financial sectors rather than remaining in the productive sector. A consequence of this was that the industrial sector continued to be characterised by weak capital stock, low productivity and low technology.

Despite the facts that Turkish private capital shied away from investing in the productive sector and that the public sector investments in manufacturing were not encouraged by the World Bank, the share of manufacturing in exports showed a steady increase throughout the 1980s and until the mid 1990s (Şenses 1994). This irony that, despite the low level of investment in the manufacturing sector, the share of manufactured goods in total export had shown a significant increase has been taken as evidence of the triumph of the liberal free market economy. Yet the reality had nothing to do with the free marketeers' claim that the restructuring of the economy was realising the targeted export orientation. Increased output was largely the result of the revitalisation of the unused capacity in existing industries rather than due to further industrialisation. The SALs by the World Bank were designed to create a suitable environment for the private sector to take initiatives to restructure the economy to ensure sustained economic growth. In the absence of loans for 'industrial restructuring', the state concentrated its efforts on capitalising on Turkey's newly elevated strategic importance stemming from the events in Iran and Afghanistan in the 1980s. Easily obtained funds enabled the state to implement SAPs without any serious difficulty in the 1980s, but at the same time they contributed to the country's vulnerability to external sources of funds. Public sector investment in industry was not on the agenda throughout the 1980s, as it would have clashed with the IMF conditions.

The interpretation of Turkey's increased exports of manufactured goods as a success of adjustment attracted counter arguments that such increase was due to the reorientation of the pre-1980 IS industries that revitalised the unused capacities created by one foreign exchange crisis. Subsidies and tax rebates for industry as well as real depreciation of the Turkish Lira throughout the 1980s contributed significantly to the competitiveness of the manufacturing industry, not the SAPs. Perhaps one significant contribution of the SAPs was their impact on domestic market reduction emerging from the tight wage policy. A restricted internal market for manufactured goods made more goods available for exports. Given this, it would be misleading to talk about the re-structuring of industry in Turkey during the 1980s. The expectation and recommendations of the World Bank's experts that Turkey should follow its comparative advantage by concentrating on the production skill-intensive goods did not materialise (Balassa 1979; World Bank 1988). Since 1980, Turkish manufacturing industry has continued largely to produce for the internal market in establishments that have had substantial help from the state. Investment in manufacturing has been largely abandoned both by the public and private sectors. At the beginning of the 1980s, the Turkish bourgeoisie abandoned its aim of development based on integrated industrialisation on account of the realisation that the international finance institutions (IFIs) would not support such a policy nor would they give the green light for the much needed foreign loans to run their businesses. Instead of attempting to deepen industrialisation, the Turkish private sector basically attempted to improve the existing industries in order to improve the production of intermediate goods. One plausible explanation for the lack of investment in export industries is that Turkish industry did not have a proper research and development section to ensure its competitiveness in the world market. For this reason Turkish industrialists continuously searched for foreign partners to provide them with technology that concurred with the domestic market (Yalman 2001:202). The significant increase in the production of intermediate goods between 1983 and 1988 was accompanied by a parallel increase in imports to support such industries (Celasun 1991). However, on the whole both private and public investment in the manufacturing sector declined significantly (World Bank 1988). The TNCs such as General Electric, Unilever, General Motors, Toyota, etc. operating within the country continued to produce for the internal market rather than the export markets (Yalman 2001:199). While the Turkish capital groups expanded throughout the 1980s, this was not an indication of a new model of accumulation based on the restructuring of industry. Based on interviews carried out with some leading industrialists, Yalman (2001:203) points out that many regret that they failed to become incorporated into the global production organisations of the TNC as manufacturers of components.

HOW SUCCESSFUL WERE THE SAPS IN THE 1980s?

In the early 1980s, the Turkish case was presented by the International Finance Institutions such as the IMF as the shining example of successful SAPs. However, it must be emphasised that the increase in the export of manufactured goods, as explained above, was not the result of a structural transformation of Turkish industry, but a result of continual devaluation, decreasing real wages and encouragement subsidies given to exporting industries.[3] While such measures decreased the cost of production in manufacturing industry and decreased the prices of exported commodities, they also increased the public debt as borrowing financed the subsidies. Despite an increase in the quantity of exports of manufactured goods, no significant change occurred in the nature of products exported. They mostly consisted of textiles, processed food and leather products, glass and metal works. This can hardly be construed as a real technological transformation of the economy. On the other hand, as a result of import liberalisation policies the quantity of imports also rose considerably (Aydın 1997, Tables 3 and 4: 75–76). In addition to luxurious consumer items, large quantities of machinery and technology have been imported since 1980, which indicates an increasingly dependent industry both in terms of technology and inputs. In other words, increased export capacity has been achieved alongside increasing import dependence. In the period since 1980, integration of the Turkish economy into the world capitalist system has been intensified through international trade. Yet, as the declining investments in both publicly and privately owned industries have shown a considerable decline, it is fair to claim that since the early 1980s neo-liberal policies in Turkey have failed to make a positive contribution to industrial development (Öniş 1992:497). In the second half of the 1980s the state emphasised investments in infrastructural development, particularly in the development of the telecommunication systems and highways. It is interesting to note that high cost infrastructural investments have been realised by resorting to internal and external borrowing.

One of the expected results of the SAPs was to get rid of the rent-seeking mentality through the reduction of the state. During the structural adjustment epoch, however, rent-seeking showed a clear ascendance rather than disappearing. A major transformation in the nature of the higher echelons of Turkish bureaucracy was instrumental in the allocation of rents. In the 1980s the political layer of the Turkish state gained the upper hand *vis-à-vis* the bureaucratic layer in decision-making related to the allocation of rents. It seems that the Turkish bureaucracy, which tried very hard to regulate and ensure equality in rent distribution during the ISI phase until 1980, lost its grip on decision making. Since the 1980s, the political layer of the state has been ignoring the detailed regulations prepared by the bureaucracy on issues such as government tenders, import licences and urban land use, and has been operating along the principle of a patron–client relationship in rent distribution (Boratav 1994:166–168). To ensure a clientelistic relationship between the political layer of the state and the business circles, the Motherland Party governments appointed all the top level decision-making bureaucrats from their own ranks and left the traditional bureaucracy in a subordinate position as far as key decisions about the economy were concerned.

Export subsidies replaced import quotas as the dominant form of resource transfer to the private sector from the state (Yeldan 1994). As far as the promotion of a rent mentality and the creation of rents for the private sector, there has not been much change between the interventionist period of 1960–80 and the liberal period starting from 1980. The state was and is actively involved in the creation of rents in a number of ways:

- State Economic Enterprises (SEEs) were run in such a way that the private sector was the main economic beneficiary.
- Salvaging bankrupt banks and industrial firms effectively resulted in the allocation of state funds for the use of such firms.
- State institutions were used for the legitimisation of corruption in official tenders.
- Illegal planning permissions were granted and construction without planning permission were pardoned thus protecting land speculators.
- While the cost of credits were rising, those close to the power holders were being granted preferential credits or their debts were being postponed.
- There were tax rebates for exports leading to the emergence of phoney exports.
- There was privatisation of state enterprises leading to rent creation.

- Tax rebates and funds for the establishment of certain businesses were granted undeservedly. In short, export subsidies, import surcharges, government tenders, fiscal incentives, subsidised credits, building licences, 'salvage operations' for insolvent firms and amnesties for 'economic crimes' are some of the state policies which have led to the enrichment of some business groups (Boratav 1995).

Liberalisation policies and other policies that encouraged speculative activities further fanned the flight of capital to financial and commercial areas where a quick return on investment was possible. The growth of a speculative rent-seeking social class progressed on a par with the weakening of industrial capital. Often it was the same people who moved away from productive activities to rent-seeking activities. The latest example of productive capital's flight to easy rentable activities was related to the state's inability to repay its debts, both internal and external. In recent years, in order to compensate for revenues lost through the privatisation of the SEEs and to meet state expenditure, the state resorted to extensive borrowing from both internal and external sources.[4] Government efforts to meet debt obligations with further internal borrowing created a class of rent-seekers who prefer to sit back and wait for maturity rather than investing in productive activities. This trend brings about a paradoxical situation where a significant decrease in industrial output accompanies a healthy growth in the economy. This was particularly true of the decade prior to the 2001 economic crisis.

In this period, import restrictions on many items were lifted, exchange regulations were changed from a fixed exchange regime to a floating one and foreign currency accounts were legalised. Particularly during the period of military rule, between 1980 and 1983, strict monetarist financial policies were implemented and as a consequence severe reductions in state budgets and public investments were witnessed. In the same vein, the credits given to the SEEs were cut. On the other hand, business groups were favoured in taxation policies as the tax burden was shifted to the waged and salaried classes.

Commensurate with the guidelines set by the IMF and the World Bank, governments in the 1980s became adamant that the state would gradually abandon its role in the economy to move away from the notion of an 'enterprise state'. This was very clear in the

Sixth Development Plan (1990–95) where the state set no targets for the manufacturing sector in order to increase industry's international competitiveness. Instead the plan reiterated the virtues of the 'free market' as the most efficient resource allocation mechanism. The Association of the Turkish Industrialists and Businessmen (TÜSİAD) showed its dissatisfaction with the state's insistence on the free market. Although in the late 1970s and the early 1980s the TÜSİAD lent support to free market ideology and rhetoric this was largely due to the economic expediency of the times rather than an ideological commitment to free marketism. They believed that access to external credits were only possible as long as the IFIs were kept happy, thus they went along with the free marketism. Even during the time when export incentives were offered, TÜSİAD insisted on selective incentives rather than indiscriminate incentives. From the middle of the 1980s, TÜSİAD became quite vociferous in its demands for selective incentives designed to reduce the import dependence of the industry. As Yalman puts it, the position of the industrial bourgeoisie on the role of the state in the economy since the late 1970s has been governed not by ideology but expediency (Yalman 2001:237–240). The same organisation in the late 1970s seemed to be strongly behind free marketism but since the mid 1980s it has been asking the state to act as a developmental state by providing guidance for investment in selective areas in collaboration with international capital. The most important organisation of the Turkish bourgeoisie, the TÜSİAD, has simply been asking for a new system of protection not based on personalised clientelism but on new transparent rules and regulations, regardless of the fact that channelling resources for private capital accumulation may generate macro-economic instability and/or the fiscal crisis of the state.

LIBERALISATION OF FOREIGN TRADE

In the 1984–89 period, although there were attempts to liberalise the trade regime, the actual policies were far from a complete adherence to the spirit of liberalism. Critics argued that not only were the average nominal tariff rates above 40 per cent, but also the introduction of a new system of import levies, which intended to increase Extra Budgetary Funds, tended to distort prices and bias production toward the internal market (Celasun 1990; World Bank 1988). TÜSİAD (1986), the Association of Turkish Industrialists and

Businessmen, complained that multiple exchange rates, import surcharges and export subsidies were used by the Government to favour or punish certain individuals, sectors or firms. In their view the political expediency used by Özal Governments simply represented a return to statist practices which allowed the central authority to have a discretionary power. The interesting thing is that the newly emerging capital groups that had the strong backing of the Özal Governments became active in the domestic market rather than investing in new technologies which would have enhanced international competitiveness. The areas they concentrated on included newly privatised cement, food processing, energy and telecommunications industries.

The international institutions that oversee world trade relations were not very happy with the exports subsidies used by Turkey, claiming that this led to price distortions. Consequently in the late 1980s Turkey gradually reduced export subsidies in accordance with GATT regulations and the IMF demands. One immediate consequence of this was that some exporters left the business and moved into other lucrative activities such as tourism and land speculation. Complete negligence of high technology and diversified export production left the economy reliant upon labour intensive industries such as textiles, steel and iron. Therefore export promotion activities mainly concentrated on efforts to resolve the short-term problems of old import substituting industries to produce exportable goods (Krueger and Aktan 1992:154–167; Öniş 1992b; Şenses 1990).

REPRESSIVE ANTI-TRADE UNION POLICIES

While foreign currency rates, interest rates and prices were liberalised by the new open accumulation model, wages and the working classes were oppressed by the new legislation passed by the military rule and kept intact by the following civilian governments. The so-called 'liberal' economic policies implemented under the auspices of the military between 1981 and 1983 aimed to resolve the 1977–79 economic crisis. The relationship between the bourgeoisie and the working class was far from 'liberal'. The military take-over in September 1980, and the 24 January decisions served to discipline the labour markets through extra-economic coercion. The military regime introduced many institutional changes in consultation with a number of Turkish businessmen's associations like TOBB and TİSK.

The coup in 1980 signifies the authoritarianisation of the Turkish State. The 1982 Constitution, prepared under the guidance of the military, provided the legal framework for a new form of state whose relations with civil society were restructured. The relations between capital and labour were significantly transformed under the newly created politico-legal structures, to the detriment of the working class. Despite the fact that working-class organisations had never been powerful enough to threaten the regime or to become a political party with grassroots organisations, the Turkish bourgeoisie constantly considered DİSK (the Confederation of Revolutionary Workers Unions) and TÜRKİŞ (the Confederation of Turkish Workers) as organisations incompatible with a democratic regime. These organisations' demands for better standards of living and their alliances with left of centre parties were deemed to be indicative of their desire to establish socialism. The military used its iron fist to crush these organisations, particularly DİSK, throughout the 1980s and ensured through the authoritarian 1982 Constitution that the working class would not challenge capital in the foreseeable future. The military regime made it abundantly clear from the beginning that their intention was not to go against the interest of the bourgeoisie and act as an autonomous agent above social classes. Immediately after the coup, the military banned the activities of all associations but asked TÜSİAD to transmit its message that the military junta was going to be loyal to the structural adjustment programme (Yalman 2001:219–220). The military simply smashed the organised working class as well as the intelligentsia on the left of the political spectrum that was considered to have organic ties with the working-class movement. Throughout the 1960s, and particularly in the 1970s, the growing strength of the working class, reflected in their militant demands in collective bargaining, and the support they received from the wider society, increased the worries of the bourgeoisie who were not able to run the economy without running into endless crises. The democratic framework provided by the 1961 Constitution simply tied the hands of the state to put an end to the militancy of the workers, students and disenchanted masses. In a sense, the widespread social tension and street clashes between various factions posed a serious challenge to the hegemony of the bourgeoisie supported by the army. The restructuring of the state with the 1980 military take-over and the authoritarian 1982 Constitution simply put an end to class-based politics (Yalman 2001:220–226).

However, after the return to civilian rule in 1983, the Motherland Party enjoyed the support of the military, especially between 1984 and 1988, which are sometimes called the golden years. The policies followed by the Motherland Party were a combination of a strictly authoritarian approach towards organised labour and a loose populist policy towards the urban poor who lacked a class consciousness and could be recruited to support the bourgeoisie's agenda. Furthermore, the preference for capital in Turkey to move to capital intensive production created further pressure on the working class not to push too much for wage increases. The fact that the Fifth Development Plan, formulated under the auspices of the World Bank, did not prioritise employment creation showed the severity of the situation the working class was in. By the end of the 1980s it had also become clear to workers that the state no longer pretended to be above social classes acting as an arbitrator between employers and workers. One clear indication of this was that the Özal Government forced the state economic enterprises to join TİSK (the Confederation of the Turkish Employers Union) in order to be able to contain the labour movement even better. As the structural adjustment policies negative impact on the working classes started to augment Özal's rhetoric, defending the rights of *orta direk* (literally meaning the medium pole of society; the great majority of the people) it also started to lose its credibility. In its early years, the Özal Government established a variety of clientelistic networks to show the masses that it was serving their interests. Urban squatter areas were particularly targeted through polices including the provision of quasi title deeds to land and property built on state lands, and VAT rebates for wage and salary earners. These policies were introduced not only to hide the cuts in vital services such as health and education but also to indirectly keep the wages low.

In line with the New Right thinking, the new regime emphasised the vigorous virtues of individualism and the necessity of a strong state as a guarantor of economic individualism. In the parlance of the bourgeoisie, the 1980 military regime simply emancipated individuals from 'intermediary, democratic and/or corporatist powers' of organisations like trade unions which supposedly threatened the well-being of the state. Through the media the bourgeoisie and the military started a powerful campaign to discredit the trade union movement as representing the vested interests of 'union lords' creating lawlessness and disorder. In attempts to justify the authoritarian prerogatives of the state, the 1961 Constitution also received its fair share of blame for the social, economic and political chaos of the late 1970s. The 1982 Constitution was designed to curtail most of the democratic rights and freedoms provided by the 1961 Constitution (Özbudun 1991). The ironic thing is that the military was able to obtain the consent of the masses for the new authoritarian regime, which attempted to strengthen the hegemony of the bourgeoisie. The preponderance of lawlessness and economic hardship on the eve of the 1980 coup were sufficient for the people to buy the law and order rhetoric preached daily on state radio and television and in the private media controlled by powerful capital groups. The pre-coup economic and political order was held responsible for the civil strife and disorder as well as the economic crises. Thus liberal-individualists who came to power under the strong support of the army used the rhetoric of 'there is no alternative' borrowed from Thatcherite Britain (Yalman 2001:227). The policies, which they claimed were without alternative, were the policies of structural adjustment which extolled the market. The Turkish bourgeoisie was quite successful in deifying the market ideology and persuading the masses as to the virtues of the market and civil society. The way the market and civil society were presented as autonomous entities with no class connections helped the internalisation of market ideology by the masses and heralded the triumph of the hegemony of the bourgeoisie. By emphasising the futility of class-based politics and appealing to the virtues of individuals, the Turkish bourgeoisie had been following its hegemonic interest without actually being authentically hegemonic (Yalman 2001:231). The regime since the 1980s has not been inclined to allow other social classes to organise themselves into politically autonomous entities, while paying lip service to democracy by concentrating on procedural features such as elections and a multi-party system (Boratav 1993). The way in which trade unions were discredited by military rule and by the labour laws of the post-military regime era is witness to this. In the new market economy, the role of the trade unions was simply reduced to negotiating wages without being in a position to negotiate economic policies with the government (Boratav, Yeldan and Köse 2000). Only pro-government trade unions were allowed to exist throughout the 1980s, as the left wing trade union confederation DİSK was outlawed. The new legislation allowed employers to dismiss workers arbitrarily, replace unionised workers with temporary non-unionised workers and use subcontractors to avoid direct confrontation with workers on issues relating to wages and social security. With the decentralisation of labour unions, and with repressive union laws that increased workers' vulnerability and susceptibility to unemployment, the working class was forced to fight to keep their jobs rather than pushing for higher wages throughout the 1980s.