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A comparative study of planning and economic development in Turkey and France: Bringing the state back in

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A Comparative Study of Planning and Economic Development in Turkey and France: Bringing the State Back In

By

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I. INTRODUCTION

1. AN OVERVIEW OF PLANNING AND ECONOMIC DEVELOPMENT

1. Foreword

To people who are accustomed to think that the extent and the modes of state economic interventionism in contemporary society are a product of political orientation, certain political developments in the early 1980's may seem as quite baffling. Take France for instance. In 1981 a socialist government came to power in France, for the first time in post-second war history, and set out to reform the basic structures of the state and society. The concise slogan of 'nationalization, planning and decentralization' summed up the main contours of a comprehensive reform program that socialists intended to achieve to alter the capitalist parameters of the French society. Before coming to power, socialists sincerely believed that the delicate balance between public and private economic management was tilted too much in favor of the latter and that without a radical redefinition of roles and mutual expectations, a complete overhaul and modernization of the French economy was infeasible. To those who expected that this diagnosis would translate into more state *dirigisme* over the economy and a smaller role for the market which would be limited to a 'free' yet gradually diminishing arena comprised of small producers, the declaration of the Ninth French macroeconomic Plan came as a surprise. In effect, this so-called First Socialist Plan of 1984-1988 neatly epitomized the socialist government's changing economic philosophy, as well as its inclinations. A certain mood of panic set the general tone of the Ninth Plan's text. Unless France rejuvenates its productive apparatus, it was claimed, the whole country would go down the drain during the crises stricken years of the 1980's and the country would miss forever the chance of joining the ranks of advanced industrial nations. Therefore a creative 'mutation' of French industry was in order, to prevent such a calamity. But how would this 'mutation' be made possible? The answer which is scattered throughout several hundred pages, signified a critical turn in French socialist thinking about 'economy' by adopting the basic tenets of neo-classical liberal economic orthodoxy. Government intervention in the economy, irrespective of whether it occurs in the sphere of distribution or production, and where it occurs (whether in capital or labor markets) and how it occurs (whether via 'selective' or 'general' measures) was condemned as inefficient and counterproductive.

Instead almost a complete faith was invested in 'individual' initiative and the decisions of private entrepreneurs to secure the optimum allocation of resources. The state's economic role was defined as helping private enterprises to enhance their profitability by reducing their fiscal charges and loosening the rigid employment rules, hence creating an environment conducive to their full fledged expansion. As to the fate of planning, despite this about turn to markets, it would continue because it provided useful information for industrial leaders. Planning was in fact a pragmatic tool, not an ideological weapon in the service of socialism. And, already in 1981, M. Rocard, the first socialist minister of planning, when giving an interview to the press would claim that the plan should be detached from its 'ideological' content, so that it could serve better its (undefined) purpose.[1]

A few months after Rocard's rejection of planning as a socialist device, Y. Akturk, the head of the State Planning Organization (SPO) in Turkey, was interviewed by the prestigious and pro-market 'Euromoney' magazine.[2] He was the right hand man of the would be Prime Minister and then Minister of Finance, Turgut Ozal, and Mr. Ozal had proclaimed himself as the sole champion of economic 'liberalism' among politicians in Turkey. He and his team, including Mr. Akturk, held economic *dirigisme* responsible for the ills of Turkish capitalism in the post-World War II period and promised to radically retrench the economic interventionism of the state. To them, economic planning was like the 'symbol' of everything that was wrong with the state: a heavy and bureaucratic machine giving irrational investment decisions, leading to a misallocation of resources, especially in the state sector, etc. So when Mr. Ozal and his team came to power in 1981, following a military coup, and was accorded full discretionary authority by the ruling Junta over economic matters, most observers expected him to dismantle the S.P.O. This did not happen. Instead, first his close associate, Harvard educated Mr. Akturk, followed by the Prime Minister's own brother, Mr. Yusuf Ozal, who had five years experience with the World Bank behind him, came to head the S.P.O. "Akturk, the Planner Who Longs to Plan Less" proclaimed the title of the interview with him in Euromoney journal. A close reading of the interview, however, gives a totally different picture. That is to say, although Mr. Akturk makes clear

[1] See his interview in *Le Monde*, September 9, 1981.

[2] See his interview in *Euromoney*, February 1982, pp. 15-19.

his objections to the Fourth Turkish Plan of 1979-1984, prepared by a 'social democratic' government, his main objections remain limited to the 'unrealistic targets' of this plan, not to the notion of planning 'per se'. On the contrary, Mr. Akturk makes it clear that he believes in intervening in the economy when market forces can not do their job properly. Yet, rather than an across the board and general interventionism, he prefers a selective one, designed to increase competitiveness especially in key export sectors, not of the state economic enterprises only, but also of private enterprises. He calls this 'indicative' planning. And the Fifth Turkish Plan of 1984-1988 prepared by Mr. Ozal's team illustrates the new active role expected of indicative planning, ironically, by this fanatically 'liberal' pro-market government. This plan also makes it clear that although planning is not intended to replace 'market' forces, it would nonetheless guide businessmen to their true interests as a good traffic policeman. The worst thing that a policeman can do, proclaims Mr. Akturk, is doing half his job right -- blowing the whistle but not waving his hand -- then everything goes into a jam.[3] Good 'indicative' planning therefore should both 'wave' its hand and 'blow' the whistle when necessary.

This analogy of planning as a traffic policeman captures the essence of capitalist planning in the post-second World War period. The indicative component of capitalist planning refers to the pilot role of a State Planning Organization which is expected to design, direct, coordinate and control the macro balances of economic development. Planning in this sense serves as a synonym for what French planner, P. Masse, called "*une aventure calculee, une lutte entre le hasard et l'antihasard ...*",[4] attempting to minimize the future uncertainties stemming from the (irrational) operation of free markets both in national and international scales, by trying to adequately forecast future trends of major economic indicators such as price, production, investment, consumption levels, etc., so that major economic players such as the government and private investors can adjust their own economic behavior in accordance with planners' forecasts. At this 'indicative' level, planning tries to influence economic behavior on a purely informational basis without recourse to sanctions or incentives. No 'conscious' effort to direct economic development is undertaken and economic actors are 'free' to decide whether or not to heed

[3] *ibid.*, p. 17.

[4] P. Masse, *Le Plan ou l'anti-hasard*, Gallimard, Paris, 1965, p. 7. Translation: Planning is a calculated adventure, a struggle between chance and anti-chance.

planners' advice.

Capitalist planning however, sometimes blows the whistle by imposing sanctions and vetoing certain investments (especially the state's investments) that violate the plan. Furthermore as traffic policemen, planners can also decide on who has priority to go ahead, among people waiting in the intersections. Naturally, the clients of planners consist of various industries and economic sectors, be it privately or publicly owned. Given that planning in capitalist societies blossomed in the first place to fill 'functional gaps' created by the irrationalities of the markets, rather than to substitute for the market economy and its foundation, that is the private property of the means of production, planners are driven by the desire to 'perfect' the markets. The markets, planners claim, are sometimes too slow to respond to new growth opportunities due to certain 'structural obstacles' and not because markets are imperfect mechanisms to decide investment priorities but because they are not 'free' to operate. The term 'structural' may refer to both 'external' or/and 'internal' obstacles restraining the operation of the markets. Internally, the existence of monopolies or of producers' or buyers' cartels stifle productivity by preserving the economic status quo because inefficient producers are shielded from the effects of free competition. Externally, planners face an unyielding international market, benefiting the relatively more advanced economies specializing in high value added and capital intensive fields. These fields are hard to enter into since they call for large scale investments for which many countries lack sufficient capital funds and accumulated know how. Private investors, especially in the less developed countries (LDC) specialize in light industrial sectors where worldwide profit margins are often lower (due to stiff competition from other LDC's) than knowledge and capital intensive fields in which only a few countries specialize. Moreover the state in many LDC's may be the sole agent in the economy which possesses necessary funds to invest in fields where worldwide profit margins are higher, but in which private investors are either incapable or reluctant to specialize. Thus, in the eyes of the planners, economic expansion and modernization requires the state's *indirect intervention* in the economy to create the most rapid expansion of capitalist economy by liberating the markets, and/or the state's *direct intervention* via investing in high value added sectors thereby creating a 'mixed' capitalist economy where the public and private sectors coexist. In short, "modernization or decadence", the opening sentence of the

First French Plan in 1947, becomes a driving motto for all capitalist planners, all over the world. Their reason of existence stems, in their own eyes, from their (undefined) mission as economic modernizers.[5]

To translate the idea of modernization into actual practice, planners are endowed with some tools. *First,* they exercise direct control over the investments in the public sector of the economy, and they aspire to accelerate the rate of growth in the capital intensive industries comprising the public sector so as to close the developmental gap with the more advanced economies. To this end, planners often advocate a rational employment policy in the nationalized sector to minimize costs and industrial protectionism for a *limited amount of time* to nurture the public companies before they face stiff competition. *Second,* planners dispose of a wide assortment of economic favors, called *incentives,* such as cheap investment capital and tax reductions, which can be used to make an investment project desired by them profitable for the enterprises. So planners intervene in the economy to promote growth and modernization in selected industries giving a green signal to some, allowing certain investment projects go ahead at the expense of others. Accordingly they initiate an active dialogue with the managers of key industries in capital and intermediate goods sectors who are to carry out their commitment to economic rationalization, high investment and rapid growth. They view their economic interventionism not as favoritism and protectionism but as necessary to realize their objectives of 'growth' and 'efficiency'. As to the indicators of these abstract notions, "the rate of increase in the GNP is their most important measure of growth, and international competitiveness is their most important measure of efficiency."[6]

So far I have been mostly describing the role of the state economic managers in economic development as it is seen by planners themselves. One should beware however not to mistake the ideological legitimation of the state managers' own functions, for social reality. In a similar vein, I claimed that despite their anti-market rhetoric, French socialists could not or did not change the capitalist nature of French planning. And in contradistinction, the most liberal pro-market government in Turkey did not

[5] This modernizing mission can easily be detected from a didactic text published by Turkish planners in 1963: *Planning,* SPO Publication No. 14, Ankara, September 1963. See also J. Monnet's (the founder of French planning) autobiography: *Memories,* Fayard, 1976 (in French).

[6] S.S. Cohen, *Modern Capitalist Planning: The French Model,* University of California Press, Berkeley and Los Angeles, 1977, p. 39.

see economic planning as a threat to the market economy. The fact that capitalist planning is not really antithetical to the market economy partly explains the Turkish government's reluctance to dismantle it, despite its pro-market rhetoric. Another possible explanation that can make sense of the Turkish and French anecdotes is to claim that irrespective of their political philosophies and orientations, all governments in capitalist countries perform similar economic functions.[7] In its most simple form, this line of reasoning claims that the state in capitalist nations plays a crucial economic role in countering market capitalism's tendency to destroy itself through serious structural economic crises. Namely, the tendency of the rate of profits to fall and crises stemming from underconsumption/overproduction of manufactured goods, constitute the two main built-in law-like potential crisis tendencies threatening the stability of all capitalist economies. The state therefore, via planning and other means -- such as Keynesian demand management -- tries to overcome these problems rooted in the structure and functioning of the market economy.

This mode of argumentation falters on many counts. *First,* its functional logic blurs the distinction between 'why' and 'how' questions insofar as the state's economic action is concerned. Even if the state performs certain uniform functions, necessary for the reproduction of the economic system, such requirements may not constitute an explanation of the role assumed by the state. The need to account for the *political processes* of interest creation and mobilization urging the state managers to assume certain well defined economic roles does not arise within a functionalist framework. *Second,* this framework can not account for the diversity of political-economic arrangements in the modern world. I will try to show how, by using the Turkish and French political economies as historical examples, the way in which politics and economics are related to each other varies not only over time in a single country but also from one country to another. *Third,* even if the state managers do take into account certain universal imperatives when they intervene in the economy, they are still 'free' to choose among a range of policy options. Their actual choices among policy options are in fact contingent on the balance of forces in politics as well as they are conditioned by certain economic imperatives. And *finally,* the fact

[7] This argument has been put forward by the so-called State Derivation or Capital logic theory. See J. Holloway and S. Picciotto, eds., *State and Capital: A Marxist Debate,* Arnold, London, 1978. For a slightly different perspective trying to synthesize the work of N. Poulantzas with C. Offe, see F. Block, "The Ruling Class Does not Rule: Notes on a Marxist Theory of the State," *Socialist Revolution,* 7 (3), 1977.

that the state performs certain functions necessary to reform the system, does not mean that its policies are always effective and functional. On the contrary, as we will see in the context of planning, certain policies may either be ineffective or generate new problems and conflicts with which the existing system of interventionism may be ill equipped to deal.

The analysis of state intervention in the economy therefore can never be deduced solely from some universal trends of the capitalist economies. This is not to say that states are 'free' to intervene as they would like to, and certainly both international trends in the world economy and the prevailing political balance of social forces set limits upon and shape the evolution of state economic policies.

Globally speaking, external and internal dynamics affect the configuration of power relations between the state administrators and business groups and the resulting direction of state interventionism in the economy. Hence, *the comparative analysis of economic planning reveals to us the differing nature of economic interventionism in the Third World and the West and specifies the role the state economic administrators-technocrats play in economic development in different socio-political settings.* In this context, the metaphor of the traffic policeman used by the Turkish planner Mr. Akturk captures the limitations imposed upon the planning of 'peripheral' nations in imitating 'indicative' planning designed for the advanced capitalist countries. In fact, why can't Turkish planners guide private investors to their true interests, as inept traffic policemen can't impose their authority on the drivers who refuse to obey traffic rules? One explanation can be that Turkish planners failed to deliver the material benefits expected of capitalist planning because of certain technical constraints such as the nonavailability of data or certain methodological flaws in the forecasting techniques of the plan. Such an explanation is quickly rejected, however, given that the early French plans which were also the most successful ones in disciplining private investors and imposing certain investment priorities on them, were, technically speaking, based on questionable assumptions and methodologies.[8] On the other hand, many prominent foreign experts took part in the preparation of the First Turkish Plan, and methodologically speaking, the First Turkish Plan (1963-1968) was then unsurpassed in econometric sophistication. But despite the methodological wizardry, planning in Turkey failed to contribute to successful economic

[8] S.S. Cohen, *Modern Capitalist Planning: The French Model, op. cit.*, part III.

development, whereas in France planning became a significant factor in the modernization of the economy. *Why?*

2. Indicators of the Performance of the French and Turkish Economies in the Planned Period and Principal Claims

Two substantive claims will be developed throughout my dissertation to answer the question above, i.e. the role of planning in contributing to successful economic development in France as opposed to its failure in Turkey. By the term 'successful economic development' I mean a particular form of economic development in a country characterized by the deepening of the industrial profile via the establishment of internationally competitive investment and capital goods industries. Furthermore, I hope to show throughout this study that 'market mechanisms' are not the sole determinants of such economic and the related social outcomes in the economy, and planners both in Turkey and France play interactively with the market a *decisive role* in the determination of these socioeconomic outcomes. Hence assuming that both Turkish and French economic planners did have the same desire to intervene in the economy to ensure internationally competitive industrial deepening, we can ask ourselves why it was in France and not in Turkey that the state economic managers could develop not only an active interest in but also a capacity for successful interventionism. In this context, relative 'success' in interventionism refers to, first, the ability of planners to mobilize the economic resources necessary to finance rapid economic growth; and second, the problem of the allocation of these resources among alternative investment projects in a way that would privilege productive investments in capital goods sectors.

In short ensuring that deepening of the manufacturing industry, while attaining high rates of growth without chronic recourse to foreign aid can be singled out as the overriding *objective* of economic planning in both Turkey and France. Yet, it is interesting to note that measured either in absolute or relative terms, the gap between the French and Turkish economies did not decrease but widened after the onset of economic planning in these countries. In other words, if we take the beginning of economic planning as the base year (1946 in France, 1960 in Turkey), and compare the economic situation a quarter of a century after the onset of planning with the situation at the very outset, we notice that although Turkey and France did not start from diametrically dissimilar levels of economic development, they ended up in the opposite poles of the world economic division of labor. Indeed, as I will later document in Chapter 4, Turkey had emerged at the end of the Second World War as a relatively developed Third World nation akin to Brazil, Mexico and Argentina in terms of production profile and national income. Moreover, thanks to not taking part in the war, it had accumulated substantial currency reserves and was ready to finance its industrialization without excessive recourse to foreign resources. The French economy, on the other hand, had grown more slowly compared to other industrialized economies. In fact, *Table 1* below shows that over the 60 year period before the war as a whole, real national income less than doubled in France, whereas it rose more than fourfold in Germany and more than threefold in Great Britain. Moreover, the pre-second world war years (1929-1938) witnessed a severe depression in the French economy as indicated by declining industrial output in real terms,[9] whereas other advanced economies overcame the 1929 world economic depression and did not experience negative rates of growth afterwards. (For more details on the dismal performance of the French economy before planning see Tables 1 and 2 in Chapter 3.)

Table 1

Real National Income in Billions of "International Units"[d]			
	France	*Germany*	*Great Britain*
1870-1876	7.66[a]	7.69[c]	8.14
1911-1913	10.91[b]	19.72	18.26
1929	14.35	20.84	23.22
1938	12.38	35.7	27.55

a. For the period 1870-1879.

b. For the year 1911.

c. For the year 1876.

d. An international unit is defined as the average value of the U.S. dollar the period 1925-1934. Real national income includes farm consumption inputs retail prices. Data for Great Britain exclude Ireland.

Source: W.C. Baum, *The French Economy and the State,* Princeton University Press, Princeton, 1958, p. 16.

The slow growth trend in the French economy was reversed in the planned period. In fact, as can be observed from *Table 2* , the annual rate of growth of the GNP averaged more than 5 percent in

[9] See J.J. Carre, P. Dubois, E. Malinvaud, *French Economic Growth,* Stanford University Press, Stanford, California, 1975, p. 30.

France and such a performance was better than the performance of many other industrialized economies.

Table 2

Growth Rates of the Gross National Product, 1953-1978				
	1953-58	1958-63	1963-68	1958-73
Belgium	2.7	4.6	4.3	5.9
France	4.8	6.0	5.3	5.2
Germany	6.9	5.5	4.2	5.1
Italy	n.a.	6.4	5.0	4.4
Netherlands	n.a	1.5	5.6	5.6
Norway	2.9	4.8	2.0	7.4
Sweden	3.5	4.7	4.1	3.4
United Kingdom	2.3	3.4	3.1	3.1
United States	1.8	4.1	4.8	3.3
Japan	7.0	10.8	10.8	9.6

Source: B. Balassa, "The French Economy Under the Fifth Republic," in S. Hoffman, *et. al.* (ed.), *The Fifth Republic at Twenty*, p. 225.

Not only did the French economy grow rapidly after the introduction of planning in 1947, but also a complex and diversified production structure was created during a time span of 20 years. Thus, in contrast to Turkey, not only did France allocate a larger percentage of its national income for investments, but the share of investment goods (plant and equipment) in the total manufacturing output was much higher. In fact *Table 3* below shows that the state has been able to allocate capital for investment goods sectors primarily -- as we will see -- through its control of the financial system. Therefore, it should be noted that in addition to the high growth of output in all sectors of the French economy in the post-second war period, the growth was particularly marked in the four heavy industrial sectors (electricity, metallurgy, mechanical and electrical industries, chemicals) whose average growth rates by far exceeded those of consumption goods industries (see *Table 4*).

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Table 3

Investment in Gross Fixed Capital as a Percentage of Gross Domestic Production, 1949-69 (1956 prices)							
Category	1949	1952	1954	1957-1960[a]	1963	1966	1969[b]
Total investment	19.7%	17.8%	18.5%	21.2%	22.7%	24.1%	25%
Productive investment	14.6	11.7	11.3	13.4	14.4	14.1	15

a. Four-year average.

b. Estimates theoretically comparable with those of preceding years.

Source: J.J. Carre, P. Dubois, and E. Malinvaud, *French Economic Growth,* Stanford University Press, Stanford, California, 1975, p. 114.

Table 4

The Growth of Real Value Added by Sector, 1949-69 (Percent per year)					
Sector	1949-1966	1951-1957	1957-1963	1963-1969	Gross value added, 1956 (000 francs)
1. Agriculture and forestry	2.9%	2.4%	2.8%	1.9%	17,883
2. Processed foods and farm products	3.6	3.3	2.2	5.0	13,289
3. Solid mineral fuels and gas	1.6	1.9	0.3	1.5	2,961
4. Electricity, water, and kindred products	9.5	8.0	9.3	7.5	2,193
5. Petroleum, natural gas, and oil products	10.1	7.0	10.0	10.1	5,846
6. Building materials and glass	6.2	5.6	5.2	7.9	2,678
7. Iron mining and metallurgy	4.8	5.9	3.5	5.3	3,686
8. Nonferrous minerals and metals	7.9	7.0	7.2	6.3	904
9. Mechanical and electrical industries	6.1	5.7	6.4	5.0[a]	20,950
10. Chemicals and rubber	8.0	7.2	7.9	8.2	5,688
11. Textiles, clothing, and leather	4.0	4.0	3.4	0.8	11,356
12. Wood, paper, and miscellaneous industries	5.0	4.4	4.7	4.2[b]	7,897
2-12 Industry	5.6	5.0	5.3	5.4	77,448
13. Building and public works	6.5	6.3	6.3	7.2	12,607
14. Transportation and communications	5.0	4.7	4.8	4.5	10,612
15. Services other than housing	5.2	4.9	4.9	5.6	19,933
16. Trade	4.8	5.2	4.9	4.5	20.774
Gross domestic production	5.2	4.7	5.1	5.1	166,480
Gross national product	4.9	4.3	4.9	4.9	191,300

a. Latest estimate, 7.2 percent per year.

b. Latest estimate, 6.2 percent per year.

Source: J.J. Carre, P. Dubois, and E. Malinvaud, *French Economic Growth,* Stanford University Press, Stanford, California, 1975, p. 30.

The concentration of investments in the *investment goods* sectors characterized by the use of advanced technology, a potential for international competitiveness, and high degrees of corporate concentration was in line with planning priorities.[10] For the reasons which will be discussed later, French planners were not only able to bypass certain vested interests in less productive sectors of industry and directly deal with the advanced sectors, but they could also -- unlike Turkish planners -- alter investment priorities through their control of the flow of funds to industry.

Such a situation stands in sharp contrast with Turkey where the state economic managers were much less successful in imposing certain investment priorities upon unwilling actors. Thus, despite the growth of the share of manufacturing in the GNP, the share of the *investment goods* industry in total manufacturing output did not grow as planners had expected it to,[11] and simply increased by a mere 3 percent in a quarter of a century, i.e. from 11 percent of the total manufacturing output in 1962 to 14 percent in 1985. Therefore, contrary to the expectations of planners, in 1985 the consumption goods industry still supplied the major bulk of the manufacturing output (49 percent), with the uncompetitive intermediate goods being a close second (42 percent).[12] Consequently, because the Turkish manufacturing industry remained essentially deprived of an investment goods sector, it was dependent on the world markets for the import of capital goods, and therefore the availability of foreign exchange became the *sine qua non* of maintaining the internal level of production. Sizable variations in the performance of individual sectors of the economy (see Table 5 below) during the planned period are therefore due to the varying availability of foreign exchange, and, when foreign exchange ceased flowing in the late 1970's, the industrial sector as a whole during the lifetime of the Fourth Plan (1979-1983) merely grew by 1.6 percent (see also Table 1 in Chapter 8), although an 8 percent growth rate was projected.[13]

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[10] See J.J. Carre, P. Dubois, E. Malinvaud, *French Economic Growth, op. cit.*, pp. 465-466.

[11] All of the first four 5-year development plans put emphasis on the growth of the investment goods sectors and accordingly assigned unrealistic growth targets.

[12] See *Planned Development in Turkey and the State Planning Organization*, published by the Department of Publications and Press of the S.P.O., Ankara, July 1986, p. 24.

[13] *Ibid.*, p. 25.

Table 5

Macroeconomic Targets and Achievements of the Development Plans						
	First Plan Target	1963-1967 Actual	Second Plan Target	1968-1972 Actual	Third Plan Target	1973-1977 Actual
Sectoral Growth Rates						
Agriculture	4.2	3.7	4.1	3.6	3.7	3.3
Industry	12.3	10.6	12.0	9.9	11.4	9.9
Services	6.2	7.5	6.3	7.7	6.8	7.9
GDP	6.9	6.5	6.6	6.6	7.6	6.9
GNP	7.0	6.7	7.0	7.1	7.4	6.5
Fixed Capital Investments Sectoral Distribution						
Agriculture	17.7	13.9	15.2	11.1	11.7	11.8
Mining	5.4	5.6	3.7	3.3	5.8	3.7
Manufacturing	16.9	20.4	22.4	26.8	31.1	28.2
Energy	8.6	6.5	8.0	9.0	8.5	7.4
Transport	13.7	15.6	16.1	16.0	14.5	20.6
Tourism	1.4	1.3	2.3	2.1	1.6	1.0
Housing	20.3	22.4	17.9	20.1	15.7	16.9
Education	7.1	6.6	6.7	4.7	5.0	3.3
Health	2.3	1.8	1.8	1.5	1.4	1.1
Other Services	6.6	5.9	5.9	5.4	4.7	6.0
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0
National Savings						
Annual Growth (%)	13.4	16.2	12.2	9.1	13.6	6.3
As % of GNP (Average of Plan period)	14.8	15.7	20.8	18.3	21.9	17.9

Source: W. Weiker, *The Modernization of Turkey,* Holmes and Meir Publishers, New York, 1981, p. 185.

The table above also shows that the annual growth of national savings fell much below the planned targets for the first three plans -- and the situation was even more dismal for the Fourth Plan (see Table 1 in Chapter 8) -- simply because government, despite the wish of planners, refused to resort to taxation which was necessary to finance the investments, and instead relied on foreign borrowings and emission of money by the Central Bank (hence high inflation). In addition, during the planned period, not only was the savings performance of the Turkish economy poor, but its ability to generate foreign exchange resources via exports was also too low. Table 6, below, compares both the export and savings performance of Turkey with other developing countries. Contrary to planned targets, a very low export orientation and poor export percentage stands out as the worst among all countries. In fact, while the ratio of export to import was 61 percent in 1962 at the very outset (i.e. export earnings could only finance 61% of imports), this ratio declined throughout the planned period, reached 57% in 1972, ebbed to 30% in 1977, and slowly improved to 37 percent in 1980.[14] In other words, the balance of foreign trade deficit as a percentage of the GNP reached the dramatic proportion of 8.5% in 1977, while it was 2.1 percent on the average between 1963-1970.[15] Finally, the table below also demonstrates that the ratio of domestic savings to GNP in Turkey was not only below the planned targets, but also below the average for the middle income countries. Hence, it should come as no surprise that when the flow of foreign loans (which compensated for the low export and savings performances) dried out in the late 1970's for the reasons which will be discussed later, the industrial structure not only receded -- a minus 5.9% growth in 1980), but the country was virtually bankrupt, since it was left with an outstanding 23 billion dollars of external debt;[16] thus its future was heavily mortgaged. Nothing could have been in starker contrast to the main objectives of planning in Turkey, whereas in France, during the same period, planners had more or less attained similar objectives of growth, diversification of industrial structure, and self-sufficiency.

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[14] See *Planned Development in Turkey and the State Planning Organization, op. cit.*, p. 37.

[15] See S. Pamuk, *The Development of the Crisis and the Problem of Alternatives for Turkey, op. cit.*, p. 63.

[16] See *Turkey: Industrialization and Trade Strategy*, The World Bank, Washington D.C., 1982.

Table 6

Comparative Data on Export and Savings					
	Exports as Percent of GDP[a]	Growth Rate of Exports[b]		Savings as Percent of GDP[c]	
	1977	1960-70	1977-77	1970	1977
Turkey	4	1.6[g]	0.8[g]	18	17
Argentina	13	3.3	5.5	20	23
Brazil	8	5.0	6.5	22	12
China, Rep. of	54	23.7	16.7	26	31
Colombia	16	2.2	-1.2	20	18
Egypt	20	3.2	-3.3	9	15
Korea, Rep. of	40	35.2	30.7	16	25
Mexico	10	3.3	1.9	20	20
Peru	17	1.9	-4.4	17	11
Philippines	19	2.2	5.0	22	25
Thailand	22	5.2	12.1	20	21
Yugoslavia	16	7.8	5.4	27	26
Average for 55 MICS	20[d]	5.4[e]	5.1[d]		24[d]

a. Exports of goods and non-factor services.

b. Merchandise exports.

c. Gross domestic savings.

d. Weighted average.

e. Median.

f. Group Average.

g. Based on SIS data, *Monthly Bulletin of Statistics*, Various Issues. The growth rate is based on the quantum index arrived at in terms of constant TL prices.

Source: World Bank, *Turkey: Policies and Prospects for Growth, 1979*, p. 6.

Given our preceding discussion on the different trajectories of the Turkish and French economies in the post-second war period we should ask the question of why planning failed to rationalize the Turkish economy, and following nearly a quarter of a century after the institution of planning, why Turkey still remains an economically dependent country; whereas France, which was falling behind her competitors in the first half of this century, once again emerged as a dynamic economy after the onset of economic planning in 1947. My dissertation consists of an attempt to deal with this question by uncovering the socio-political limits imposed upon planners to rationalize peripheral capitalism, i.e. to alter the investment behavior of businessmen in such a way so that the country enters the path of self-sustained growth. More specifically, I make two central claims in this dissertation which provide the logic connecting the chapters, each dealing with different phases of planned development in Turkey and

France. *First,* it is argued that planning became an effective tool of development in France primarily because of the character of the 'power bloc' that can only be constructed in capitalist countries under particular historical circumstances. In other words, planning can only be successful when a certain balanced power relation exists between the state administrators and private investors, and hence an indicative planning inspired by Western experience may be doomed to failure in the Third World from the very beginning, given that the socio-political preconditions of successful planning do not exist. By the term 'power bloc' I mean the "contradictory unity" of the several fractions of the capitalist class, i.e., industrial, commercial, financial fractions of capital, in a social formation in which private property of the factors of production is the norm and where the products are sold at the market place.[17] By the term "contradictory unity," I allude to the existence of mutually exclusive sets of economic interests rooted in the processes of production, distribution and exchange, among different fractions of the capitalist class who can only widen their share of the national income at each other's expense. On the empirical plane, throughout this dissertation, certain subsidy and incentive mechanisms distributed by planners are identified as the major domains of conflict around which we can identify the crystallization of interests in the power bloc. It is therefore assumed that since the immediate economic interests of fractions of the capitalist class pit these fractions against each other, in order for the power *bloc* to emerge out of the plurality of propertied class fractions in a market oriented economy, these contradictions should be resolved one way or another.

As such the term power bloc implies two distinct processes. First, it implies the existence of a system of alliance, i.e., the formation of a broad coalition of economic interests which may converge around particular industrialization strategies and not simply around specific policy issues such as 'foreign trade and tariff policy', 'social policy', etc. (see part three of Chapter 2 for details). Second, the term 'bloc' denotes the existence of some mechanisms via which the divergent interests of the individual capitalist or fraction of the capitalist class are reconciled with the political interests of the entire class.

[17] See. N. Poulantzas, *Political Power and Social Classes*, New Left Books, London, 1973.

In the scant empirical literature concerning the formation, consolidation, and dissolution of power blocs in particular historical settings, two factors have been identified as primary mechanisms through which divergent interests of the power bloc members may be reconciled with the long term interests of the capitalist class as a whole.[18] Firstly, it is claimed that it is through the self-organization of the economically dominant, i.e., propertied, classes that a particular class fraction emerges as 'hegemonic', thus constituting the (unity of the) bloc. If one adopts this logic he/she should then concentrate his/her empirical focus on the identification of those processes by which different fractions of capital constitute themselves as political actors. In other words it is necessary to describe empirically the process through which some class fractions (or interest groups) gain a presence in the political arena, at the expense of other interest groups, thus becoming a *pressure* group organized within proper institutional channels. The term 'hegemony' then refers to the ability of a particular segment of capital or interest group to emerge as the sole pressure group in society which can present its 'class interest', rooted in the material world of production, as universal, i.e., as in the interest of the whole nation.[19] Furthermore it is presupposed that a particular class fraction can become 'hegemonic' in the power bloc, if and only if it agrees to give some real economic concessions to subordinate groups enabling it to create vested interests in the continuation of the economic system from within the ranks of the non-propertied strata. Thus hegemony organized within the dominant classes -- the constitution of the power bloc -- should be distinguished from hegemony exercised by the power bloc via the state or civil society over the subordinate classes.[20]

In this dissertation when trying to understand the formation-consolidation-dissolution of power blocs I follow less the line of reasoning, outlined above, focusing on the empirical processes of class formation, than attempting to highlight the role of the state economic managers, especially planners, in the resolution of contradictions within the bloc of dominant classes. Hence I try to contribute to the literature which emphasizes the role of the state as the organizational factor of unity of the power bloc. Such an emphasis on the role of the state in conditioning class capacities by defining the interests of

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[18] See especially D. Abraham, *The Collapse of the Wermar Republic,* Princeton University Press, Princeton, 1981 and N. Poulantzas, *Fascism and Dictatorship,* NLB, London, 1974.

[19] See A. Gramsci, *Selections from the Prison Notebooks,* International Publishers, New York, 1971.

[20] See N. Poulantzas, *State, Power, Socialism,* New Left Books, London, 1978.

'collective capital' (called 'national interest'), does not mean that all processes of class formation should be attributed to initiatives emanating from within the state. On the contrary, the existence of non-state organizations which help shape collective identities, such as political parties and trade unions, among others, is well known in political science literature.[21] My emphasis on the state's role in conditioning class capacities, on the other hand, is primarily dictated by the nature of my study. That is to say since I emphasize the role of planning as a key form of state interventionism in resource allocation, planners are credited with influencing the shaping of particular class interests in society, as well as the conditioning of class capacities.

In short the emphasis on the nature of power blocs in a comparative context brings under our compass the empirical analysis of the particular constellation of interests in a nation, at a given point in time, that affects both the configuration of power relations between the state economic administrators and business groups and the resulting direction of interventionism in the economy. The question then is to single out the type of power bloc which favors the greatest room for maneuver for planners so that they can act as good traffic policemen who can wave their hands and blow the whistle when necessary. In answering this question I reject the functionalist notion that the state economic autonomy is a product of the need of capital: it will be automatically conjured up when it is necessary for industrial accumulation to proceed. Instead it is claimed that planners can acquire the greater economic autonomy necessary to overcome rigid barriers to successful industrialization only as a result of the break up of protectionist ruling blocs which is possible under precise historical circumstances. Otherwise, given a particular balance of power in politics, where the state is obliged to shield small farms and firms from the consequences of internal competition, and to safeguard big producers from external competition, planners' attempts to imitate Western style capitalism by trying to render the industrial class more efficient and competitive are bound to fail. Hence it seems misleading to pose the question of underdevelopment in terms of the quality of economic planners or planning techniques, as liberal economists do, when the industrial import substituting industrialization (ISI) model pursued was supported by an extensive protectionist bloc composed of various class fractions. Instead one should specify the

[21] See A. Przeworski and J. Sprague, *Paper Stones: A History of Electoral Socialism*, University of Chicago Press, Chicago, 1986.

historical circumstances under which planners may acquire the necessary autonomy enabling them to impose planning priorities upon investor groups.

In this context I highlight two factors which enabled French planners to become good traffic policemen and play an active role in economic development by acting, when necessary, against the short term interests of various business groups and in the name of 'modernization' (i.e. collective capital). First, I emphasize the divisions within the bourgeoisie in postwar France as a key structural factor enhancing the capacity of planners. Second, I focus on increased pressure from labor movements in the immediate aftermath of the Second World War to transform the economic-political system as a structural condition which rendered French state officials more willing to move against the entrenched protectionist interests of the propertied strata. In other words, I claim that successful economic planning can be possible if and only if it is imposed on business by a reformist group of state administrators, and not brought onto the political agenda by business or at its behest (Turkey). Thus, most specifically, I highlight the importance of the breakdown of the power bloc after World War Two in France taking place in the context of a powerful working class and weak bourgeoisie, and that planners can not forge such an alliance at will (Turkey), but only when *labor* becomes a political actor (France).[22]

My second central claim in this dissertation concerns the effectiveness of planning as a tool of development *per se*. Contrary to the main emphasis of the economic literature on planning, I do not locate the effectiveness of planning at the 'indicative' level, where planning tries to influence economic behavior on a purely informational basis without recourse to sanctions or incentives. That is to say, I do not conceive of the effectiveness of planning primarily as a forecasting device and therefore I see no need to measure the plan's effectiveness by measuring the degree to which its explicit targets are realized. In fact, even in the case of the perfect match between the targets and the realization rates one can

[22] My theoretical findings confirm the hypotheses of two researchers who claim that the classic analysis of 'Bonapartism' as a basis for state economic autonomy may not always hold. In the Bonapartist model, "the state is propelled into a leading position by a balance of class forces combined with the inability of subordinate classes (especially the peasantry) to exercise control over their supposed representatives in the state apparatus." On the other hand I claim that what seemed to be the key factor to understanding the genesis of the state economic autonomy was the breakthrough achieved by a subordinate class (the working class) in political power proportionate to business' loss of power and prestige. The fact that labor could coalesce with other groups opposed to protectionist interests in a potential 'red-green' coalition definitely propelled the state managers to undertake major economic reforms. For the theoretical discussion see D. Rueschemeyer and P.B. Evans, "The State and Economic Transformation: Toward an Analysis of the Conditions Underlying Effective Interventionism," in T. Skocpol, *et al.* (ed.), *Bringing the State Back In*, Cambridge University Press, Cambridge, 1985.

still wonder about the 'real' contribution of planning to growth. Empirically speaking because on can not determine with certainty the efficacy of planning in causing development due to the impossibility of comparing the actual economic performance of a planned economy with a simulation of development in the absence of planning, it is always possible to make the claim that planning plays no role in economic development. Says an ardent opponent of planning: "planning is no different than a cock who believes in bringing the dawn via his cock-a-doodle-doo."[23]

In short, given the impossibility of direct experimentation, instead of trying to gauge the effectiveness of planning by measuring the realization of the plan's explicit targets, I concentrate my empirical research on the identification of the planners' influence on resource allocation. In other words, the operational significance of Turkish and French planning is sought in terms of planners' ability to affect the allocation of industrial investment in a selective fashion. Thus specific emphasis is placed upon the ways in which Turkish and French planners tried to exert leadership in industrial affairs by pursuing specific goals in industrial organization and influencing *who produces what and how*. Most specifically I argue that both French and Turkish planners have been instrumental in shaping the nature of class relations in their society by affecting both the composition of the power bloc and the nature of hegemony within it. What enabled planners in both Turkey and France to do so was that they were endowed with some -- albeit differing -- levers[24] to implement the plans, and it was through the selective allocation of these *discretionary resources* under their control that they played a key role in shaping the hegemony in the power bloc in favor of the industrial fraction of capital.

In this context the most remarkable aspect of the operation of French planning was that since it operated outside of the public eye and through influence over the financial system which reached deep down into the industrial fabric, the planning community could arrange quickly and quietly both 'rationalization' (of the declining industries) and 'promotion' operations, and redeploy resources into the industries of the future, particularly aerospace and electronics. Consequently the dynamic and modern

[23] See the article by M. Crozier, "Reflections on the Eighth Plan," in *Le Monde*, August 8, 1980 (in French) who quotes J. Rueff, an ardent proponent of 'free markets'.

[24] These levers included both positive tools such as a wide assortment of subsidies, called incentives, and negative tools such as the right to veto certain public investments that violate the plan.

sector of the industrial class concentrated in skill and capital investment goods sectors and oriented to exports was elevated to a position of hegemony in the power bloc. In the meantime small business went through a metamorphosis and labor-intensive and less efficient production units were either forced to transform themselves so as to become 'pawns' to the modern sector or they were impelled to eclipse from existence as a result of state interventionism. (See chapters five and six on development.)

In Turkey, on the other hand, in the absence of discretionary control over the flow of capital funds to industry, the Turkish planners relied on other extra-market mechanisms to transfer public funds to the accounts of the internal market oriented industrialists in consumer goods industries. Namely there were three basic administrative mechanisms through which planners attempted to benefit the manufacturing bourgeoisie: the provision of low priced inputs produced in the state economic enterprises (SEE's), generous tax rebates, and the preferential allocation of scarce and overvalued foreign exchange. Hence I will claim that it was through the political allocation of these scarce resources that planners played a key role in shaping the nature of hegemony in the power bloc. Thus state interventionism in Turkey took the form of purposefully creating market imperfections in terms of underpricing the SEE's inputs and overpricing the TL vis-a-vis other currencies, and then channeling the protectionist 'rent', i.e. the difference between the market price and the actual price of scarce resources, to the accounts of the manufacturing bourgeoisie. Consequently, although manufacturing capital gradually built its hegemony in Turkey, it was the domestic market oriented fraction of capital concentrated in consumer goods industries that was elevated to a position of hegemony as the state allowed profit levels to remain very high in these industries by letting consumers and taxpayers bear the costs. In the meantime, the newly established consumer industries could not and did not act as the entering wedge of the broad industrializaiton drive. This was so because the high customs duties on their outputs, combined with negative duties on their inputs and the availability of cheap imports as well, helped to create a "sinecured, inefficient and pampered industrialist"[25] class with a direct stake in preventing the introduction of investment goods industries.

[25] See A.O. Hirschman, "The Political Economy of Import Substituting Industrialization in Latin America," *op. cit.*

To sum up, I am claiming that planning in France purposefully targeted a small yet dynamic group of businessmen; in contrast to Turkey where the scope of planning was much larger theoretically but its capacity in affecting the allocation of resources via altering the investment behavior of private or public actors was much less significant. Furthermore I argue that French planners could insulate themselves from social and political pressures and serve as good traffic policemen who do not pay attention to occasional honking and know how to optimize the most rapid flow of traffic by punishing the violators if necessary. Thus my theoretical arguments in this context -- which will be backed via empirical analysis in chapters five and six -- stand in contrast to the view of F. Block who claims that strict limits are imposed on the autonomy of any capitalist state by the virtue of business' veto power over state policies.[26] Instead I argue that as long as planners were provided with direct control over the flow of funds to industry when business lacked means to self-finance, they could circumvent business' veto power over state policies which stemmed from the dependence of democratic governments on private investments in order to both finance the state's operations and to maintain political support. Moreover I am claiming that French planners were able to create vested interests from among certain sectors of the business class through their privileged access in the state to non-budgeted discretionary funds and to many macro and micro levers with which they could influence long-term banking loans to industry. Thus, in France, it became possible to institutionalize the planning reform in the long-run, even if the business class as a whole was opposed to it at the very beginning.

My basic theoretical arguments outlined above try to criticize and bring together the social science literature on modernization and development and the literature on political sociology, in order to shed new light into the phenomenon of economic development. In fact the social scientific literature on economic development, namely modernization and dependency theories, addresses many of my aforementioned concerns. Yet because it takes development (modernization theory) or underdevelop-

[26] F. Block writes: "Those who manage the state apparatus -- regardless of their own political ideology -- are dependent on the maintenance of some reasonable level of economic activity" both for financing the state's operations and maintaining political support, and "in a capitalist economy the level of economic activity is largely determined by the private investment decisions of capitalists. This means that capitalists, in their collective role as investors, have a veto over state policies in that their failure to invest at adequate levels can create major political problems for the state managers." F. Block, "The Ruling Calss Does Not Rule: Notes on the Marxist Theory of the State," *Socialist Revolution*, Vol. 7, No. 3, 1977.

ment (dependency theory) as unproblematic, it fails to explain the political preconditions for successful development, and on the other hand, wrongly assumes a stark separation of market and the plan. In contrast, I argue and hope to prove that far from being antagonistic, market and plan work very well together. Likewise, I will claim that, one should not impute developmental interests to local capitalists in the Third World, as both modernization theorists and neo-classical economists do, and such a fragmented treatment of classes (i.e., when classes are *not* defined in relationship to one another) makes it impossible to consider the question of development since it forecloses any empirical analysis. Instead, one should take into account the nature of the political economy in a given country, i.e. the structured links among classes and class fractions and between them and the state before analyzing class positions, class projects, and class behavior. This is what I try to do for France and I hope to demonstrate that the entrepreneurial class was not necessarily an agent of development, and the process of modernization was closely orchestrated by the state managers who had based their relative autonomy on a certain type of power bloc constructed in the immediate postwar period. For Turkey, on the other hand, my analysis will suggest that, to the extent that domestic market oriented manufacturing capital built its hegemony in the power bloc, its economic interest increasingly lied in choking off further industrialization rather than promoting the deepening of industrial profile. Thus the manufacturing capital which constitutes the basis of the entrepreneurial class in Turkey has now become part of the problem of underdevelopment and not an answer to it.

Concerning the political science literature on the nature and role of the state in development, on the other hand, I will levy two criticisms. First, I will argue that in order to understand the role of the state in development one should primarily specify the structural links between the state managers and private investors. The nature of such links are unelaborated in the political science literature and worse even, many contributions to the literature do not take into account variations between 'core' and 'peripheral' states. Second, I will try to adjudicate between those who see the state as a 'subject' -- an autonomous actor -- and those who look upon it as an 'arena' of struggle, a cracked mirror, reflecting the forces at work in society. In this context I will suggest that the usefulness of such analytical abstractions is historically specific. And the comparative historical research such as the one I carried out contains an element of surprise which goes against the dominant paradigm which views the state as an independent actor endowed with the capacity of affecting class relations in the periphery in a way conducive to development and in accordance with its own objectives, as opposed to the 'democratic' and 'pluralist' state in the core which supposedly serves merely as a conduit for struggles among interest groups. Thus by focusing on the preconditions of successful interventionism, I hope to go beyond the futile debate in social sciences about the relative merits of 'state interventionism' versus 'free markets' by showing that interventionism may or may not be conducive to sustained growth, depending on the balance of power both between the state and social forces and among different fractions of capital. To reiterate the conclusion of my study concerning the role of planners in development: in contrast to interventionism in France which channeled the market toward selecting efficient enterprises and industries for survival, Turkish style interventionism did the opposite; it created certain market forces which were not competitive, but powerful enough to prevent others from entering investment industries, albeit they would not enter such arenas themselves.

Moreover, aside from identifying the positive and negative effects of economic planning on development, I will distinguish between two components of the state economic autonomy and introduce a key distinction between 'generative' and 'allocative' capacities of the state. The former concept refers to state interventionism designed to generate capital resources needed for development in the form of taxation, while the latter concept refers to the use of political power to bypass the markets in order to secure the concentration of capital in the desired industrial fields. It is on the basis of this distinction that I will reject the dominant paradigm characterizing the Turkish state as an 'overdeveloped' one. It was in fact an 'underdeveloped' state because it could not secure access to private and public savings necessary to finance self-sustained industrialization, nor did it have the capacity to act as the main pole of growth when it intervened in the economy. And this was primarily so because the state economic managers in Turkey did not have sufficient room of maneuver vis-a-vis private investors given that various state apparatuses were colonized by civilian groups. In France, on the other hand, thanks to insulation from popular pressures, it became possible for the state economic administrators to become key actors who could act in the name of 'modernization' (i.e. in the interest of collective capital).

Thus I will try to show that the differing economic autonomies of the French and Turkish states were reflected in the internal organization of these states regarding their capacity to insulate themselves from grass root pressures, and/or the institutionalized ways via which these states chose to deal with the demands of the interest groups. In this sense, the sharpest contrast between France and Turkey was that while no single state apparatus in Turkey could ward off popular pressures and economic decision making was shared among different state apparatuses, thus creating a system of 'checks and balances', the French state developed a differentiation of functions and a centralization of economic power in the few 'core' apparatuses of the state which could fend off civilian participation. Thus by recognizing the state as a constellation of institutions organized under a 'core' or 'hegemonic' economic administration, i.e. the apparatus which fulfills the resource allocation function be it called planning agency or not, I hope to show *how* the state comes to perform various economic functions.[27]

Finally I should add that from the vantage point of the restructuration of capital defined as the transferability of resources away from declining and into expanding sectors of the economy, the internal organization of the state may have important implications. That is to say, it is possible that no single economic apparatus emerges as the 'core' apparatus as happened in Turkey where, due to historical reasons, the integration of the state with the business world occurred at the governmental level. The result of this kind of integration was that businessmen of all kinds and sizes ended up holding government members under constant siege to protect and/or enhance their fortunes. Under these circumstances politicians gave planners the impossible dual tasks of pleasing all contradictory social forces that provided the coalitional basis of the government, while also promoting rapid and sustained growth by acting in the interest of collective capital. On the other hand, the integration between the state and the capitalist class may also occur, as has been the case in France, at the level of a 'core' state economic administration which is insulated from social pressures.[28] Under these circumstances the self-enhancement of the

[27] As said earlier these economic effects ensue in the elevation of a class fraction to a hegemonic position in the power bloc or on the contrary, they may ensue in the destruction of a particular hegemony with consequential effects for the patterns of economic development.

[28] Ironically, the key institutional reform which enabled this was the nationalization of the major financial institutions in France, in the aftermath of the second war, under pressures from the labor movement. Consequently it became possible for the 'forward' looking state administrators to link themselves to the advanced sectors of industrial capital, thanks to the weakness of financial fraction of capital. See Chapter 3 for details.

'core' state administration may not depend on the protection of sectoral clients -- as has been the case in Turkey -- but on successful promotion of advanced sectors of capital.

3. A Note on the Organization of the Chapters

In order to illustrate all of these claims outlined above, my dissertation will be framed in three main sections (the 'genesis', the 'development' and the 'ending?' of planning systems in Turkey and France), preceded by the next chapter entitled "criticism of the literature and theoretical framework," setting the stage for my historical-structural excurses. That is to say, the sociological literature on 'economic development', namely modernization theory and dependency theory, addresses many of my concerns outlined above, yet because it takes development (modernization theory) or underdevelopment (dependency theory) as unproblematic, it fails to explain the political preconditions fo successful development. However, certain modem offshoots of dependency (Cardoso, Faletto), and modernization (Huntington) theories go beyond these paradigms and take political factors into account. Hence in the first part of my next chapter (Chapter 2) I will undertake a criticism of this literature. My criticism of these theories will pave the way for outlining my own notion of the state's economic interventionism and its relation with economically dominant groups in society. Briefly, *after also reviewing the political science literature on the state,* I will claim that the nature of this relation between the state and society is both unelaborated in the literature and worse even, recent contributions to the literature do not take into account variations between 'core' and 'peripheral' states. Moreover, my criticism of the shortfalls of literature on development will make it clear why I decided to compare France and Turkey.

Next, in the second part of the next chapter I will develop my own theoretical framework to rationalize my choice of 'planning' as the appropriate framework to study the nature of relations between the state and private economic managers in the making of state economic policies. In addition, to conceptualize the relations among the business fractions and their links with the state so as to uncover the power structure of contemporary political economy,[29] I will elaborate on the notion of the *historical or power bloc* and *hegemonic fraction of capital,* because I believe that successful economic

[29] I use the term 'political economy' to denote the sum of historically specific sets of organizational arrangements between the state and economic actors through which 'politics' and 'economics' are linked to each other.

planning in advanced capitalist nations is premised upon a certain configuration in the bloc of economically dominant class fractions and such a bloc is very difficult to construct in Third World countries. Thus, capitalist planning in developed countries, such as France, should not be imitated by Third World countries (i.e. Turkey).

I will organize the three main sections of the dissertation in accordance with the ways in which Turkish and French political economies, which I discussed in the last section, are formed (the 'genesis'), consolidated (the 'development') and dissolved (the 'deplanification'), insofar as the making and unmaking of these historical blocs are both expressed and affected by the evolution of Turkish and French planning systems. Accordingly the section following the "Criticism of the Literature and Theoretical Framework' and entitled "The Genesis of Planning in France and Turkey" deals with the formation of 'modernization lobbies' in these countries that later sustained and supported economic planning. It is the central claim of my dissertation that planning can only be successful when a certain balanced power relation exists between the state administrators and private investors, and hence an indicative planning inspired by Western experience may be doomed to failure in the Third World from the very beginning, given that the socio-political preconditions of successful planning do not exist. Therefore, my investigation of the 'genesis' of planning in the comparative context will focus upon the structural and historical reasons which enabled state managers in France, and not in Turkey, to develop not only an interest in rapid economic growth and deepening of the industrial profile, but also an effective capacity to intervene in the economy to realize these goals. My principle argument in this context will be that capitalist planning can only be successful when a certain 'anti-protectionist' modernization bloc is constructed and that planners can not forge such an alliance at will (Turkey), but only when *labor* becomes a political actor (France). Accordingly special emphasis will be accorded to the political role of labor induced reforms in France linking the state to the advanced sectors of capital, as opposed to the aborted attempts of the early Turkish planners who tried but could not do the same thing because they were unable to convince businessmen that an impending political threat existed jeopardizing the reproduction of the capitalist system unless urgent reforms were instituted.

The second major section entitled "The Development of Economic Planning in Turkey and

France" focuses on the question of development *per se*, understood as the deepening of the industrial structure via the establishment of investment and capital goods industries. Accordingly the evolution of planning in Turkey and France is discussed in chapters five and six from the standpoint of the implementation of the plan, or planners' effectiveness in, first mobilizing economic resources necessary to finance their investment programs; and second, in allocating private and public savings to the industrially most productive uses. In this context I will argue that planners in both Turkey and France were endowed with some -- albeit *differing* -- levers to implement the plans, and it was through the selective allocation of these discretionary resources under their control that they played a key role in shaping the hegemony in the power bloc in favor of the industrial class. Consequently the manufacturing bourgeoisie gradually built its hegemony in both countries, yet different interventionist styles and different links between the state and capital led to dissimilar results. That is to say while deepening of the industrial profile was achieved in France, in Turkey, to the extent that industrialists were rendered economically powerful, their real interests increasingly lied in choking off further industrialization, i.e. preventing the introduction of investment goods industries, rather than promoting them. Hence the central argument of this chapter will be that contrary to what modernization theorists or liberal economists assume, the creation and strengthening of an entrepreneurial class may not amount to development. (But unlike what dependency theorists say, such a class may gain the upper hand in the peripheral nations over other pre-capitalist dominant classes or class fractions.) Therefore a commitment to economic development in Turkey will require a different type of planning and state intervention in the process of industrialization not yet found in the peripheral countries which have adopted the capitalist planning of the core economies.

My last section entitled "Is there an end to planning in Turkey and France?" discusses and rejects the claims of many social scientists that a radical about turn to markets occurred in both Turkey and France in recent years, as a result of the world economic crisis of the mid-70's, and therefore planning, defined as the state's leverage over private or public investment decisions, ended. In contrast, my central argument in chapters seven and eight will be that beneath the rhetorical facade of laisser-faire capitalism which serves some political purposes enabling French and Turkish states to disavow responsibility for massive layoffs, both Turkish and French planners continue to affect the allocation of resources in their economies. Hence the adjustment of the Turkish and French economies in the mid-70's to external imperatives was not an automatic process, but on the contrary the adjustment process was mediated by distinctive state capacities and the configuration of class forces in politics in these nations. Therefore, given the differing levers which were available to planners, although both of these states aimed at a reorganization of industry to concentrate resources in firms and sectors capable of earning the much needed foreign exchange during the worldwide recession, they experienced varying degrees of success, with differential implications for the nature of hegemony in the power bloc and the ensuing paths of development. Consequently, French planners were able to implement a successful restructuration program -- albeit under the ideology of the market! -- aimed at shifting resources across industries toward high tech sectors, and in the meantime the hegemony of the export-oriented dynamic fraction of capital in the power bloc was strengthened. In Turkey, on the other hand, although the internal market orientation of the economic policy ended, since it was the existing power bloc that defined the response to demands from international economic organizations, the new model of economic development which came in its place was no more conducive to development than the old one. That is to say, under this new 'export-led' model of growth, planners did have no choice but to continue betting on unproductive monopoly capital -- the hegemonic fraction in the power bloc -- as the main agent of development. Consequently the profit levels in industry were restored at their pre-crisis levels, without corresponding changes in productive efficiency and competitiveness of manufacturing capital.

2. CRITICISM OF THE LITERATURE AND THEORETICAL FRAMEWORK

1. Sociological Literature on Economic Development and the State

Modernization Theory

Perhaps the most serious problem with the 'modernization' theory is that while the practitioners of the modernization approach share similar concepts and views on the nature, direction and necessity of economic development in the non-western nations, they fail to define what it is precisely that they wish their theories to explain.[30] Perhaps this failure to lend focus on their work stems from the fact that modernization theorists take what should be explained -- economic development -- as unproblematic. That is to say, the proponents of modernization theory regard 'modernization' -- as equated with the development of capitalism -- as a uni-linear, inexorable and multifaceted process involving changes in economic, political and ideological levels of human activity. Most conceptualizations of modernization define 'modernization' in such a way as to conceptualize the process whereby 'traditional' societies acquire the attributes of 'modernity'.[31] Conceived in this way 'tradition' and 'modernity' represent two mutually exclusive and functionally interdependent clusters of attributes. Drawing on a wide literature, including 19*th* century evolutionary theory, Weber, Tonnies, Durkheim, Parsons and contemporary structural-functionalism, modernization theorists conceptualize the transition of a given society from 'tradition' into 'modernity' in terms of a transition between some polar types of Weberian ideal-typical conceptual couplets. The 'modern' end of this couplet is usually abstracted from a certain a-historical and stereotypical 'image' of western societies, or as one critique claimed, from the 'supposed' attributes of the postwar American society.[32] Then the criterion of modernization becomes the process whereby non-western societies acquire the attributes of western societies that were defined -- to begin with -- as ideal typical constructs. Thus conceived, the modernization process becomes a 'teleological' process of social change since it is defined in terms of the 'goals' toward which less developed societies are moving. "Modernization, then, becomes a transition, or rather a series of transitions from primitive,

[30] For a concise and well taken criticism see Dean C. Tipps, "Modernization Theory and the Comparative Study of Societies: A Critical Perspective," *Comparative Studies in Society and History*, No. 15, 1973.

[31] There are exceptions to this rule. See for instance M.J. Levy, *Modernization and the Structure of Societies*, Princeton U.P., Princeton, N.J., 1966.

[32] See D.C. Tipps, *op. cit.*, p. 208.

subsistence economies to technology-intensive, industrialized economies; from subject to participant political cultures; from closed ascriptive status systems to open, achievement-oriented systems; from extended to nuclear kinship units; from religious to secular ideologies; and so on."[33] One can extend the list by surveying the modernization literature and come up with a comprehensive catalogue of social,[34] economic,[35] political,[36] cultural,[37] and even psychological[38] ideal-typical dichotomies to dissociate 'modernity' from 'tradition', but there are serious problems and theoretical limits to such endeavors. To start with, because the attributes of modernity are abstracted from some unexamined ideal-typical models of development, comparing the actual features of non-western societies with 'ideological' abstractions, and then ranking countries on a continuous scale of modernization in terms of their proximities to the supposed moral-institutional qualities of 'modern' nations, makes little *methodological* sense. In fact, "since the first requirement of comparative analysis is that the entities being compared be of the same domain or universe of discourse, the failure to specify a common set of operational criteria for application of the term 'society' imposes severe limitations upon the utility of the ideas of 'traditional society' and 'modern society' as comparative concepts. As they are currently employed in the literature, not only are comparisons between these two types ruled out, but, to the extent the term 'society' in each of these concepts itself lacks a common set of empirical referents, comparisons within each type are precluded as well."[39]

Although 'modernization' theory claims to, yet fails to undertake a thorough comparative study of the actual process of political and economic development in different societies, it should still be credited with posing the question of comparison, so as to sensitize us to this issue. In this dissertation, I aim to overcome this methodological pitfall of comparing one non-western country (Turkey) with an

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33 *ibid.*, p. 204.

34 See Alex Inkeles, "Making Men Modern: On the Causes and Consequences of Individual Change in Six Developing Countries," *American Journal of Sociology*, 75 (2), 1969.

35 See A. Gerschenkron, *Economic Backwardness in Historical Perspective*, F.A. Praeger, New York, 1962.

36 See D.E. Apter, *The Politics of Modernization*, Chicago U.P., Chicago, 1965, and C. Geertz (ed.), *Old Societies and New States*, The Free Press, N.Y., 1963.

37 See D.N. Levine, "The Flexibility of Traditional Culture," *Journal of Social Issues*, 24 (4), 1968 and D. Lerner, *The Passing of Traditional Society: Modernizing the Middle East*, The Free Press, N.Y., 1958.

38 See R.S. Khare, "Home and Office: Some Trends of Modernization among the Kanya-Kubja Brahmans," *Comparative Studies in Society and History*, 13 (2), 1971.

39 D.C. Tipps, *op. cit.*, p. 219.

implicit and ideal-type model of an advanced capitalist state by relying on a *'concrete'* case of western development, France. Granted that neither other non-western nations, nor western nations perfectly replicate the particular modes of state-society relation in Turkey and France; one can still proceed with caution to generalize some of the structural properties of these nations to others in their respective categories.

Aside from methodological issues, modernization theory has been criticized for representing the development of capitalism as a uni-linear and inexorable process. That is to say, given the teleological premises that I discussed, it was assumed that all countries can potentially follow a single path of evolutionary development so that all societies will become increasingly alike in their essential characteristics. Unfortunately, the 'convergence' thesis detracts from the explanatory power of modernization theory because once non-western countries are *'homogenized'* under the same rubric, it becomes impossible to interpret variations among non-western countries in terms of differential paths of political-economic development. In addition, modernization theorists view the advance of modernity as inexorable. That is to say, once, for one reason or another -- generally due to military or political contacts with the West -- the modernization process gets underway, it first affects and transforms a few traditional aspects of the non-western societies, but then these changes set off a series of chain reactions leading to a cumulative process of social change and transformation. Under this problematic, the possibility of interaction and mutual interpenetration and determination between 'traditional' and 'modern' societies is simply dismissed, and 'traditional' societies are reduced to pure 'epiphenomenal' status, lacking a dynamic of their own. Overwhelming empirical evidence relating to the history of colonialism on the other hand indicates that 'traditional' societies -- depending on their internal balance of power relations -- selectively appropriate some features of capitalism and more often than not they adapt these features for their own ends to consolidate pre-capitalist hierarchies rather than dissolving them.[40] Thus, ignoring the diversity of traditional societies, modernization theory precludes any serious analysis of the social 'dynamics' beneath development and underdevelopment. Hence, when confronted

[40] From within the modernization perspective several authors such as Eisenstadt, Bendix and Huntington emphasize this point. See S.N. Eisenstadt, *Modernization: Protest and Change*, Prentice-Hall, Englewood Cliffs, N.J., 1966. See also S.P. Huntington, "The Chance to Change: Modernization, Development, and Politics," *Comparative Politics*, 3 (3), 1971 and R. Bendix, "Tradition and Modernity Reconsidered," *Comparative Studies in Society and History*, 9 (3), 1967.

with ample empirical evidence indicating that new post-colonial nations, liberated in the aftermath of the Second World War, failed to recapitulate the trajectory of advanced western nations; contemporary versions of the modernization theory attributed this failure to indigenous factors such as 'traditional values and primordial loyalties',[41] 'the lack of entrepreneurial initiative and capital resources',[42] 'insufficient political institutionalization',[43] etc. Thus the fact that Turkey in the post-independence period failed to recapitulate the earlier trajectory of advanced capitalist societies in their initial states of economic development is explained by modernization theorists by putting the blame on the absence of certain entrepreneurial values or other 'cultural' obstacles. Yet the problem with these forms of explanation is that these so-called 'obstacles' to development lack explanatory power because they fail to demonstrate firstly that these social-cultural-economic impediments to development are unique to the non-western world and *non-existent* in western societies; and secondly that these 'impediments' are causally related to underdevelopment. The vast empirical sociological evidence coming from the study of say, American society for example, suggests that even the most 'advanced' western nation is plagued by many cultural (primordial ties, 'evangelism', etc.) and structural (the development of informal markets, dual labor markets) idiosyncrasies falsely characterized as being the unique characteristics of non-western societies.[44] Moreover, even if we assume that certain cultural and structural impediments are 'unique' to non-western societies, these characteristics must be shown to affect adversely the course of development of these societies, a *sine qua non* condition of comparative analysis that is missing in modernization theory.

The last and not the least problem with the modernization approach is the conceptualization of the role of the state in generating development. A majority of modernization theorists assume an economically deterministic position since they argue that the state does not play virtually any role at all in modernization which is an all encompassing and omnipotent phenomenon. All that is left for the

[41] See C. Geertz, "The integrative Revolution: Primordial Sentiments and Civil Politics in the New States" in Geertz (ed.), *Old Societies and New States, op. cit.*, pp. 105-157.

[42] See C. Geertz, *Peddlers and Princes*, Chicago U.P., Chicago and London, 1963.

[43] See S.P. Huntington, *Political Order in Changing Societies*, Yale U.P., 1978 (14^{th} printing, first published in 1968).

[44] See D.B. Billings, "Class Origins of the New South: Planter Persistence and Industry in North Carolina" in M. Burawoy and T. Skocpol (eds.) *Marxist Inquiries*, Supplement to A.J.S., Vol. 88, Chicago U.P., Chicago, 1982.

state and other social actors to do is to sit and bear witness to the flow of the irreversible process of modernization.[45] Nonetheless, some empirical studies informed by the same paradigm posit a fully autonomous state with interests of its own that can freely float around and shape the society according to an ideological and pregiven vision of modernization.[46] So the state now appears as the sole agent of modernization and the progenitor of rationalization; and empirical research is narrowed down to the examination of the efficacy of the state's organs in achieving objectives of modernization. What is really problematic with such an approach, which accords a high theoretical priority to the state, is that it does *not* have a theory of the state. We do not know about the location of the state within the matrix of other social forces, nor do we know about the interrelationships between the various arms of the state. Consequently all social conflicts in non-western countries are reduced to a conflict between the most prescient political elite and the traditional backward elements -- mainly peasants and traditional clergy -- who resist development. Needless to say, such a simplistic framework fails to understand the dynamics behind the determination of the state's economic policies in a country like Turkey, and instead substitutes teleology for empirical analysis because economic development is characterized as a predetermined outcome which is bound to happen because the social elements who resist it are destined to lose, it not today, certainly tomorrow. Consequently, the modernization approach fails to examine the nature of social conflicts rooted in the spheres of production or distribution of national wealth as providing the main impetus behind the state's economic interventionism with relevant consequences for the future course of economic development.

Dependency Theory

Although it reverses many key assumptions held by modernization theory, dependency theory still commits the two fundamental errors of 'stereotypical comparisons' and 'deterministic reductionism', of its philosophical opponent. In the context of modernization theory, I claimed that its practitioners take what should be explained, that is economic development, as unproblematic. Ironically, such optimism resonates well with Marxist orthodoxy since it was Marx himself who claimed that "the country that is

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[45] See W.W. Rostow, *The Stages of Economic Growth*, Cambridge U.P., N.Y., 1960.

[46] See D.A. Rustow, *A World of Nations: Problems of Political Modernization*, The Brookings Institution, Washington D.C., 1967.

more developed industrially only shows, to the less developed, the image of its own future."[47] And it is precisely against this notion of development as a uni-linear and inexorable process that dependency theorists react.[48] In fact, they all claim just the opposite, holding the penetration of western-core capitalism into peripheral non-western nations as solely responsible for the economic retardation and ills of the less developed countries.

Paul Baran's classical study on the political economy of underdevelopment may be singled out as the work that set the general paradigm affecting future empirical research that can be categorized as 'dependency theory'.[49] It was in fact Baran who reversed the orthodox Marxist equation and claimed that the advent of capitalism in the West and its expansionism has been dysfunctional for economic development in the Third World by robbing these nations of their 'economic surplus'[50] to suit the developmental needs of western nations. A.G. Frank, in his turn, retained Baran's emphasis on development and underdevelopment as a product of a single historical process generated simultaneously by the expansion of capitalism which tends to spill over national borders. To describe this process he coined the expression of 'the development of underdevelopment'.[51] Furthermore, Frank sharpened Baran's account of the surplus transfer from the periphery to the core, focusing upon the properties of international market mechanisms such as unequal terms of trade and the repatriation of profits, depriving the periphery from the means necessary for indigenous accumulation of capital. A. Emmanuel, on the other hand, elaborating on Frank's account of 'surplus' transmission, claimed that under certain conditions -- basically international mobility of capital, immobility of labor and product specialization among the core and peripheral countries -- unequal wages lead to unequal exchange between core and

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[47] This famous statement is found in the preface to the first edition of *Capital*. Cited by G. Palma, "Dependency: A Formal Theory of Underdevelopment or a Methodology for the Analysis of Concrete Situations of Underdevelopment?" *World Development*, Vol. 6, 1978, pp. 881-924.

[48] Such authors as diverse as A. Emmanuel, S. Amin, A.G. Frank, and I. Wallerstein share a common allergy against the orthodox Marxist equation between the penetration of capitalism into peripheral societies and economic development. See A.G. Frank, "The Development of Underdevelopment," *Monthly Review*, 18 (4), September 1966; I. Wallerstein, "Dependence in an Interdependent World: the Limited Possibilities of a Transformation within the Capitalist World Economy," *African Studies Review*, 17 (1), April 1974; and S. Amin, *Unequal Development*, Monthly Review Press, N.Y., 1976; and A. Emmanueal, *Unequal Exchange: A Study of the Imperialism of Trade*, Monthly Review Press, N.Y., 1972.

[49] See P. Baran, *The Political Economy of Growth*, Monthly Review Press, N.Y., 1957.

[50] The notion of surplus is defined as the difference between society's actual current output and its actual current consumption.

[51] See A.G. Frank, *Latin America: Underdevelopment or Revolution*, Monthly Review Press, New York, 1969.

peripheral nations.[52] S. Amin and G. Kay criticized some aspects of Emmanuel's theory of unequal exchange for his neglect of the differential productivity of labor in the core and periphery and his notion of wages as an exogenous variable determined outside the sphere of production and it was Amin who claimed that unequal exchange occurs only "when the differential between rewards to labor is greater than between productivities."[53]

Furthermore, Amin went beyond both Frank and Emmanuel, who had argued about the impossibility of development in the Third World due to the existence of unequal exchange relations between the 'core' and 'periphery', instead claiming the feasibility of some 'limited' forms of development in the non-western nations. Yet, according to Amin, the development that results in the periphery is not only very limited but also 'extroverted', in the sense that peripheral economies are so integrated within the developmental requirements of the core that they can not respond to the needs and resources of their own economies, resulting in fragmentation and isolation of economic sectors from one another. Such extroversion makes it unprofitable for economically dominant groups in the periphery, who derive their income mainly from export enclaves, whose production is designed for the internal markets of the core countries; to invest in their own meager domestic markets. Hence a policy of sustained industrialization via high wages is precluded in the Third World, given the sheer logic of the economic dependency relations. It is therefore no exaggeration to claim that for all major dependency theorists the *sine qua non* of development -- as identified with western style industrialization -- consists of breaking all economic linkages with the world markets and pursuing a strategy of self-reliance via socialist planning. Needless to say, such a modeling fails to capture the peculiarities of economic development in certain Third World countries such as Turkey, because business groups in Turkey derived their income not from export outlets but from their own heavily protected domestic market.

The dependency theorists have been criticized from many angles. To start with, as I claimed before, these authors substituted a negative teleology for the positive teleology of modernization or

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[52] A. Emmanuel, *op. cit.*

[53] See S. Amin, "The End of a Debate" in *Imperialism and Unequal Development*, Monthly Review Press, N.Y., 1977, p. 217, cited by M. Burawoy, "The Hidden Abode of Underdevelopment: Labor Process and the State in Zambia," *Politics and Society*, 11 (2), 1982, p. 125.

classical Marxism; yet they too end up wrongly characterizing the development of underdevelopment as inexorable as the advent of modernity. In their well known polemic with dependency, B. Warren, G. Kay, and T. Weisskopf, pointed out that since World War II, as measured by the levels of manufacturing outputs and the GNP growth rates, very real (capitalist) development did take place in the peripheral nations.[54] These authors therefore rightly rejected the 'stagnationist' assumptions held by dependency theorists and questioned the theoretical adequacy of *homogenizing* the periphery, making it impossible to interpret and explain real variations in terms of economic growth among the so-called Third World nations. Perhaps most significantly from my point of view, dependency theory has been reproached for its shortcomings in stimulating or facilitating the actual comparative study of 'developed' versus 'developing' societies.[55] That is to say, as modernization theorists do, the practitioners of dependency too, hold some unexamined and stereotypical ideal-type models of 'development' and the rise of capitalism in the West, and in this context my methodological criticism of modernization equally applies to them. I should add that, regarding the obstacles to the development of capitalism in the periphery, identified by dependency analysts such as unemployment, marginal sectors, huge income differentials, etc., these *conditions* have all existed at the outset of capitalist development in the core and hence as Lenin said of Narodniks in his polemics against them, the dependency school is guilty of transforming "the basic conditions for the development of capitalism into proof that capitalism is impossible."[56] Furthermore, during the mid-70's and 80's, as various reasons predisposed the manufacturing industry in the core to move into industrializing nations of the Third World,[57] "in these countries (i.e. peripheral countries -- V.M.) we discover features reminiscent of the advanced capitalist nations at the same time that the economies of the latter experience 'peripheralization': the development of informal sectors, increasing levels of unemployment, dual labor markets, and so on."[58] My own empirical research on the French and Turkish political economies too will emphasize certain structural similarities

[54] See T.E. Weisskopf, "Imperialism and the Economic Development of the Third World" in *The Capitalist System*, Prentice Hall, New Jersey, 1978 and also B. Warren, *Imperialism: Pioneer of Capitalism*, New Left Books, London, 1980.

[55] See G. Palma, *op. cit.*, and M. Burawoy, "Introduction: The Resurgence of Marxism in American Sociology" in M. Burawoy and T. Skocpol (eds.), *Marxist Inquiries, op. cit.*

[56] Cited by G. Palma, *op. cit.*, p. 892.

[57] See Frobel Folker, Jurgen Heinrichs, and Otto Kreye, *The New International Division of Labor*, Cambridge U.P., Cambridge, 1980.

[58] M. Burawoy, in his introduction to *Marxist Inquiries, op. cit.*, p. 22.

between these two countries, allowing not just for the possibility of the developing country joining the rank of advanced capitalist nations; but also for stagnation in an industrialized economy that may very well slip down in the hierarchy of the international division of labor, a situation that can't be imagined, given the deterministic assumptions of the dependency approach to economic development.

Another set of criticisms about the dependency approach came from the so-called 'articulation of modes of production' school.[59] Briefly the proponents of this school faulted dependency analysis for its exclusive focus on the externally induced relations of dependency in the sphere of exchange, at the expense of neglecting the relations of production and exploitation between the capitalist and pre- or non-capitalist economic sectors in the periphery. In contrast to the dependency school, the 'modes of production' approach puts emphasis on the conflictual nature of the class relations among the dominant classes of each mode of production in the social formation in question, due to their differential locations in the world of production, as well as the conflictual class relations between the dominant and dominated classes of the same social formation. These 'objective' class conflicts rooted in production, provide the social dynamics behind economic development that may be facilitated or retarded given the 'capacity' of the pre-capitalist classes to resist economic development. Underdevelopment therefore is no longer attributed exclusively to the relations of 'unequal exchange' in markets, but to the persistence and reproduction of pre-capitalist modes of production, which, rather than being thoroughly eliminated by the penetration of peripheral economies by foreign capital, may be reshaped and subordinated to suit the needs of the rising capitalist mode of production, imparting to the peripheral economies a certain 'capitalist' character, nontheless of the dependent and backward version of capitalism, called the 'colonial mode of production' by a proponent of this theory.[60] At any rate, this particular mode of analysis should be credited for its emphasis on a *historical* mode of analysis, focusing on the interplay of external factors with the internal dynamics of the dependent society, thus allowing internal factors with dynamics of their own to shape class structure and the course of economic development (in contrast to the dependency approach's reduction of internal class relations into a mere epiphenomena). According

[59] See H. Wolpe (ed.), *The Articulation of Modes of Production*, Routledge and Kegan Paul, London, 1980 and Colin Leys, *Underdevelopment in Kenya*, Berkeley and Los Angeles, University of California Press, 1975.

[60] Is was first J. Banaji who coined this term. See his short article "For a Theory of Colonial Modes of Production," *Economic and Political Weekly* 7, December 23, 1972.

to the 'articulation' school, external factors, such as the development of international trade or direct foreign investments, account by themselves neither for economic development nor underdevelopment. Instead "economic development can only be fully understood as the outcome of the emergence of new class relations more favorable to new organizations of production, technical innovations, and increasing levels of productive investment. These new class relations were themselves the result of previous relatively autonomous processes of class conflict."[61]

Yet despite the focus on the balance of class forces as a crucial independent variable in shaping economic development, neither the dependency theory, nor its Marxist critique, the articulation of modes of production theory, can tell us how to conceptualize the class struggles and the 'balance of forces' resulting from them and shaping economic development. I will later claim that the best indicator to evaluate the balance of class forces in politics is to focus on the politics of 'industrialization strategies' in individual nations, which are a crucial arena of class conflict and the focal point of class coalitional arrangements among various classes and class fractions throughout the planned period in Turkey and France. But such an endeavor necessitates undertaking a careful examination of how 'politics' and 'economics' are related to each other, as I will proceed to do in the next section. The dependency school on the other hand, instead of looking at the mechanisms connecting 'political' and 'economic' realms, reduces politics to economics, thus depriving 'politics' of any 'autonomy' whatsoever. In fact, in the dependency approach, the peripheral states are characterized as the instruments of an omnipotent and enlightened dominant class in the core, whose nature is transformed throughout the evolution of 'core' capitalism. Thus no room for social-political analysis is left since the content of state action in peripheral societies is derived from interests outside the national boundaries, and the question of the *capacity* of political actors in the periphery as an important determinant of economic development is never raised. My comparative study of economic planning in Turkey and France on the other hand, will show that states play a central role in development, although this role varies in different historical contexts, primarily depending on the structured relation between the state and economic actors *as indicated by the nature and direction of the state's (planned) industrialization strategy.* The states therefore

[61] See R. Brenner, "Agrarian Class Structure and Economic Development in Pre-Industrial Europe," *Past and Present*, 70, February 1976, p. 37.

differ in their capacity to impose economic policies on social actors and theoretically informed comparative empirical analysis of national political economies provides us with the sole possibility of highlighting the nature of relations between politics and economics and how they change in the course of economic development. And precisely it is the study of economic planning that provides us with a screen to watch the interaction between politics (the state) and economy (investor groups), a crucial point that I will turn to again, after discussing some recent contributions to modernization and dependency theories, so as to distinguish my own understanding of the significance of the state's economic interventionism as far as economic development is concerned.

Plugging Certain Loopholes in Modernization and Dependency Theories: Huntington and Cardoso/Faletto

S. Huntington

Unlike many modernization theorists, S. Huntington in his path-breaking work, *Political Order in Changing Societies*,[62] tries to come to terms with the simple fact that the new nations, liberated in the aftermath of the Second World War, contrary to the expectations of modernization theory, failed to recapitulate the trajectory of advanced western states in their initial stages of economic development, and instead found themselves saddled with insurmountable social, political and economic problems. Casting his own thoughts in the tradition of the modernization approach, Huntington agrees with modernization theoriests that political modernization theoretically means the "rationalization of authority ... differentiation of new political functions and the development of specialized structures to perform those functions ... and expansion of political participation." (pp 34-35) But, then Huntington reproaches modernization theorists for overlooking another and more practical aspect of political modernization, defined as the ability of political institutions to adapt to or to control the participation of civilian masses in politics which is a necessary component of rapid and continuous economic change. Failing to make this distinction, he says, modernization theory adopts a positive teleology and ascribes to political systems in the Third World qualities which are defined in terms of the ultimate goals toward which these

[62] See S. Huntington, *Political Order in Changing Societies, op. cit.* All of the quotations I am making below in this section are from this book and I am giving the page number in parenthesis after the quotation.

countries are (theoretically speaking) supposed to move, rather than qualities which actually characterize political processes and functions in the developing societies. (p. 35) Huntington in his turn sees modernization neither as a cumulative and all encompassing process, nor an inexorable one. He also refuses to homogenize all developing countries under the same category of 'traditional', and allows for variations in their political systems. Nonetheless, he attributes the overall reason for the failure of developing nations to deviate from the trajectory of western societies to the problem of political 'power'. In fact, although I claimed that modernization theorists failed to identify a well defined 'obstacle' to development that was unique to the Third World, Huntington provides an exception to this rule. That is to say, he convincingly argues that governments in the West significantly differ from the Third World states at least in one respect; i.e. in terms of their capability of imposing their will on society. But why do governments in the Third World lack such a capacity given that these states mostly possess an absolute monopoly over the use of coercion and physical repression? The key to an answer lies in Huntington's relational conception of 'power' derived form T. Parsons. Quoting Parsons approvingly, he asserts that 'power' should not be conceived of in zero-sum terms[63] as in pluralist conceptions of the state that informed the 'modernization' approach, leading these theorists to reduce differences in political regimes (between developed and developing countries) to relative strengths of different interest and pressure groups competing in the political realm to shape the 'outputs' of governments, which may profit some groups at the expense of others. Instead, Huntington argues that political 'power' may be 'expanded' of 'contracted' and that regimes in the Third World differ from western regimes in terms of the *low amount of power* in their societies. That is to say, "power is something which has to be mobilized, developed and organized. It must be created." (p. 144) And it may be created-expanded via the co-optation-assimilation of new groups, who are the products of economic modernization, into the political system. In western societies the political system assimilates new social forces through a process of political socialization by offering them some channels for participation, and hence impelling changes in the attitudes and behavior of the politically active groups before they gain access to the core of the state apparatus. In other words, certain political institutions in the state or

[63] Zero-sum thinking in this context refers to a situation whereby a gain in power for one person or group is matched by a loss of power by the other people or groups.

society in western societies provide the *filters* through which individuals and groups desiring access to the core must pass. Developing nations on the other hand lack such "effective political institutions capable of mediating, refining and moderating group political action." (p. 196) As a result, political instability and chaos ensues since "social forces confront each other nakedly; no political institutions, no corps of professional political leaders are recognized or accepted as the legitimate intermediaries to moderate group conflict." (p. 196)

Granting that political systems in the West and the Third World differ in their capacity to expand their power through assimilation of new social forces in politics, one can still wonder about the reasons for differing capacities of states to 'co-opt' new groups and the implications of this situation for economic development. Unfortunately on these specific issues, Huntington provides us with no satisfactory answer. Let's start with the latter issue of economic development. In my criticism of the modernization approach, I claimed that not only do these authors fail to identify a certain 'impediment' unique to traditional societies, but they are unable to demonstrate that the 'supposed' impediments (such as traditional values) which they identify are causally related to backwardness or at least are shown to affect adversely the course of development in these societies. Although Huntington, by dropping certain teleological assumptions of modernization, succeeds to identify qualitative differences in terms of 'political power' as a key variable distinguishing 'traditional' from 'modern', he fails to fulfill the second condition of demonstrating the connection between insufficient political institutionalization and economic backwardness. It is not that he does not try. Throughout his book, in some scattered remarks, he suggests that one can't pursue economic modernity while neglecting the assimilation of new forces in politics and that such an endeavor invariably ends up in total failure. (p. 92) Accordingly, he posits a positive correlation between the two and gives the Mexican revolution as a positive example of successful assimilation that provided "Mexico with a political stability unprecedented in Latin America and the political framework necessary for a new period of rapid economic growth in the 1940's and 1950's." (p. 317) If this means that political stability is a necessary -- yet not sufficient -- cause of economic growth, can we conclude that economic growth is infeasible in the context of prolonged political instability and insufficient institutionalization? Or can we conclude that sustained political stability leads to economic growth? The answer to these questions is obviously negative, as for instance the examples of Argentina and India reveal. It is in fact Huntington himself who cites them, Argentina as an example of a "feeble state surrounded by massive social forces," (p. 84) yet prosperous and urbane; and India just the opposite. How come? Huntington does not give us any clue to account for these 'deviant' cases apart from his keen observation that economic growth and political stability may or may not go together.

Nonetheless, I should still say that the objective of Huntington's book is not to account for the political determinants of development 'per se', but to seek the socio-political dynamics beneath the differing capacities of the state in assimilating subordinate groups into politics in modern and traditional nations. Unfortunately, Huntington errs in this task too because he resorts to a circular form of argumentation when defining his basic determinants of political 'power'. That is to say, when explaining successful assimilation which is a precondition of the expansion of 'power', he stresses 'institutionalization' as the key variable determining the receptivity of the system to enter into alliances and hence simultaneously mobilize new groups into politics while organizing their participation and subordinating them to the system. But how does one account for the capacity to 'institutionalize'? In his criticism of Huntington, C. Leys makes the compelling argument that the four indicators of institutionalization (i.e. 'adaptability', 'complexity', 'autonomy', 'coherence') lack explanatory power because of the circular reasoning beneath them. That is to say, the measures of these four indicators are defined in such a way that it becomes impossible to disprove them because they are defined tautologically. Instead Huntington should have first specified the spatial and temporal limits of his definitions, and then looked at the evidence (empirical realm).[64]

Despite these shortcomings however, Huntington still gives us some valuable insights about the functioning of political systems in contemporary nations and the nature of relations between the state and society. First, he makes the compelling argument that certain states succeed in mobilizing civilian groups in politics in such a way that these groups are organized not horizontally along 'class' lines, but

[64] See brilliant criticism of Huntington by C. Leys in "Samuel Huntington and the End of Classical Modernization Theory" in H. Alavi and T. Shanin (eds.), *Introduction to the Sociology of Developing Societies*, Monthly Review Press, N.Y., 1982.

on the contrary, a pattern of cleavages which cuts across class divisions emerges, rendering class alliances among dominated classes, such as the working class and peasantry, difficult. (pp. 318-320) In other words, he endows the state with the ability to divide and atomize the subordinate groups in a way surprisingly reminiscent of Gramsci's or Poulantzas' political analysis.[65] As we will see in the context of the French and Turkish planning experiences, these states did slightly differ in their ability to atomize subordinate groups, yet neither of them was able to 'co-opt' subordinate groups unconditionally, on the basis of solely creating the 'illusion' of participation. Therefore the causal connection between 'co-optation' and 'development' may be the opposite of what Huntington suggests: it is successful economic development which is a precondition of 'co-optation' and not the other way around. Some Marxist political theorists on the other hand, correctly emphasized that the state can only co-opt subordinate groups by creating some economic vested interests for them, and not solely on the basis of creating the 'illusion' of participation.[66] To do this, capitalist states are said to be endowed with the capacity of acting against the economic interests of the dominant classes in order to protect their political interests in the reproduction of capitalism. Interestingly, that's exactly how Huntington himself perceives the question of the state's 'autonomy' question. In a very insightful passage about 'Leninism' he asserts that when states are reduced to a mere instrumental status, by becoming an organ of dominant classes, they become very vulnerable for a takeover (revolution), provided that the organization of the revolutionaries represents a 'higher' form of political organization in the sense of being "autonomous from and yet in touch with the masses." (p. 341) Huntington's praise for the Leninist form of political organization (the vanguard party) also reveals his eulogy for the nature of the modern state that is (relatively) more autonomous from the dominant groups than Third World states and hence able to impose economic policies upon unwilling actors. *But how 'autonomous' is the autonomous state? What is the nature of the limits upon its economic interventionism and how do we account for them? Do contemporary capitalist states intervene in the economy in a uniform way or are there substantial differences*

[65] See N. Poulantzas, *Political Power and Social Classes*, New Left Books, London, 1973 and N. Poulantzas, *State, Power, Socialism*, Verso, London, 1980 and A. Gramsci, *Selections from the Prison Notebooks*, ed. by C. Hoare *(et all)*, International Publishers, N.Y., 1985.

[66] See A. Prezeworski, "Social Democracy as a Historical Phenomenon," *New Left Review*, 122, July-August 1980 and J.O'Connor, *The Fiscal Crisis of the State*, St. Martin's Press, N.Y., 1973.

between the 'core' and 'peripheral' states in their capacity to manage their own economies and impose planning priorities on unwilling actors? What are the social and political preconditions under which the state's economic managers can play an active role in economic development and for how long? Unfortunately, Huntington far from approaches these questions, let alone provides an answer, and this is because he does *not* have a theory of the state and politics in general, apart from some insightful observations.

F. Cardoso/E. Faletto

Not unlike Huntington's work whose main aim was to rescue modernization theory from its positive teleology, F. Cardoso and E. Faletto's *Dependency and Development in Latin America,*[67] too, is driven by the motive to purge a well known theory -- the dependency theory -- of its inherent defects, without rejecting the whole notion of dependency. In beginning to rescue the 'dependency' theory, first the negative teleology implicit in this approach and expressed with the term 'development of underdevelopment' is rejected on the ground that as foreign capital has increasingly been directed towards the manufacturing industry especially since World War II, very real capitalist development did take place in the periphery, and 'dependency' and 'industrialization' ceased to rule each other out as was predicted in the works of Baran, Frank and Amin. Furthermore, Cardoso/Faletto refuse to homogenize the periphery under the same rubric of 'dependent economies' as dependency theorists do, and instead attempts to account for variations among Latin American countries concerning differences in industrialization strategies and levels of economic development. But what are the dynamics or causal mechanisms behind these alternative patterns of development in Latin America? Cardoso/Faletto adopt a 'historical-structural' approach to analyze the problem of economic development. The 'structural' limits to possible economic development primarily refer to external forms of domination in that imperialist penetration of the periphery is the result of external social forces stemming from the global dynamics of international capitalism, and the nature of these forces has to be understood to analyze the development process in the periphery. (pp. xvi-xvii) Cardoso/Faletto are in fact in complete agreement with Frank

[67] See F.H. Cardoso and E. Faletto, *Dependency and Development in Latin America*, University of California Press, Berkeley and Los Angeles, 1979. All of the quotations I am making below in this section are from this book and I am giving the page numbers in parenthesis after the quotation.

and Amin when rejecting the 'modernization' thesis, saying that "the developing countries are by no means repeating the history of the developed countries. Historical conditions are different." (p. 24)

Cardoso/Faletto, however, vehemently reject what they call the deterministic-mechanistic explanation of economic development as a simple function of foreign domination. (p. 173) In this context, the 'historical' component of their historical-structural approach refers to the historically contingent and specific configuration of class interests and alliances, and "development results therefore from the interaction and struggles of social groups and classes that have specific ways of relating to each other. The social and political structure is modified insofar as new social classes and groups succeed in imposing their interests on or accommodating them to previous dominant classes in society." (p. 14) Moreover, when looked at from the 'historical' angle the system of external domination reappears as an 'internal' phenomenon through the social practices of local classes who share foreign interests and try to enforce them "not precisely because they are foreign, but because they may coincide with values and interests that these groups pretend are their own." (p. xvi) Hence by emphasizing that foreign interests are not simply imposed from outside, but find *concrete expressions* in the very dynamics of the dependent society, Cardoso/Faletto refuse to separate mechanically between 'internal' and 'external' factors constraining/facilitating development, but instead characterize economic development as rooted in the dialectical unity of the internal and external systems of domination. Accordingly, unlike the dependency theorists, Cardoso/Faletto recognize that the social and political struggles between various classes and class fractions had significance not just for the capitalist development process in the periphery, *but also* for the development of capitalism in the core countries. As we will shortly see, this understanding of the relations between the core and peripheral states as consisting of a mutual interaction, where each partner is endowed with a positive capacity, breaks away from economic determinism inherent in the dependency thesis and puts the dependent state at center stage, not as a tool of metropolitan capital, but as a medium of class conflict and alliances in its own right.

By endowing the state with an (unspecified) autonomy, Cardoso/Faletto become able to use 'dependency' as a generic term framing a number of different possibilities, and distinguish three basic types of development strategies in Latin America that varied not only over time, but also from one country to another depending on the dialectical interplay between changes in the external forms of domination and changes in the prevailing class structure and the system of domination in peripheral countries. The first dependency situation, called 'enclave economies' characterizes the situation in Latin America prior to the 1929 world-wide economic depression. Enclave economies differed in whether capital originated from outside or from the local economy, but in both cases, products -- usually raw materials or agricultural goods -- were sold in the *external* market. So enclave economies are examples of what Amin calls 'disarticulated economies', in the sense that products that are produced in the country are consumed outside, and the agriculture based exporting elite (the oligarchy) in the country consumes luxurious products that are not domestically produced. (p. xxii) The size of the internal market therefore remains very limited and wages represent a cost to capital -- and hence they have to be kept low in order to export -- rather than forming the basis for the expansion of an internal market as in the 'articulated' core economies. The enclave state in pre-1929 Latin America in its turn, fundamentally expressed the interests of the exporting bourgeoisie and landlords, and acted as an agent of foreign capital, oriented to primary good exporting sectors. This was an interventionist state whose main function was to ensure a supply of labor and natural resources needed by the enclave, and its narrow social base excluded middle class interests.

The pattern of economic development in Latin America, however, drastically changed after the 1929 depression "as a result of pressure on the political system by new social groups and of the reaction by groups linked to the export sector." (p. 100) A new protectionist-populist import substitution industrialization (ISI) strategy -- or model of economic development -- emerged more or less simultaneously in different Latin American countries, although there were significant differences in the character of development resulting from the adoption of ISI. More specifically, the speed with which 'popular sectors' -- middle classes and the working class -- were incorporated and made an integral part of the consumer market determined how quickly the economy industrialized. Within the range of possible variations in this ISI economy, two patterns can be distinguished. That is to say, in countries where agro-exporting sectors allied with the rising middle classes and denied working class access to the state apparatus, economic development or industrialization remained limited because all potential development possibilities that would have resulted via the expansion of the domestic markets via high wages could not be tapped (Chile). In contrast, in countries where the new middle class groups allied with the worker-peasant sector and overthrew the existing form of political domination, industrial wages were increased and formed the basis of an expanded domestic market, absorbing industrial goods produced by the state or by private capital in urban industrial centers (Mexico). At any rate, in either case the social basis of the political form of domination underlying the enclave state was transformed and the post-1930's period was characterized by the formation of new class alliances, including middle classes -- technicians, private and public employers, people devoted to the service sector, professionals, and so forth (p. 27) -- as major partners in the sharing of political power. Hence in opposition to the term enclave state, Cardoso/Faletto coin the term 'developmental state' to characterize this new form of state in Latin America (p. 143), and in complete disagreement with Frank and Amin, they emphasize the inclusion of popular sectors in this state, hence rejecting the idea of the peripheral state as an instrument of foreign capital implicit in the dependency school.

The 'developmentalist alliance' underlying this 'developmentalist state' was however ridden with conflicts. (p. 154) Namely, in this inward ISI development phase, exports continued to be vital to development because they made possible accumulation and industrial financing, but their prospects on the world market were beyond national control. (p. 155) Hence in the context of the falling raw material export prices in the 1950's which made it difficult for local manufacturers to import necessary machinery and equipment needed for production, ongoing pressures from the peasant and urban popular sectors for greater political incorporation and higher wages became to be seen as a burden, lowering profit levels. In addition, in the 1950's, foreign manufacturing capital began its search for new markets, coinciding with the deepening of the built-in breaches in the developmentalist state, and as a result the state in many Latin American societies was gradually transformed into 'an entrepreneurial state', embodying a newly wed alliance "between the interests of the internationalized sector of the bourgeoisie and those of public and entrepreneurial bureaucracies. The local bourgeoisie links itself to these sectors." (p. 210) So in this new post-ISI phase of economic development, called *associated capitalistic development* (p. 187), dependent yet industrializing economies are controlled by multinational corporations (MNC), but with a substantial part of industrial production sold in the *internal market.* Hence opening the market to foreign capital -- provided that the bulk of durable consumer goods produced by MNC's is destined for local markets -- does not rule out the possibility of incorporating at least some segments of the working class in the ruling alliance, and indeed workers in the 'modern' sector of industry controlled by MNC's, increasingly became detached from workers in the traditional sectors in terms of their interests and links to the state. (p. 159) Hence the 'populist' base of many Latin American states was not completely undermined and these states continued to exercise a certain legitimacy in the eyes of social actors making it possible to conceal the new form of political domination corresponding to the 'associated capitalistic development' phase of these economies.

There are definitely many merits in Cardoso/Faletto's analysis of Latin American economic development and their emphasis on *industrialization strategies as shaped in the political arena* with the formation and transformation of economically based class alliances. Moreover, although Turkey never experienced the 'enclave' phase of development characteristic of Latin American economies, there are many similarities between Turkey and other relatively developed countries in Latin America concerning the peculiarities of the inward ISI developmental phase in terms of class alliances which sustained this industrialization strategy. Cardoso/Faletto therefore succeeds in orienting our attention to the conflictual nature of relations among economically dominant groups in peripheral societies in accounting for the reproduction and dissolution of the ISI model, which , contrary to the expectations of the 'dependency' school, ensued in limited nonetheless real forms of industrialization in many parts of the Third World, including Turkey. Their work suffers however, first, from the absence of a theoretical base interpreting class formation and conflict; and second from the absence of a theory stating with clarity the specific nature of the relation between the state and dominant classes (the ruling alliance). To start with the latter issue, Cardoso/Faletto define the state in three different and contradictory ways. At times, the state is reduced to the 'ruling alliance', and hence an instrumental conception is adapted. (p. 83) But mostly the distinction between the state and the dominant classes is held and the state is seen as an entity organizing the 'unity' of the ruling alliance while atomizing and co-opting subordinate groups in the prevailing system of domination. (pp. 209-210) Yet, the dominant theme of the state held by

Cardoso/Faletto is that the state provides a primary arena of struggle to fractions of classes contending in the economic realm, and "classes just appropriate segments of the state apparatus to defend their interests." (p. 214) The perplexing puzzle for the reader is that throughout the book, Cardoso/Faletto go back and forth between these different notions of the state in an ad hoc way and the state managers are sometimes characterized as 'public entrepreneurs' or as the 'state bourgeoisie' (p. 210) with a capacity to manipulate the formation of new ruling political alliances via their well entrenched position in the state economic enterprises; while at other times Cardoso/Faletto emphasize the difficulty of sustained economic and political incorporation of the popular sectors by this otherwise all encompassing and omnipotent 'dependent' state. Cardoso/Faletto, in fact, wrongly take the proportion of public investments to total industrial investment as the sole indicator of the state's capacity (p. 203), neglecting other forms of state economic interventionism -- such as the formulation of effective fiscal and monetary macroeconomic policies -- to distinguish between states' capacities not only among Latin American nations but also between the 'core' and 'peripheral' states. In addition, Cardoso/Faletto neglect the issue of specifying the 'form' of the state, because their sole emphasis on the relationship between the dominant classes and the state leads them to ignore relations between dominant and subordinate classes that should be taken into account when one intends to account for different forms of the state -- such as authoritarianism, restricted democracy or totalitarianism (p. 210) -- which may all have different implications for the adoption of feasible industrialization strategies.

Finally, despite the rhetoric in affirming the centrality of class struggles and alliances, Cardoso/Faletto do not provide us with an empirical 'basis', helping us conceptualize class formation and conflict. As I mentioned before, the politics of economic policy have become a crucial arena of class conflict and the focal point of coalitional arrangements in the postwar history of capitalism, both in the core and in the periphery, and it is the *state itself* as an arena where different industrial strategies are formulated and implemented that shapes the way *classes perceive and act on their interests.* Cardoso/Faletto write about 'developmentalist industrialization strategies', 'developmentalist state' (pp. 154-155) and 'hegemonic or ruling fundamental alliances' sometimes as interchangeable terms and sometimes as unconnected phenomenon, without ever laying out connections between various economic policies, the configuration of relations between different fractions of the dominant classes, and the form of the state. Their work suffers from the lack of a certain focus, specifying the institutional context and the mechanisms via which the managers of the state can shape the nature of the ruling class alliance; or vice versa, i.e. how the prevailing ruling alliances pose external limits to state interventionism designed to promote development. To solve these problems, one definitely needs a well defined notion of how the state in peripheral societies relates to economically dominant groups, certainly better formulated and more consistent than the one Cardoso/Faletto provide us with.

2. Theories of the State

Although the sociological literature on development provides us with many useful insights, none of the theories I criticized above can satisfactorily explain the reasons why Turkey failed to recapitulate the economic trajectory of France after the onset of modern planning. One major reason behind theoretical shortcomings is that none of these 'theories' focuses on the differing capacities of the state managers in the 'core' and 'periphery' as effective agents of economic overhaul and modernization. It is therefore necessary to review the 'political sociology' literature on the state to see how the question of political preconditions of economic development is handled. In addition since my own approach to the nature of state economic interventionism and particularly to the state's relation to dominant groups in society builds on existing theories of the state, as much as it builds on the development literature that I already criticized, it may be useful to proceed with a brief summary of the current literature on state theories before laying out my own approach and rationalizing the significance of focusing on 'economic planning' to address these issues. The issue of the political determinants of economic policy or the role of the state in a capitalist economy has been widely discussed in recent years by certain theoreticians associated mainly though not exclusively with neo-Marxist analysis. The publication of R. Miliband's *The State in Capitalist Society*[68] in 1969 may be singled out as the landmark work that incited a flurry of literature attempting to move beyond Marx' and Engels' observation in *The Communist Manifesto* that "the executive of the modern state is but a committee for managing the common affairs of the whole bourgeoisie."[69] A second motive for the development of this literature was the common reaction

[68] R. Miliband, *The State in Capitalist Society*, Basic Books, N.Y., 1969.

[69] K. Marx and F. Engels, *The Communist Manifesto* from Marx and Engels, *Selected Works in Two Volumes*,

to the state theory of 'pluralism' held by a majority of political scientists in the epoch. Miliband himself led the attack against 'pluralists' by challenging the pluralistic notion of 'power' in modern societies, that is, that it resides in the citizens who as voters express their political will while exercising sovereignity, or who as organized interest groups affect the political process, shape its output and double check each other's influence. Contrary to these claims, Miliband asserted that such a pluralistic notion of democracy is nothing but a 'myth' espoused by the economically dominant class to cover up its privileged ties with the state elite, enabling it to shape the political process in its favor.

So, although a broad 'consensus' emerged among neo-Marxists in rejecting orthodox Marxist as well as pluralistic notions of the state, this consensus does not go deep enough to avoid a divergence on the characterization of the functions and 'nature' of the modern state, and especially (for my purpose) the nature of the relations between the state and economic actors -- investor groups in civil society. Therefore, if we look from the vantage point of the relations between the state and economically dominant classes or class fractions we may distinguish 'three' different approaches, although all of these theories are united by their common aim, namely, the "attempt to establish theoretical guarantees that the state in a capitalist society necessarily functions on behalf of capital."[70]

Instrumentalists

The first line of argumentation associated with R. Miliband himself and Domhoff is often labeled as 'instrumentalist'.[71] Despite this term 'instrumentalist' attached to the works of Miliband and Domhoff, these writers reject what they call crude Marxist instrumentalism of postulating an omnipotent and cohesive dominant class which manipulates the state to pursue its own economic ends. Yet their own work is focused almost exclusively on specifying certain 'mechanisms' by which economically dominant groups -- the so-called capitalists -- exercise a decisive influence over the state's economic policies to the detriment of all other groups. More specifically, business groups easily infiltrate the upper reaches of the state economic administration due to the existence of a multiplicity of networks in

Lawrence and Wishart, London, 1958.

[70] B. Jessop, "Recent Theories of the Capitalist State," *Cambridge Journal of Economics*, Vol. 1, 1977, p. 352.

[71] This term was first used by D.A. Gold, C.Y.H. Lo, and E.O. Wright, "Recent Developments in Marxist Theories of the Capitalist State," *Monthly Review*, N.Y., October and November 1975.

modern societies where political and business elites interact exclusively and reach decisions over economic policy making. The fact that both the state elite (governing class) and businessmen (ruling class) are drawn from the same privileged groups in economic and social terms facilitates their mutual interaction, although in case of conflict, businessmen can make sure that the state pursues policies which will further the interests of capital due to the organization of politics in multi-party systems where politicians are dependent on businessmen for financial backing to get elected. At any rate, in addition to its common social ties with the state administrators and financial control over politicians, business has carved out an extremely strong place for itself in key state apparatuses due to the institutionalized *physical presence* of businessmen in these apparatuses that form an integral part of the capitalist system. Miliband relies on the example of *French planning* as an indicator of the collusion of interests between the state and business elites by grounding his assertion in physical participation of businessmen in the elaboration of French plans.

Although this so-called 'instrumentalist' theory goes beyond crude instrumentalism, by showing empirically factors such as common 'social ties', 'class origins', and the 'physical presence' of businessmen in the economic administration as key variables increasing the likelihood that the state in a capitalist society functions on behalf of capital, it falters on many counts. First, 'business' is treated as a cohesive unit and virulent divisions between different fractions of capital, such as 'industrial' and 'financial' capital, as far as economic policy is concerned, remain unaccounted for. Second, this perspective, due to its exclusive focus on the state's ties with economically dominant groups can not account for variations in the range of economic policies adopted by states that change not only over time but also from one country to another, partly as a result of the relationship between the state and the dominated classes.[72] Third, the issue of the differing capacities of the state managers in steering their own economies towards desired (planned) directions remains unaccounted for. And finally, even in the absence of common social origins, the state managers may be shown to pursue the interests of capital, a phenomenon neglected by the 'instrumentalist' approach.

[72] This line of argumentation is adopted by J. Pontusson, "Comparative Political Economy of Advanced States: Sweden and France," *Kapitalistate*, Berkeley, California, 1983.

Structural-Functionalists

This last criticism provides the starting point for a second line of argumentation which might be labeled 'structural-functionalist' because it suggests that the state is compelled to pursue the 'common affairs of the whole bourgeoisie', not because of common social ties between administrators and businessmen, but by virtue of the exigencies of the capitalist system itself that dictate certain policies. Two sub-versions of this logic may be distinguished: the state-derivation theory or the so-called 'capital logic' and the early work of N. Poulantzas that can be labeled as 'Gramscian structuralism'.[73] I have already criticized in my introduction the functionalist perspective embedded in 'capital logic', deriving the (unchanging) economic role of the modern capitalist state from the dynamics of the capital accumulation process. Namely, this approach highlights the economic role of the state managers who attempt to counter capitalism's tendency to destroy itself through economic crisis stemming from the inability of markets to generate both sufficient profits (i.e. the rate of return to investments) and effective demand (i.e. purchasing power) to sustain a reasonable level of productive investments required for renewed economic growth. In this context, I mainly argued that identifying certain objective economic imperatives necessary for economic development does not in itself constitute an explanation of the economic roles assumed by various states. This perspective solely defines the state in terms of the economic functions it performs, without accounting for *how* the state comes to performs certain uniform economic roles. Moreover, like the instrumentalist perspective it criticizes, 'capital logic' falls short of coming to terms with variations concerning the way in which politics and economics are related to each other in western countries, let alone between the 'core' and 'peripheral' countries.

The same three criticisms can equally apply to the Poulantzasian version of functionalism. Although in contradistinction to the 'capital logic' school, Poulantzas stresses the political and ideological role of the state in co-opting the dominated classes into the system, and hence he can come to terms with certain empirical cases where the state acted against the economic interests of the dominant classes to protect the political domination of capital as a whole; Poulantzas shares many facets of the function-

[73] For the state-derivation theory, see J. Holoway and S. Picciotto (eds.), *op. cit.* N. Poulantzas, *Political Power and Social Classes, op. cit.*, contains the best formulation of early Poulantzas' theory.

alist perspective. In fact he derives the two 'uniform' functions of the state, i.e. its role in cementing the unity of the dominant classes or different fractions of capital (which are in conflict with each other economically) and its role in dividing and atomizing the dominated classes (so that they don't threaten the capitalist social order) from certain a-historical imperatives dictating to the state managers the role of reproducing the existing system of domination. Accordingly the state is said to perform a double function: it arbitrates among economically dominant class fractions to provide their unity, and it represents the private interest of the capitalist bloc as a whole as the universal interest, not only by granting economic concessions to the masses but also, with the help of certain apparatuses and structures of the state by creating the 'illusion' of participation and common interests. Moreover the state is said to have become 'relatively autonomous' *vis-a-vis* dominant classes in modern societies so that the state managers will be endowed with maneuverability to act against the short term calculus of certain fractions of dominant classes, if deemed necessary to atomize and co-opt the dominated strata. From this vantage point *'planning'* as an apparatus of the state may be examined primarily as an 'ideological' apparatus where noncapitalist groups are allowed to participate without sharing real decision making power -- hence the illusion of participation. The co-optation of these subordinate groups on the other hand, will be proportional to the extent of their participation as well as to the extent of vested interests created for them via increases in the 'social wage' (transfer payments and social services) made possible by planning in ameliorating the economic standing of the working class. Unfortunately, such an explanation is not strongly supported by empirical analysis. In fact, popular groups were not allowed to participate in the preparation of plans in Turkey; and in France when trade unions participated in the preparation of plans, not only did planners fail to appease social tensions which contrary to expectations increased proportionally with the extent of trade union participation, but also business groups were convinced to cooperate with planners only after the radical trade unions were left out.

The least convincing aspect of Poulantzas' early work, however, remains its inability to explain the *mechanisms* by which certain exigencies of the capitalist system are imposed on the state so that its managers unwaveringly act to cement the unity of capital fractions while dividing others. Although Poulantzas rightly rejects Miliband's notion of the necessity of common class membership to make sure

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that the state managers act in favor of the bourgeoisie, he, himself, fails to solve this problem because although he says that the mechanisms of domination are couched in the *'objective relation'* that the state has to the bourgeois class, the term 'objective relation' is not discussed in his work. Therefore the reader fails to understand what is meant by it and consequently we are left with almost no clue to understand the peculiar form of relations between the state and the economically dominant classes. As Carnoy, among others, has pointed out, Poulantzas has rightly been criticized for not analyzing "systematically the *limitations* imposed on the state by the relation of the state to the process of capital accumulation."[74] Perhaps Poulantzas' failure is most blatant when he discusses the relation of the state to the dominated classes because he fails to uncover (economic) limits on the capacity of the state to grant economic concessions to the masses, save for an abstruse reference to the need for safeguarding the dominant classes' political power.

Subject Theory

The challenge of resolving this problem of explaining the mechanisms that make the state a capitalist state provides the initial stimuli for the third line of argumentation in neo-Marxist political theory that may be labeled as the 'subject' theory of the state.[75] Accordingly, a group of theorists explain the behavior of the managers of the state in terms of the consciousness of the state managers who recognize their own institutional interests as firmly tied to those of capital accumulation. In other words, a distinctive feature of pluralist politics in western democracy is that popularly elected governments must cater first to the interests of the private owners of capital before realizing their own interests, i.e., staying in power. Therefore, irrespective of their political orientation, institutional self-interest of the managers of the state dictates that their continued power rests on the maintenance of a reasonable level of profitability in the economy that is necessary to induce private owners of capital to invest. Seen in this way, the political power of the capitalist class lies neither in its special ties with the state managers, nor in certain economic or ideological functional imperatives or exigencies of the capitalist system, but its political power resides in what individual capitalists can *refuse to do economically*. That is to say,

[74] See M. Carnoy, *The State and Political Theory*, Princeton U.P., New Jersey, 1984, p. 148.

[75] See F. Block, *op. cit.* For a non-Marxist perspective that comes to the same conclusion, see C.E. Lindblom, *Politics and Markets*, Basic Books, N.Y., 1977.

because, in a capitalist economy, the level of economic activity is basically determined by the private investment decisions of capitalists, governments can only hurt their own political lot if they pursue economic policies that discourage private capitalists from investing and decrease the level of 'business confidence'. In other words, transformation to a socialist economic system in a pluralist democracy is ruled out by the politically intolerable period of economic hardship which the resistance of businessmen to reformist governments would impose on the economy. As a result, either reformist-socialist governments will be forced to alter radically their political orientation and adopt pro-capitalist policies, or else they will be overthrown because the public support for their rule will vanish amidst political turmoil and grave economic crisis stemming from sharp decline of business activities.

On the ground that it poses 'business confidence' as a structural constraint impinging on the consciousness of the state managers and forces them to function on behalf of capital, the 'subject' theory of the state may be seen as an advance over 'functionalist' and 'instrumentalist' theories of the state. Certain unresolved difficulties that also plagued rival perspectives do remain however. First, as Block himself acknowledges, the 'subject' theory can not be applied to capitalist states in non-pluralist political systems where 'business confidence' loses its significance as a structural constraint on the behavior of the state managers because the structural mechanisms described above do not operate or operate less forcefully in these situations. Second, the concept of the managers of the state lumps together the administrative and legislative-executive branches of the state by attributing a given set of interests to all. Notwithstanding the frictions between different economic administrations in France and Turkey, it's hard to believe that the dynamics of 'business confidence' as a constraint will bear as much on the behavior of the non-elected economic administrators as it weighs on the decisions of the politicians. Third, although this perspective on the state provides a persuasive account for why the state tends to function on behalf of capital, when confronted with the need to account for systematic variations among the economic policies of various pluralist political systems, it becomes unable to come to terms with, let alone systematically explain, these variations. And finally, it does not explain how capitalism reforms itself through the initiative of the state managers -- as it happened in France by the onset of economic planning in the post Second World War period -- despite the opposition of business groups.

Institutionalists

In a way, in all these three approaches to the state -- instrumental, relative autonomy and the 'subject' view -- certain structural limits to economic policy making in a capitalist state are specified (more convincingly in some perspectives than in others), but then the analysis doesn't proceed any further. We are therefore left with a deterministic framework suggesting that the state in capitalist societies always serves the interests of capital. But when we compare the experience of several European nations in the postwar period, "we find there has been wide variation in the range of policies adopted by these states and in the efficacy of these policies for capitalist reproduction."[76] Neo-Marxist theorizing on the state fails to generate theoretical categories that enable us to explain these variations in economic interventionism among advanced western states, let alone between the 'core' and 'peripheral' capitalist countries. Most specifically, the reasons why the French state steered economic development via economic planning more successfully than the Turkish state remain unexplained.

A second body of literature on the state however, emerged in the 70's, sometimes in open dialogue with these neo-Marxist theories and sometimes alongside them, attempting to come to terms with systematic variations in the way 'politics' and 'economics' are related to each other from one capitalist country to another. Certain non-Marxist political scientists who might be labeled as 'institutionalists' drew attention "to the institutional differences in economic policy-making among the European states in such a way as to reveal broadly different national patterns of decision-making."[77] A. Shonefield's magisterial cross-national analysis of postwar European economies in terms of their distinctive national patterns and styles of state economic interventionism may be singled out as having provided the initial stimuli for the spurt of this 'institutional' school.[78] Although this school provides a useful empirical description of varying economic policies among Western nations, it is "in locating the *sources* of these national differences"[79] that it fails. That is to say, institutionalist authors tend to reduce differences in

[76] See P.A. Hall, "Patterns of Economic Policy: An Organizational Approach" in S. Bornstein *et al* (eds.), *The State in Capitalist Europe*, Allen and Unwin, London, Ch. 2, p. 22.

[77] *ibid.*, p. 23.

[78] There are in fact substantial differences among western countries concerning the nature and role of states' economic interventionism. The classical and path-breaking work on this subject belongs to Andrew Shonefield. See his *Modern Capitalism: The Changing Balance of Public and Private Power*, Oxford U.P., London, 1965. For a recent contribution see J. Zysman, *Governments, Markets and Growth: Financial Systems and the Politics of Industrial Change*, Cornell U.P., Ithaca and London, 1983.

[79] P.A. Hall, *op. cit.*, p. 23.

the nature of the state economic interventionism to 'cultural' factors and specifically to the culturally specific attitudes of national elites who make decisions about the economy. But 'institutional' analysts can hardly specify certain unique cultural patterns that can be found in some advanced nations and not in others, and to the extent that certain differences in economic values exist, they fail to demonstrate that these are causally related to varying patterns in which 'politics' and 'economics' are related to each other in contemporary nations.

The 'Overdeveloped' Third World State

Another conscious attempt to explain the differing role of the state in Western versus Third World nations came from the work of a political scientist, H. Alavi.[80] Briefly, he argues that states in post-colonial societies, unlike western states, play a *central role* in the economic development process. This central role of the state in peripheral nations stems from three distinct phenomena. First, the post-colonial state, unlike the western state, is equipped with a powerful military-bureaucratic apparatus inherited from its colonial predecessor who, through it, could "exercise domination over *all* the indigenous social classes in the colony. It might be said that the 'superstructure' in the colony is therefore, 'over-developed' in relation to the structure in the colony, for its basis lies in the metropolitan structure itself, from which it is later separated at the time of independence."[81] Second, the post-colonial state also plays a prominent role in the production process as indicated in its appropriation of a very large part of the economic surplus from civil society and in its deployment of this surplus in the service of promoting economic development. Third, the post-colonial state plays an ideological role by helping to legitimize the status quo and binding the dominated classes to the nation state.

Under attack however from several authors, Alavi's attempt to substantiate the uniqueness of the Third World state disintegrates. Regarding the first issue and writing in the context of Zambia, Burawoy for example claims that although the colonial state was an interventionist state "whose function was to establish the supremacy of the capitalist mode of production," it could hardly be called an overdeveloped-strong state, and if anything it was a 'weak' state that was not concerned with

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[80] See H. Alavi, "The State in Post-Colonial Societies: Pakistan and Bangladesh," *New Left Review*, 79, July-August 1972 and J. Saul, "The State in Post-Colonial Societies: Tanzania," *Socialist Register*, 1974.

[81] J. Saul, *ibid.*, p. 350.

production per se.[82] As to the second specificity of the peripheral state, i.e. its central role in production, Leys makes the compelling argument that if one takes the ratio of government budgets to national incomes across countries, it will be seen that these percentages are higher for the core countries, indicating that they appropriate a larger amount of surplus from society than states in peripheral countries.[83] And finally the 'legitimacy' function of the peripheral state can hardly be called 'unique', and people as diverse as Gramsci, Poulantzas, Huntington and Lipset stressed the state's role in the West in the containment of popular struggles and in the assimilation of subordinate classes, binding them to the nation state.[84] All in all, Alavi's work remains limited in its explanatory power because he compares the actual features of states in the Indian sub-continent from which he derives the supposed characteristics of all of the peripheral states with an 'ideal type' and distorted picture of the western state. Although in his recent works he drops some of his earlier arguments, he still claims that the peripheral capitalist state is a 'distinct' form of state due to the existence of antagonistic economic contradictions between the three fundamental classes that form the basis of state power; whereas in western states different fractions of capital compete with each other without a 'structural contradiction' between them.[85] In other words, Alavi characterizes the 'core' state as an instrument of capital, whereas the 'peripheral' state is endowed with an autonomy to act against the short-term interests of economically dominant groups. My own research, on the other hand, indicates just the opposite. Although Alavi now stands on firmer ground when he derives the distinguishing character of the state in the Third World from the prevailing nature of class relations in these societies, his proposition that inter-class relations among different fractions of the capitalist class in the West is of a non-conflictual nature is very dubious and not supported by historical evidence. True, what he calls the three fundamental classes, i.e., landowners, the metropolitan bourgeoisie and the indigenous bourgeoisie, stand in conflict with each other in peripheral societies; but *the same* can be said for let's say industrial and financial fractions of capital as

[82] See M. Burawoy, "The Hidden Abode of Underdevelopment: Labor Process and the State in Zambia," *op. cit.*, pp. 129-130.

[83] See C. Leys, "The 'Overdeveloped' Post Colonial State: A Re-evaluation," *Review of African Political Economy* 5, January-April 1976.

[84] See A. Gramsci, *Selections from the Prison Notebooks, op. cit.*, N. Poulantzas, *Political Power and Social Classes, op. cit.*, S. Huntington, *Political Order in Changing Societies, op. cit.*, and S.M. Lipset, *Political Man*, John Hopkins U.P., Baltimore, 1981.

[85] See two articles by H. Alavi, "The Structure of peripheral Capitalism" and "State and Class Under Peripheral Capitalism" in H. Alavi and T. Shanin (eds.), *op. cit.*

well as between them and the petty bourgeoisie in core societies. Moreover, in both core and peripheral states, despite the existence of conflicts rooted in the production process between different segments of the dominant classes which impart a contradictory characteristic to the state's interventionism, the unity of the state becomes clear when the capitalist order is threatened for one reason or another. What is therefore needed is a form of analysis that can account for the contradictory nature of the state's policies as well as institutionalized policy differences between states, explained not solely in terms of the nature of prevailing class relations in individual countries but in terms of relations between these (dominant) classes and the state. It is in fact the state that may be instrumental in shaping the nature of class relations in society, albeit within the limits to its interventionism posed by certain structural constrains identified by authors such as Block and Poulantzas.

The State as an Arena of Struggle

Theoretically the most elaborate attempt to approach the indeterminacy of state interventions and variations in economic policy making belongs to the later work of Poulantzas.[86] His last book is in fact distinguished from its early structural-functionalist work in that it rests on a *historical* mode of explanation that recognizes the state as an arena of struggles between contending classes both between and within state apparatuses. In other words, the 'functions' of the state are not predetermined by the requisites of the system but are contingent on the balance of class forces stemming from concrete alliances that social groups enter into. True, the evolution of these alliances cannot be understood in isolation from the dynamics of capital accumulation, aptly described by the derivationist or 'capital logic' school, but "these formulations are misleading to the extent that they imply a simple, linear causality. The class struggle must be viewed as an integral part of the process of capital accumulation rather than a derivative of the latter."[87] Accordingly, contrary to the spirit of his early work where he characterizes the state in terms of its functions and as a product and a shaper of class struggle, Poulantzas now alters this conception profoundly saying that the state is by no means external to class struggle but rather a terrain of struggle or as he calls it, 'the condensation of a balance of forces'. Class contradictions do

[86] See Poulantzas' last work entitled *State, Power, Socialism, op. cit.* All of the quotations I am making below in this section are from this book and I am giving the page number in parenthesis after the quotation.

[87] J. Pontusson, *op. cit.*, p. 45.

not just traverse and penetrate the state but constitute the very stuff of the state, and "they are present in its material framework and constitute its organization." (p. 132) Moreover these diverse classes and fractions share in political domination "only to the extent that they are present in the state." (p. 133) Hence those fractions of capital who are successful in carving out a large niche for themselves in the apparatuses of the state via their own political struggles are extremely well situated to influence the policies of the state managers. There is therefore no *a priori* reason for the state to serve the interest of the bourgeoisie or its particular fractions, and the dominated class may also influence the course of the state's economic policies to the extent to which they are present in the state. The varying nature of the relations between the state and dominated classes -- and especially labor -- becomes in fact a critical variable explaining national differences in economic policy making for analysts inspired by the late Poulantzasian perspective.[88] There remains however a number of unresolved difficulties in his new perspective despite a considerable theoretical progression. To start with the first, Poulantzas asserted that dominated classes' influence on the course of the state's economic policies is conditional on their 'presence' in the state. As I will try to show in this dissertation in the context of planning, this proposition is empirically wrong. Organized labor for instance was largely bypassed in the formulation and implementation of French plans, yet planning was nonetheless by and large responsive to the needs and demands of the working class organizations in France. In a way, if in his early work Poulantzas overemphasizes the individualizing-atomizing effect of bourgeois politics on the working class, now he underestimates the state's capacity to co-opt labor via certain institutionalized bargaining mechanisms such as planning commissions. Taking formal access to the state as indicating the extent of labor's capacity to influence economic policy is in fact hardly an adequate measure. One may even assert to the contrary: "precisely because a 'subordinate section' is excluded from the formal political processes it becomes that much more threatening and therefore a predominant force in shaping state policies."[89]

There are also other problems with Poulantzas' analysis. To his credit, Poulantzas overcame the

[88] J. Pontusson, *ibid.* and G. Esping-Andersen and R. Friedland, "Class Coalitions in the Making of West European Economics" in M. Zeitlin (ed.), *Political Power and Social Theory*, Vol. 3, JAI Press, Greenwich, Conn., 1982 can be named as examples of empirical work inspired by Poulantzas.

[89] See M. Burawoy, "State and Social Revolution in South Africa," *Kapitalistate*, 9, Berkeley, California, 1981, p. 108.

functionalist methodology of his early work that inferred attributes of the state through an account of its 'effects', by instead focusing in his later work on the *process of production* of these effects via political class struggles. Nonetheless when the state is broken down into its constitutive apparatuses to emphasize systematic conflicts between as well as within them, we risk losing sight of the 'bourgeois' class bias inherent in the structure of the state and of the unity of the state power. This unity in fact "becomes most clear in moments of crisis, when the capitalist order is threatened."[90] In a way, Poulantzas in his later work avoids the pitfalls of functionalism by retreating to a 'pluralist' conception of the state as a (broken) mirror whose cracks reflect the matrix of conflicts in society as a whole. Ironically, such a conception may serve as a more accurate metaphor for the peripheral Turkish state during the planned period than the French state which was able to impose its will on economic actors via planning. Furthermore, such a reasoning ignores that the state, as an arena of class struggle, shapes the way classes or class fractions perceive and act on their interests.

The problem is that Poulantzas' later work, despite his assertion to the contrary is marred with a certain economic determinism according to which political conflicts emerge directly out of and as the direct expression of conflicts at the level of production. This approach implicitly accepts the contention of 'pluralistic' political science literature that economic policies are often a response to the demands of social groups with particular economic interests that are pregiven depending on their locations in the world of production. Groups which are able to mobilize their supporters and affect the course of elections through financial and organizational resources that they can effectively deploy will be more successful in getting the state to cater to their (pregiven) needs compared to groups which can not enter the orbit of the state. As I suggested before, because Cardoso/Faletto adopt this line of reasoning through their uncritical acceptance of Poulantzas' state theory, they were unable to *conceptualize politics as an arena that shapes the way classes perceive and act on their interests.* On the other hand, to its credit, the 'articulation of the modes of production' school puts correct emphasis on the process of capital accumulation as the *source* of class antagonisms; yet in the absence of a theory of politics, this perspective too was unable to provide us with a focus, specifying the institutional context and processes

[90] See M. Burawoy in his introduction to *Marxist Inquiries, op. cit.*, p. 17.

through which we could conceptualize *empirically* class formation and conflict. In contrast to these (economically) deterministic analyses we need a perspective that regards the process whereby class interests are defined and articulated as problematic. That is to say, the question of imputing interests to social groups should be taken as problematic. Nonetheless, compared to functional and instrumental and institutional and 'subject' view perspectives on the state, Poulantzas' later work has the advantage of approaching "the indeterminacy of state interventions by recognizing that the state, too, is an arena of consequential struggle -- both between apparatuses and within apparatuses."[91] This perspective therefore allows us to conceptualize differences in state interventionism between Western and Third World nations, although it fails to generate theoretical categories to elaborate and explain the nature of the links between the state and economy across nations. In order to overcome these shortcomings and adequately conceptualize the differing role of the states in economic development, we need to devise a new approach that will both generate theoretically grounded empirical categories to explain qualitative variations in the ways 'politics' and 'economics' are related to each other in Turkey and France and specify the nature of these links. To this end, I will develop the notion of the 'historical bloc' since it is the basic claim of my dissertation that capitalist planning can only be successful under a certain type of historical bloc which has only appeared in some advanced capitalist countries in certain critical historical junctures. Secondly, I should further specify why I chose the study of 'economic planning' to address these questions. I will characterize economic planning both as an 'institution' with effects on development, and as a 'political process' as well, highlighting the nature of the 'historical bloc' in the social formation in question.

3. Theoretical Framework

The State and the Historical Bloc: A Conceptual Model of State Interventionism in the Economy

In criticizing the sociological literature on 'development', I suggested that both the 'dependency' and 'modernization' theories are plagued by teleological frameworks, holding either the development of underdevelopment or the advance of modernity as an inexorable process in the Third World, hence underplaying internal socio-political factors in development. Moreover, both theories adopt an ideal

[91] M. Burawoy, "State and Social Revolution in South Africa," *op. cit.*, p. 111.

type of analysis, in which certain actual features of political-economic arrangements in individual Third World countries were compared with an unexamined and distorted model of development in the West. My comparison of Turkey and France, on the other hand, will focus on the actual processes of development in the West and the Third World, and hence break with the logic of an ideal type of analysis. Later work in modernization and dependency theories, namely the work of Huntington and Cardoso/Faletto attempt to correct some of these defects, and these works are successful insofar as questioning the universal validity of teleological assumptions on development and introducing 'political' factors as primary in understanding actual mechanisms of economic modernization or underdevelopment. Yet in Huntington's case, because his criteria of political institutionalization are defined tautologically and because he often reduces political institutionalization to stability and stability to the assimilation of subordinate groups in the state, he overlooks the varying nature of the links between the state and the dominant classes in 'developed' and 'undeveloped' countries. Consequently the adduced relation between political stability and economic development in his work remains too nebulous and unproven. Cardoso/Faletto, on the other hand, make the compelling argument that in order to understand the socio-economic structures of Latin American societies, one should focus on the interaction between internal and external forces or rather focus on the ways in which shifts in the 'core' economies are indirectly transmitted to the 'periphery' via the mediation of local classes whose interests coincide with those of foreign capital. Accordingly they focus on the (varying) matrix of class alliances at the political level in individual Latin American countries to account for different industrialization strategies adopted by individual nations. Yet, despite affirming the centrality of political class struggles for understanding variations in industrialization strategies, Cardoso/Faletto can not provide us with an empirical 'basis', helping us to conceptualize class formation and conflict. I also argued that Cardoso/Faletto's failure stems from their neglect of the relationship between the state and dominated classes, as well as from the absence of a theoretical framework that could help them pin down the state's role in political economy. Consequently, the constraints imposed on the state's economic interventionism by the nature of the historically structured links between states and dominant social forces remain unelaborated and unclear in Cardoso/Faletto's work.

Certain 'functionalist' theories of the state that I criticized previously clarify the nature of structural constraints -- such as 'business confidence' identified by Block -- which the dynamics of the capitalist economy and the systemic power of capital impose on the exercise of political power. Therefore, we can explain why the state in a capitalist society, irrespective of its political orientation, tends to function on behalf of capital. As I suggested, however, such 'imperative limits' to the state's action identified by functionalist theories still leave open a range of economic policy options. *In addition, they do not explain why and how states in the West develop both an active interest and capacity for economic management.* Consequently, when confronted with the need to account for systematic variations in state-society relations and different industrialization strategies stemming from these relations in different nations, functionalist theories provide very little help. A recent line of analysis associated with the late work of Poulantzas, however, explains variations in economic policies in terms of different political balances in individual nations as underlied by varying class alignments. Accordingly state functions and structures in different countries are seen as the products of not only 'functional imperatives', but also class conflict and resulting class alliances. As suggested earlier, despite its essential merit of approaching state interventionism as *not* pre-determined, this approach is flawed in regarding the definition of class interests and conflicts as unproblematic and in neglecting the role of the state in shaping the way classes perceive and act on their interests. I claimed that even if the sources of class antagonisms are rooted in the production process, it is through a historically specific set of political processes and structures that changes in the forces and relations of production are mediated in the political arena, so that class 'interests' are redefined and shaped and new class coalitions are formed in opposition to other classes which are also organized within institutional channels as 'interest' and 'pressure' groups.

The essential problem for theoretically informed empirical research on the state and development therefore becomes one of pinning down those 'political processes and structures' through which actors' material interests are mediated and coalitions are formed in such a way that we can also generate some analytical categories that can be used to distinguish the nature of state-society relations in the West (France) and the Third World (Turkey) countries. The analysis of state intervention in the economy would appear to be particularly appropriate to illustrate the main dynamics set into motion by those political structures and processes shaping the way economic actors perceive and act on their interests, for two reasons. *First,* the politics of economic policy provides the researcher with an empirical focus to observe the configuration of broad coalitions of economic interests that converge around specific policy alternatives, and are formed in opposition to other class and group interests. *Second,* as long as economic growth depends on private investment, economic policies address with particular clarity the constraints on state intervention imposed by the state's relation to capital. My discussion of the Turkish and French states' economic interventionism focuses on the crystallization of a broad coalition of economic interests, converging around particular *'industrialization strategies'* for a number of interconnected reasons.

To start with, although social classes form alliances around specific policy issues such as 'foreign trade and tariff policy', 'social policy' or as a response to drastic changes in the economic environment such as the Great Depression,[92] one should distinguish these temporary and issue oriented coalitions of economic interests from the formation of alliances or blocs that have a vested interest in the reproduction of a given economic development/industrialization strategy. Cardoso/Faletto, for instance, define 'hegemonic or ruling or power blocs' with reference to different phases of the development of dependent capitalism in Latin America as essential class coalitions underlying and carrying a given global economic strategy of growth, such as 'enclave economies' based on the export of mining and raw materials, or ISI strategies primarily based on the domestic production and consumption of manufactured goods. In contrast to dynamics beneath issue oriented blocs that are formed and dissolved sporadically, dynamics beneath the formation of -- what Gramsci, Poulantzas and Cardoso call -- *hegemonic* or *historical* or *power blocs* stem from the economic survival need of the capitalist system to generate a certain level of surplus that can be defined as the 'difference between society's actual current output and its actual current consumption'[93] necessary for renewed growth and development. That is to say, hegemonic coalitions emerge not as a result of willful political designs, as such is the case with issue

[92] See P.A. Gourevitch, "International Trade, Domestic Coalitions, and Liberty: Comparative Responses to the Great Depression of 1873-1896," *Journal of Interdisciplinary History*, 8 (1), August.

[93] This is the meaning of the term as used by P. Baran, *The Political Economy of Growth, op. cit.*

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type alliances, but as Cardoso/Faletto rightly claim, the structure of these coalitions is shaped by the (unintended) consequences of the interaction between external economic changes and internal responses. Moreover, once a given 'historical bloc' emerges, it becomes hegemonic in the sense that "it instantiates a particular balance of power among key social groups and exercises a continuing influence over their ability to mobilize, to form coalitions and to wield power in the political arena."[94] Thus, in this aforementioned sense, hegemony is exercised by the power bloc over the subordinate groups. There is, however a second meaning of hegemony referring to the organization of unity within the dominant classes *per se*. This latter meaning of hegemony is related to the ability of a single fraction of capital within the power bloc to constitute the contradictory unity of the bloc under its dominance by profiting politically from its crucial location in the process of the reproduction of capital and its privileged access to the state machine, as well. Thus although the power bloc is made up of a contradictory unity of several dominant classes and class fractions, it may not consist of an equal sharing out of institutionalized political power among its members. In fact, as I will show in the next section in the context of Turkey and France, intrabloc conflicts of material interests between different members of the 'historical bloc' form an integral part of the bloc; yet what makes the bloc *hegemonic* is that the reproduction of the system or economic growth depends on the reproduction of those relations among different members of the bloc as well as between them and the state.

Identifying the structure of 'historical blocs', i.e. the nature of the relations not only among the bloc members but also between them and states, becomes necessary to understand how economic interests rooted in material production are redefined and organized. Unfortunately, even the best comparative research in sociology on 'development' such as Cardoso/Faletto's, errs in its inability to generate categories necessary to analyze links between the state and society, and instead Cardoso/Faletto's research focuses on contradictions among social forces or in the state per se without linking these two entities to each other. More specifically, Cardoso/Faletto adopt Poulantzas' analysis and credits the state with ensuring simultaneously the unity of the power bloc and the dominance of a single fraction of capital. It is claimed that the state can both arbitrate among the members of the power bloc to make sure

[94] P.A. Hall, "Patterns of Economic Policy: An Organizational Approach," *op. cit.*, p. 39.

that contradictory interests among them do not lead to the break up of the bloc, and that it can also go against the short-term economic interests of the members of the bloc and grant real concessions to the subordinate strata when such measures deem necessary to the state managers when the political domination of capital as a whole is perceived of as being in jeopardy. But do the state managers possess an unlimited capacity to intervene in the economy whenever they think it is necessary from the vantage point of capital as a whole? And what are the institutional mechanisms through which the state managers exercise influence over the (economic) behavior of various fractions of capital? Cardoso/Faletto do not pose these questions, let alone analyze these issues. Consequently, in the absence of an empirical analysis focusing on the links between the state and the hegemonic bloc members, it becomes impossible to understand not only class formation and conflict but also variations in industrialization strategies. Because these state-society links are historically determined, they are transformed over time and also vary from one society to another. Nonetheless, one still needs some Archimedean support to start an analysis and I will now suggest certain 'static' categories to look at, before -- throughout the dissertation -- illustrating these categories with reference to the Turkish and French political economies in order to draw out the distinctive features of each case in the period of postwar expansion.

For this purpose, it will be useful to break down the state's economic interventionism or the evolving relationship between state and economy in the planned (postwar) period into two major components: macroeconomic policy and industrial policy. The first can further be broken down into three interrelated components: monetary policy, foreign trade policy and fiscal policy. *Monetary policy* refers to the determination of the overall quantity of money and of interest rates in the economy by governments and this primarily concerns private capital as investors depend on bank credits as the principle source of maintaining existing levels of production and undertaking new investments. *Foreign trade policy* refers to the determination of the national currency's exchange rate *vis-a-vis* other currencies, as well as the determination of tariffs and quotas concerning foreign trade, and these are all of primary importance for exporters and importers. *Fiscal policy* refers to government revenues and expenditures and these can either be used to stimulate (reflation) or contract (deflation) effective demand which is of course of direct concern for both consumers and industries supplying these consumers. *Industrial policy,* on the other hand, can be defined as the state's interventionism in the sphere of production or distribution to move resources from declining to expanding sectors of the economy. The state may intervene in the market place to promote industrial reorganization or conversely to prevent the development of particular industrial sectors. Although macroeconomic policy and industrial policy are interrelated, we can analytically separate the two to distinguish different forms of state interventionisms among capitalist states.

But 'why' and 'how' do political-economic arrangements differ among capitalist nations? Throughout my dissertation I will illustrate my static categories of macroeconomic and industrial policies with reference to Turkey and France, subsumed under a discussion of the formation, consolidation and dissolution of historical blocs which underlied different planning systems in these countries. I hope that my description of *how* political economies differ will point to some reasons as to *why* they differ. Furthermore, in accordance with my theoretical framework I will map out the historical blocs in France and Turkey underlying different industrialization strategies before and after the onset of planning (the section on 'genesis') and after its dismantling (the section on 'deplanification'). While mapping out the historical blocs in Turkey and France, I will focus on the organizational relationships between states and different fractions of capital such as *financial, commercial* and *industrial* capital. Within the industrial or manufacturing sector I'll focus on the conflictual relations between export oriented sectors and sectors producing for the internal market, both of whose interests diverge with respect to industrialization strategies. I will principally show how some of these different fractions of capital form alliances -- with or in opposition to each other -- with other groups such as the petty bourgeoisie (i.e. small manufacturers, shopkeepers, peasants and artisans) and organized labor.

To reiterate my notion of the state built upon my criticism of the literature, it is conceived as not only providing an institutional context for economic class struggles at the political level, but also constituting the unity of the bloc by redefining the way classes or class fractions in the bloc perceive and act on their interests. It is therefore *wrong* to pre-impute interests and identify certain groups -- such as the industrial bourgeoisie -- as the carrier of economic development or vice versa, without taking into

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account the specific location of these groups in the 'hegemonic bloc', i.e. their links to other partners and to the state. In other words, contrary to what 'dependency' or 'modernization' theoreticians assume, no single class of class fraction can be labeled as inherently 'progressive' or 'traditionalist' because when we abstract this particular group from its relations to others in the hegemonic bloc within which it is deeply embedded, vacuous speculation substitutes for historical analysis. The same argument also applies to the way state managers act to promote economic development. There is no a priori reason compelling the state managers to play an active role in economic management, rather than simply acting as traditional arbiters among competing interests. *Considerable shifts in the ways in which new forms of interaction emerge between private and public managers may not be understood as the willful design of public administrators, but as the expression of a new balance of social forces resulting from the dissolution and reorganization of hegemonic blocs.*

In short, analytically describing the nature of the hegemonic blocs in postwar Turkey and France will reveal differences in development strategies as well as prevent us from making wrong a-historical generalizations concerning the presupposed developmental or regressive mission of certain forces in the state or in society in these countries as 'dependency' and 'modernization' theories do. But *'why'* are 'hegemonic blocs' structured differently? In other words what are the dynamics beneath a particular configuration of the balance of class forces in the ruling-hegemonic bloc? This question can only be answered in a dynamic context by focusing on critical historical junctions in the history of individual nations when existing alignments among social classes are in flux as the reproduction of the capitalist economy is threatened, and this brings the possibility of new national and international realignments among social forces to the political agenda. Both the evolution and the transformation of class structures resulting from particular industrial strategies adopted by states, as well as the impact of international economic crisis, lead to changes in the configuration of class coalitions depending on the capacities and strengths of particular classes or class fractions. *Therefore in order to complement the static understanding of development, emphasizing and elaborating on the links between the state and economic actors (the question of 'how' political economies differ), we should proceed with a dynamic analysis (the question of 'why' do they differ) focusing on the 'genesis' of these links when they are in* *flux*. In other words, *a dynamic analysis* of the genesis of particular 'historical blocs' which may or may not have a vested interest in economic modernization imparts a 'voluntaristic' dimension to our understanding of development as long as it can come to terms with the historical possibility of alternative blocs by characterizing the configuration of the actual bloc not as a necessary but a contingent phenomena. *Static analysis* on the other hand, explains why states' economic interventionism varies from one country to another depending on the organization of the state itself and its relation to economic groups in society. Once again it is important to emphasize, in both the 'genesis' and 'reproduction' of historical blocs the role of the state is critical.

Economic Planning as a Political Process with Effects on Resource Allocation

How can the study of economic planning address these two specific yet related questions concerning 'how' and 'why' political economies differ in Turkey and France? At the very beginning I suggested that the metaphor of planning as a traffic policeman captures the spirit of 'capitalist planning' in the sense that it is driven by the goal to perfect the flow of traffic (the market mechanism), and in order to do this it can both 'wave' its hand or/and 'blow' the whistle. In other words, planners believe that in order to guide investors to their true interests they should forecast future economic trends and bring them to the attention of economic actors (waving), while using carrot and stick methods -- the so-called incentives such as cheap credits and tax reductions and veto power over undesirable investment projects -- when forecasts fail to convince investors to move economic resources away from declining to expanding sectors of the economy. But even if planners use the whistle and give the go ahead signal to some investors at the expense of others, they believe they do this to prevent the whole economy from going into a jam, i.e. traffic coming to a grid-lock where nobody can move in either direction because everybody wants to be first. So planners decide on the investment priorities and intervene in the economy to promote growth and modernization in selected industries so that their overall objective of economic growth (as measured by the rate of increase in the GNP) and efficiency (as measured by international competitiveness of the 'selected' industries) can be realized.

In short, planning can not be reduced to a single dimension of 'macroeconomic policy' or 'industrial policy' as I defined them, and although planning encompasses both the macroeconomic and industrial policies of the state, the sum of these two may not in practice amount to planning. That is to say, although planning 'texts' which normally cover four to five year periods lay out the basic economic priorities in terms of selected industries and targeted growth rates, and stipulate a well defined macroeconomic policy (fiscal, monetary and foreign trade policies) and industrial policy that should be pursued in order to realize planning priorities, in practice the state's macroeconomic and industrial policies may deviate from the texts for several reasons. In fact, planning organizations (PO) in capitalist countries do not *implement* macroeconomic and industrial policies; they simply *design* them and leave the actual execution to other apparatuses of the state, such as the Central Bank (monetary policy) and various ministries. Therefore the realization of the plans depend on the collaboration of other apparatuses of the state with the PO. Sometimes other apparatuses, such as a recalcitrant Finance Ministry, may resist the implementation of the plan by refusing to release necessary funds to realize planning targets. Confrontations between the PO and other apparatuses of the state may reveal the existence of economic class struggles which are fought out in the state arena, as different groups hold different strongholds in the state machine and use them to launch attacks against each other to defend and promote their material interests.

If such is the case then the state really resembles what Poulantzas in his *Power, State, Socialism* said it always is: a broken mirror whose cracks reflect the major economic divisions in civil society. But as I will show in the course of planning's evolution in Turkey and France, it may well be that planners may occupy the pilot's seat in the state plane and operate in perfect harmony with other economic administrators; albeit such a harmony does not last forever due to the dynamic nature of capitalist development. Poulantzas' state theory can not explain this latter situation that in my opinion does not reveal the absence of economic struggles at the level of the state, but a *temporary* resolution of the contradictions within the bloc of dominant classes and the conflicting claims to leadership of it. Later, in the context of the genesis of planning in Turkey and France -- my next section -- I'll illustrate the implications of the formation of a historical bloc under the hegemony of a single fraction of capital and the consolidation of this bloc's power in the state *vis-a-vis* it's rivals, in terms of changes in the nature and function of the state -- and planning -- itself. My emphasis on the nature of different 'historical blocs' in Turkey and France stems from my central theoretical assertion that we can not understand substantial differences between the 'core' and 'peripheral' countries in terms of general economic policies and the industrialization strategies without taking into account differential *political economies,* i.e., differences in the way organized economic interests are linked to each other and to the state. In addition, I am also suggesting that even the best comparative research on political economies, such as Cardoso/Faletto's, took the formation of class interests as unproblematic, and hence was unable to provide us with an empirical focus to observe the aggregation and redefinition of interests in such a way that new class coalitions are formed in opposition to other firmly entrenched coalitions in the state.

The analysis of economic planning therefore can provide us with such an empirical focus because we can look upon *planning as the lens* through which to examine the interaction between the state managers and economic sectors in order to understand which interests in society will be most effectively articulated, and what sort of response they will elicit from the state. The *process* of the preparation of plans in fact involves almost all major economic players through the medium of planning commissions where planners negotiate with other administrators and civilian actors both in Turkey and France, albeit the ways in which these organized economic interests are linked to each other and to the state are different with implications for the type of industrialization strategies adopted in these countries. In other words, by focusing on the preparation of plans 'per se' as a process through which new class coalitions are formed in the political arena in opposition to other classes that are excluded from participation, we can go beyond 'functionalist' conceptions of the state which simply define the state in terms of its 'effects' and see how the state comes to produce those effects. Naturally economic functions performed by the state can not be understood in isolation from the process of the production of those functions, i.e. the institutionalized set of bargainings and alliances among economic groups that are crystallized in the political arena. Because 'planning', being both an institutional structure and political process, is placed at the zenith of the state's economic administration as the *pilot agency* designing macroeconomic and industrial policies, the class coalition that converges around a specific type of planning may be said to be the 'hegemonic bloc', as the reproduction of the system and economic growth depends on the reproduction of these relations among different members of the bloc as well as between them and the state. Other 'issue oriented' coalitions may be crystallized in other parts of the state machine,[95] such as certain ministries, and resist the advance of planning or try to bring it under their control, but if they are successful -- as we will see in the context of the genesis of planning in Turkey -- then the nature of planning (i.e. alliances between planners and civilian forces and the resultant industrialization strategies) changes, and this new planning is underlied and maintained by the formation of a new historical bloc that converges around a specific industrialization strategy symbolized by the plan.

I should also add that the planning function defined as the overall design of industrial strategy (macroeconomic and industrial policies) is *not* necessarily carried by the planning agency in a capitalist state, and it may well be that another agency may control the *direction* of economic growth and affect the *allocation of economic resources,* i.e. investments. It is for example true that the French PO lost many of its functions to the Treasury Division of the Ministry of Finance but this did not mean the overall decline of planning since the dynamics of the PO's decline did not stem from a transformation in the nature of the 'historical bloc' that sustained economic planning. Several researchers wrongly equate PO's decline and loss of prestige with the end of planning in France and write about *deplanification* in the 70's, when a simple transfer of functions between state apparatuses was at stake.[96] My definition of planning on the other hand, encompasses the PO in Turkey and France as the institutional context of analysis, but does not limit its empirical scope with these organizations. Rather it focuses on the whole arsenal of state apparatuses *designing* industrial strategy. Accordingly, when I talk about *deplanification,* this term will not be used to describe the loss of prestige incurred by the French and Turkish PO, but it will refer to a more general phenomenon, i.e. the state's inability to influence private investment decisions, and the growing role of the 'markets' in determining the allocation of resources. And I will argue that it is the transformation of historical blocs, or changes in the ways organized economic interests are linked to each other and to the state, that is responsible for the

[95] See pp. 38-39 for the conceptual distinction between 'hegemonic bloc' and 'issue oriented bloc'.

[96] See B. Balassa, "Selective versus General Economic Policy in Postwar France" in W.J. Adams and C. Stoffaes (eds.), *French Industrial Policy,* The Brookings Institution, Washington D.C., 1986. For a different and well taken approach see S.S. Cohen, J. Galbraith, and J. Zysman, "Rehabbing the labyrinth: the Financial System and Industrial Policy in France," in S.S. Cohen and P.A. Gourevitch (eds.), *France in the Troubled World Economy,* Butterworth Scientific, London, 1982.

'decline' of planning rather that bureaucratic squabbles and skirmishes.

But what about 'planners' themselves? Are they flexible administrators who hold no 'resources' and easily adapt to changes in their environment, or do they try to shape their environment in accordance with a pregiven and almost universal vision of modernization? So far, I have been focusing on planning as a political process, i.e. as a microcosm of a 'hegemonic bloc', without taking into account the fact that when planning is endowed with a separate institutional existence within the state, it affects the allocation of resources. In fact, a flurry of literature on planning in social sciences points out, time and time again, the 'myth' of planners as ardent modernizing missionaries plagued by an unshakeable faith in the necessity of economic expansion who communicate their beliefs in growth, productivity and efficiency to businessmen at intra- and inter-industry meetings in the context of planning commissions which an acute observer likens to a 'revivalist prayer meeting'.[97] Given their 'productivist' creed, planners unlike neo-liberal academicians do not see a contradiction in terms when defending simultaneously a purposeful state interventionism, bypassing the market in order to promote selective development in capital and intermediate good sectors, together with the need to 'free the market' so that competitive forces can function more vigorously in other sectors. Accordingly planners attempt to choose their own 'dynamic' partners, i.e. industrial sectors whose collaboration with planners has been secured by an elaborate system of 'rewards' and 'incentives' (tax relief, tariff concessions, loans for investment and attractive state contracts), exchanging these incentives for industrial firms' cooperation in investing in priority fields determined by planners.

The strong bias of planners to cooperate with productive industrial sectors and large firms at the expense of small firms in industry and other economic sectors such as 'service' and 'agriculture', has often been explained by the colonization of planning commissions by industrialists. It is therefore claimed that industrialists who represent the 'big business' are on an equal footing with the state administrators within these commissions and can afford to give at least as much advice to the plan as they get from it.[98] Such an argument is refuted by empirical evidence. As I will show in my research,

[97] This is the metaphor used by C.P. Kindleberger; see his "The Post-War Resurgence of the French Economy" in S. Hoffman (ed.), *In Search of France*, Harvard U.P., Cambridge, 1963.

[98] This is R. Miliband's argument in *The State in Capitalist Society, op. cit.*

representatives of the industrial fraction of capital never enjoyed an overwhelming majority in the planning commissions, neither in Turkey nor in France. Yet, it is true that planning primarily served the interests of industrial capital, and planners -- by using their discretionary authority to bend rules and provide exemptions to industrial firms from general regulations -- attempted to place productive sectors in a position of leadership within the 'historical bloc'. Why? I think a modified version of Block's theory of the state makes sense in this case, in the sense that planners can only realize their own institutional 'interests' after the interests of the industrial fraction of capital have been secured. This is so because planners as the apostles of growth and efficiency -- *unlike* other state administrators who have different concerns -- have a vested interest in creating the most rapid expansion of capitalism by doing whatever necessary for this expansion. The primary concern of expansion obliges planners to cooperate with the actors -- be in the public or private sectors -- who as investors would carry out the execution of the plan. Moreover, the preparation of both French and Turkish plans, which are based on the so-called *'three stages'* approach, expresses the overall priority given to economic growth. That is to say, in the first stage planners discuss with the government the best overall expansion rate to aim at, hoping to reach the level of more developed countries in the shortest possible time. But how can an economy grow? "The rate of growth is determined to a large extent by the volume of investments" declares a didactic text on planning, published by Turkish planners,[99] adding: "The higher investments are, the more rapidly the economy will be able to grow and the country to develop. In other terms, the greater the share of the national income going to investments, the higher the annual rate of increase of the national income will be."[100]

Having decided the desirable average rate of growth for the planned period, in the second stage of planning, called 'sectoral', the total amount of investments (and savings) that are needed in order to achieve this predetermined growth rate are determined, and then these investments are apportioned both among different fields of activity and between private and public sectors as well. It is also this 'second' stage of planning that involves civilian participation, and in the context of 'modernization commissions'

[99] See the text entitled *Planning*, published by the SPO in Turkey, *op. cit.*, p. 27.
[100] *ibid.*

planners bargain with industrial businessmen as well as other state administrators about sectoral developmental objectives. Finally, in the third 'project' stage, planners test different sectoral investment projects using several criteria,[101] and those found appropriate are approved (if a public project) or supported via tax and credit incentives (if a private project). Like the second stage, this third stage, too, is marked by sharp negotiations between planners and businessmen, but this time through informal channels and in private -- rather than through the medium of modernization commissions where all major interests groups are included -- to determine the actual output targets for individual firms in return for incentive packages provided to these firms by planners. When these three stages are over, then the sum of the commissions' reports are sifted through by planners to write the actual planning 'text', and then this macro-plan that is supposed to express a consensus for 'industrial strategy' for the coming five years is submitted for approval first to the government, and finally to the parliament.

In short, the whole process -- the three stages -- is characterized by a set of bargains in which coalitions are formed in the political arena and certain interest groups are excluded from these class coalitions even if they participate in the preparation. Hence these interest groups can turn to other apparatuses of the state to oppose the formation and reproduction of the 'historical bloc' firmly entrenched around the industrial strategy symbolized by the plan. The planning process therefore not only has an effect on resource allocation but it is also a *political* process in the sense that it simultaneously creates or recreates loyalty and opposition. And ironically, the very actors -- the industrial fraction of capital -- created by planners may, in the long run, achieve an independence of their own, i.e. become able to finance their own investments and cease to rely on the state for loans and other incentives. As I will claim later in this dissertation, when the state's capacity to influence private investment decisions is reduced in favor of the 'market', then a process of *'deplanification'* may go underway, *but* as soon as the cyclical fluctuations of the capitalist economy, as expressed by economic crises, start threatening the reproduction of a given 'industrialization strategy', then investors turn to the state for

[101] These criteria may include the contribution of this investment in terms of value added, additional employment created and finally foreign exchange earnings generated by this investment. See I. Uludag, "Investment Incentives with respect to Industrial Strategies," *Proceedings of a Symposium organized by Marmara University and the S.P.O., concerning export and investment incentives,* Marmara University Orta Dogu ve Islam Ulkeleri Ekonomik Arastirma Merkezi Yayin No. 4, Istanbul, 1980 (in Turkish).

help once again, and the question of planning -- or its invigoration -- comes onto the agenda. Successful planning therefore may be a short term tool; yet it is bound to rise again after it falls, when class alignments that maintained a given industrial strategy, start to disintegrate and new alignments become feasible.

To sum up what has been said so far in this section, the study of planning both as an institution and as a political process provides us with an empirical lens to examine the formation and reproduction of a 'historical bloc' in the arena of the state; to see the materialization of certain political-economic arrangements among the members of the bloc and between them and the state; and finally to understand different macroeconomic and industrial policies in Turkey and France that result from these different political economies.[102] In short, I propose to look at planning as an intermediary level in the determination of economic policy where a broad and deep-seated coalition of economic interests -- the historical bloc -- is shaped and rendered hegemonic. I call this an 'intermediary' level in the sense that it links individual investment decisions of the economic actors that shape the allocation of resources to the structural limits of policy making in a capitalist state that structural-functionalist theories identify. Therefore, having conceived of planning simultaneously as an institution and as a 'political process', I want to argue that *a) we can take it as a microcosm of 'political economy', displaying how organized economic interests are linked to each other and to the state; and b) we can see how planners attempt to establish privileged relations with the productive and industrial fractions of capital while bypassing others, so as to create the most rapid expansion of capitalism.*

[102] Earlier I defined 'political economy' as the processes and structures through which organized economic interests are linked to each other and to the state.

II. The Genesis of Economic Planning in Turkey and France

The institution of planning in both Turkey and France was triggered by dramatic events. In France, the bitter experience of stagnation in the 1930's and the crushing defeat in the Second World War set the stage for a total commitment to economic overhaul and modernization; in Turkey, a successful military coup against a rightist government whose exclusive commitment to serving merchant and farmer interests had alienated large segments of the urban population provided the pretext for the establishment of a State Planning Organization (SPO), which was expected to design and direct the process of industrialization. In short, shifts in state interventionism occurred in both Turkey and France when the balance of power among the dominant classes in the political arena was transformed as a result of a major realignment of social forces during exceptional historical circumstances. As a consequence, state managers in these countries developed a strong 'interest' in economic management, and, as exemplified by their memoirs, early planners in both Turkey and France were intensely driven by the same desires: economic growth and efficiency.[103]

Yet, as I illustrated by depicting the different trajectories of the French and Turkish economies during their respective planned phases in my introductory chapter, French planners by and large achieved their stated goals, whereas Turkish planners did not. To reiterate, success in the French case meant the ability of planners to first generate the needed resources (capital and labor) for rapid industrialization, and then alter the investment behavior of businessmen in such a way that resources were transferred from consumption goods to investment goods sectors. As discussed earlier, many indicators attested to the French planners' abilities to simultaneously generate new resources for development and channel them to the productive sectors: the rate of capital formation (i.e. the ratio of investment to the GNP) jumped from 13% of the GNP in 1938 to 22% in 1949,[104] an increased proportion of the public budget was directed toward productive investments at the expense of current expenditures,[105] produc-

[103] See footnote 5 of my introduction for references.

[104] See the report prepared by the International Bank For Reconstruction and Development, entitled "The Economy of France," May 24, 1954, p. 5.

[105] In fact compared to the prewar practice the Fourth Republic directed a sharply increased proportion of its budget toward capital formation: it swelled from 5% in 1938 to on the average between 20 and 30 percent during the 1947-58 period. See R. Kuisel, *Capitalism and the State in Modern France*, Cambridge University Press, Cambridge, 1981, p. 262.

tion in both the private and public sectors was shifted significantly to new plant locations in the intermediate and investment goods sectors while old industries such as food and textiles contracted and released labor to expanding sectors,[106] etc. In Turkey, on the other hand, planners could neither generate new funds for industrialization, nor impose their priorities on unwilling investors. The rate of capital formation was a mere 12% in 1962, and, as we will see, the early planners in Turkey attempted to tax the agricultural sector and to reform the state economic enterprises (SEE) in order to generate necessary capital funds to attain high rates of growth. Both of these reforms should have served the interest of industrialists in Turkey, but given the nature of relations among the dominant class fractions, neither of them proved to be politically feasible. Consequently early planners resigned and, unlike France, Turkey remained heavily dependent on foreign sources for economic growth and failed to deepen its production profile.

It is often claimed by both Marxist and non-Marxist scholars that the extension of the state's role in the economy to the spheres of production and distribution throughout the twentieth century has been largely responsible for the survival and rationalization of capitalism. Such positive conceptions of state interventionism often assume that the functioning of free markets creates insurmountable social and economic problems inimical to the reproduction of the system, and hence state interventionism should be understood in this context as the optimum means to overcome these problems without altering the juridical base of the market economy. State interventionism in France, in general, and the history of French planning, in particular, provide a formidable justification for these theories, since compared to the relatively 'liberal' period during the first half of the century characterized by stagnation and decline, the achievements of a planned economy in the second half of the century are striking.[107] Yet, several other researchers, especially economists, interpret the economic implications of interventionism in a very different and negative light. Turkey, in its turn, provides a magnificent testing ground for such theories. In fact, the negative economic consequences of the Turkish state's operation of public enterprises and its non-rational handling of its own budget are often pointed out as proving the thesis that

[106] See J. Sheahan, *An Introduction to the French Economy*, C.E. Merrill Publishing Company, Ohio, 1969, p. 31.

[107] There is indeed a consensus on this issue among the researchers. See for instance R.F. Kuisel, *Capitalism and the State in Modern France*, *op. cit.*, and S.S. Cohen, *Modern Capitalist Planning*, *op. cit.*

awkward state interventionism strangles the economy and hinders the development of productive forces.[108] Thus a neoconservative fallacy stating that privatizing the public enterprises and "restricting the size of the state will somehow 'unstrangle' the economy,"[109] is created.

The ongoing debate about the relative merits of 'state interventionism' versus 'free markets' does not prove either side to be right or wrong and gets bogged down in sterile arguments. This is the case, because, the *structural* and *historical conditions* under which the state managers can develop not just an 'interest' in, but also a 'capacity' for successful economic management are not discussed. Therefore, *what are the social and political preconditions under which the state's economic managers can play an active and positive role in economic development and for how long?* This is the main question that I will now address in the context of the 'genesis' of economic planning in Turkey and France. By discussing the origins of economic planning in a comparative framework, I also hope to place the ongoing debate on the question of the relative autonomy of the state from the dominant interests which I discussed earlier (see section 2 of my last chapter) in a historical perspective. In this debate, one side had argued that capitalist state managers necessarily enjoy an autonomy from particular groups within the bourgeoisie, in order to both organize the political unity of the dominant class fractions which make up the historical bloc, and to take bold corrective actions to fill the developmental gaps created by the market mechanism even if these actions go against the short-term interests of some dominant groups.[110] The other side, on the contrary, refused to grant modern states such an autonomy to appraise long-term interests of the bourgeoisie, and claimed that states can not extricate themselves from the contradictions embedded in the social fabric because they are nothing but the -- sometimes distorted -- reflection of the social matrix as a whole.[111] Is then the contemporary capitalist state a 'broken mirror' whose cracks represent the cleavages in the social matrix, or is it an independent organization which can actively implement one set of developmental interests over others? Case studies can only provide partial tests,

[108] See B. Walstedt, *State Manufacturing Enterprise in a Mixed Economy: The Turkish Case*, John Hopkins University Press, Maryland, 1980.

[109] See M. Burawoy, "Introduction: The Resurgence of Marxism in American Sociology," in M. Burawoy and T. Skocpol (eds.), *Marxist Inquiries*, The University of Chicago Press, Chicago, 1982, p. 17.

[110] See N. Poulantzas, *Political Power and Social Classes*, *op. cit.*; F. Block, "The Ruling Class Does not Rule," *op. cit.*; C.E. Lindblom, *Politics and Markets*, *op. cit.*; and A. Shonfield, *Modern Capitalism*, *op. cit.*

[111] See N. Poulantzas' last work entitled *State, Power, Socialism*, *op. cit.* and R. Miliband, *The State in Capitalist Society*, *op. cit.*

since as my comparative study will illustrate, the actual behavior of the state in postwar France approximated the latter case; whereas the Turkish state -- even in the planned phase -- could hardly take decisive action to favor investments in capital goods sectors because of the limits imposed upon state action by the nature of political alignments among historical bloc members.

The question of the autonomy of the state should therefore not be isolated from the investigation of the nature of the hegemonic blocs and the historically structured links between the state managers and organized interests.[112] Accordingly, my investigation of the 'genesis' of planning in a comparative context will focus upon the structural and historical reasons which enabled state managers in France to have effective capacity to bypass the markets and affect the allocation of economic resources, as opposed to Turkish planners' inability to do the same despite their intentions to the contrary. How could French planners act against the short-term interests of investor groups, whereas their Turkish counterparts could not? As it will be revealed throughout this section, the gist of my answer consists of an attempt to unravel the differing configuration of the historical blocs which supported planning in the two contexts -- which I call 'modernization lobbies' -- to argue that a particular bloc which is necessary to sustain successful planning *can only* be constructed in advanced capitalist countries. Thus in imitating capitalist planning in France, Turkey was doomed to failure from the very beginning.

This argument above can also be generalized to the rest of the Third World countries in the sense that, in these countries, the business class upon which planning priorities are supposed to be imposed to rationalize the economy, will be sufficiently strong so as to avert an incipient planning that would restrict their own prerogatives in corporate decision making. In the West, to the contrary, under certain structural and historical conditions that I will later specify, the working class may achieve a breakthrough in political power proportionate to business' loss of power and prestige, and a political alignment between labor and urban managerial groups strongly opposed to the entrenched interests may become a possibility. It is only under such conditions when the future of the regime is at stake, that certain business groups may consent to the structural reforms -- such as planning and nationalizations --

[112] For a theoretical discussion and illustration of these concepts of power blocs and hegemonies see section 3 of my last chapter.

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initiated by left-dominated governments as it happened in the immediate postwar period in France. Under such exceptional circumstances, the prevailing ruling class alliance may break, and a single class, or class fraction may be identified as belonging to two conflicting blocs, because of their differing perceptions of the threat directed at the regime by an urbanized version of a 'red-green' alliance (i.e. alliance between the working class and the peasantry) that helped bring social democracy to power, say in Scandinavia.[113] Thus, certain fractions of business may rush to ally with the new middle class groups so as to avert an incipient threat to the rule of business in general posed by a 'labor-middle class' alliance, while other fractions may still refuse to abandon their old allies: namely farmers, merchants and small producers.

The logical scenario described above is indeed what happened in France in the immediate post-second war period as the business class as a whole, following a humiliating defeat in the war, lost both its power and prestige, and under these circumstances a dynamic export-oriented section of the industrial bourgeoisie did not refuse to coalesce with the expansionist minded state managers despite the fact that the latter was holding the business class as a whole responsible for the ills of French capitalism. In the meantime, a larger section of the manufacturing business class and the financial fraction (the banks were later nationalized) refused to cooperate with the state administrators. Thus, even if French planners in the long run could rest on the new equilibrium of social forces led by the advanced sectors of capital, this process was by no means automatic. Furthermore, planning in France, from the very beginning, became an effective instrument affecting the allocation of resources and thus strengthening certain sectors of industrial capital at the expense of others. Moreover, the continuing conflicts among the dominant groups in the early years of planning were played out against the backdrop of *major outbursts of social conflict* between dominant and subordinate strata. Thus, even if a potential 'red-middle class' coalition was averted, and consequently subordinate groups were excluded from the formal political process, *threats from below did not cease to exist* and therefore became a predominant force in shaping the nature of the 'modernization alliance'. And it was *only under these circumstances* that planners in France were endowed with not only an interest in, but also a capacity for initiating and

[113] See J. Pontusson, "Comparative Political Economy of Advanced States: Sweden and France," *op. cit.*

sustaining major reforms aimed at maximizing economic growth and efficiency.

My arguments on the genesis of planning in Turkey and France and its relative success in the latter country as opposed to its failure in the former both build on and differ from the existing social science literature. On a theoretical plane it is possible to discern analytically the two questions addressed by this literature: *a) how can one explain the dynamic through which the reforms come about that increase the rationality of capitalism; and b) why do some of these reforms become successfully institutionalized while others fail.* Various theoretical explanations which crosscut between Marxist and non-Marxist scholars are offered and applied to the empirical realm of the origins of planning in France (there is much less work on the origins of planning in Turkey) to test the general theory. It is possible to categorize the general approaches into three: historicist, structural-functionalist and instrumentalist.

Historicist arguments reflecting on the causes for the resurgence of the French economy in the mid-century after the onset of planning place explanatory emphasis on the shock effect experienced by the whole population because of the country's defeat in the Second World War. More specifically, these authors credit the war time experience with creating a compelling and collective sense of relative economic backwardness and with giving rise to "the new men and new attitudes"[114] which led to the successful establishment of planning in France after the war. A less culture-specific version of this theory ascribes the origins of planning in France to the establishment of close working relations under German occupation between the state administrators and industrial businessmen. It is therefore asserted that although these two sides were brought together almost by accident, thanks to their close cooperation, both sides gradually acquired extensive knowledge of the workings of business and government, respectively. Thus, the resulting discovery of common aims and interests provided the ground for successful planning in the immediate postwar period.[115]

Although these two explanations represent diverse aspects of the same reality, neither is too satisfactory. For instance, although close corporatist relations between the state managers and businessmen

[114] See R.F. Kuisel, *Capitalism and the State in Modern France, op. cit.;* C. Kindleberger, "The Postwar Resurgence of the French Economy," in S. Hoffman (ed.), *In Search of France*, Harvard University Press, Cambridge, MA, 1963; and P. Petit, "The Origins of French Planning: A Reappraisal," *Contributions to Political Economy*, No. 3, London, 1984, pp. 65-84.

[115] See R. Miliband, *The State in Capitalist Society, op. cit.* and A. Milward, *War Economy and Society: 1939-1945*, University of California Press, Berkeley and Los Angeles, 1977.

were also struck in France during the First World War, as soon as the war was over, business denounced further cooperation with the administrators and vehemently opposed suggestions made by a section of the government elite in the direction of initiating indicative economic planning.[116] In a similar vein, after the Second World War, a generalized sense of backwardness and the need for reformation also occurred in Britain, but certain attempts to establish economic planning did not succeed.[117] This was so because, both in 1920's France and in mid-1940's Britain, business groups as a whole were not only opposed to planning, but they were also politically powerful enough to scuttle burgeoning attempts to initiate it.[118] In contrast, although major sectors of business opposed planning in post-second war France as an interventionist move, "French business was very weak in this period, starved for capital, associated with Vichy, and in the face of France's most left-wing government unable to rally public opinion against the plans."[119] Thus, because they do not frame the discussion in terms of the strength of coalitions which converged around planning, 'historicist' explanations fail when applied to comparative frameworks, while they shed light on the meaning of planning experiences in national contexts.

Structural-functionalist explanations, on the other hand, conflate the two different questions of explaining the genesis of planning and also accounting separately for its relative success in different contexts. In general, this perspective conceives of the institution of planning by the state as an automatic response to objective imperatives generated by capitalist development. Applied to Turkey, a version of this theory asserts that because in the early 1960's the process of capital accumulation had come to a standstill since the limits of commercialization of agriculture were reached, it was necessary to create an environment conducive to the growth of the industrial sector and hence a capitalist planning responding to the needs of manufacturing capital was called forth.[120] Another version of the same perspective informed by the 'regulation school' derives both the establishment and success of French planning from the laws of capital accumulation. Accordingly, the planning system is said to be

[116] See R.F. Kuisel, *Capitalism and the State in Modern France, op. cit.*, Chs. 2, 3 and 4.

[117] See A. Shonfield, *Modern Capitalism, op. cit.*

[118] *Ibid.* and P.A. Hall, "Economic Planning and the State" in M. Zeitlin (ed.), *Political Power and Social Theory: A Research Annual*, V. 3, JAI Press, Greenwich Connecticut, 1982.

[119] P.A. Hall, *ibid.*, p. 198.

[120] See G. Tuzun, "Crisis, Economic Policies, Planning and the State: A Proposal for a new Approach" and E. Gunce, "The Yesterday, Today and Tomorrow of Planning in Turkey", in *METU Studies in Development*, 1981 Special Issue on Two Decades of Planned Development in Turkey. (in Turkish)

installed in order to facilitate the transition of the manufacturing industry from a Taylorist organization of work which could not ensure growth and full employment to a Fordist type of economic growth.[121] Because in the Fordist model a steady extension of production is ensured by a commensurate increase of consumption, French planning is said to have provided necessary guidance to the investors so as to create the appropriate macroeconomic conditions of uninterrupted growth. It may well be that Turkish and French planning systems did function in the way described by the 'functionalist' writers, but these writers wrongly identify the beneficiaries of economic planning as the originators, because of their *a-historical* and teleological reasoning stipulating that the subsequent functioning of a structure explains its origins. Accordingly, they suppress the causal *processes* and ignore the balance of power relations between the advocates and opponents of planning prior to its onset. Thus, the element of contingency in history and the possibility of divergent outcomes is ignored in favor of a deterministic explanation. Instead, I pose the question of the relative success of planning in a comparative context and underlie the differing nature of the respective 'modernization lobbies' in Turkey and France which supported and sustained economic planning. I do not consider these social alliances as 'static' either, placing primary emphasis upon the growth of fissures among the constituents of the 'modernizing' bloc after the institution of planning, and upon the different resolutions of these conflicts in different settings with crucial implications for the maintenance and successful operation of planning systems.

Finally, some commentators who may be labeled as 'instrumentalists' have been tempted to attribute the decisive impulse for the economic overhaul and modernization of France after 1945 to the leadership of the French state rooted in the longstanding tradition of etatism.[122] But as I will shortly argue while discussing the nature and the evolution of the state-economy relations in France, such conceptions fail to identify shifts in state interventionism in postwar France, as a result of major realignments of social forces.[123] Likewise, arguments linking the planning experience in Turkey to the pater-

[121] On the 'regulation school' see M. Aglietta, *A Theory of Capitalist Regulation*, New Left Books, London, 1979 and A. Lipietz, "Towards Global Fordism?", *New Left Review*, No. 132, March-April 1982. For an essay inspired by this school see P. Petit, "The Origins of French Planning: A Reappraisal," *op. cit.*

[122] See A. Shonfield, *Modern Capitalism, op. cit.*, and S. Hoffman, "Paradoxes of the French Political Community" in S. Hoffman (ed.) *In Search of France, op. cit.*

[123] For a survey of the literature on the economic growth in France prior to the second world war see R. Cameron and C.E. Freedeman, "French Economic Growth," *Social Science History*, V. 7, No. 1, Winter 1983.

nalistic bureaucratic tradition inherited from the Ottoman empire suffer from a similar negligence.[124] Moreover, even if one accepts F. Block's argument that under exceptional circumstances such as during wartime and periods of postwar reconstruction, 'business confidence' loses its sting as a veto on government policies, thus enabling the state managers to initiate major reforms so as to act 'as a doctor at the sickbed of capitalism', such an argument has less relevance to the explanation of the success and efficiency of planning once business recovery begins.[125] In fact, this is precisely what happened in the late 1940's, in France, when the divided business groups began to reorganize following the onset of the cold war that in its turn deeply divided the French left. Consequently, the historical legitimacy of planners rooted in the Resistance movement did not last and the restoration of influence gave business the capacity to resist planners. Yet planning was not abrogated and continued to influence private investment decisions. Why?

Another variant of the 'instrumentalist' theory explains both the origins and the persistence of planning by crediting a socially aware and forward-looking segment of the ruling class with recognizing the need to favor the state's role in co-opting the working class and regulating the economy. Thus, it is said that such far-sighted segments of business agree to redistribute power between the state and organized interests in favor of the former, so that the state would be freer to take decisive action to break the stranglehold that entrenched interests have on the economic system. As is rightly claimed by Block, this perspective exaggerates "the capacity of capitalism to reform itself in 'normal' periods, and is unable to account, for example, for the inability of British capitalism to rationalize itself during the long period of decline since the 1950's."[126] Yet, Block's own explanation for the institutionalization of *some* reforms as opposed to others is based on a circular logic. In fact, he argues that, the reforms which are most beneficial to aid the capital accumulation process will be retained, while those whose effects are questionable will be eliminated.[127] But how are we to evaluate the relative usefulness of these reforms for the economic system except by basing our judgement on their longevity?

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[124] See interviews with the leading exponent of these views, I. Kucukomer in *Yeni Gundem*, No. 19, 1-15 April 1985 and No. 21, 1-15 May 1985. (in Turkish)

[125] See F. Block, "The Ruling Class Does Not Rule," *op. cit.* I discussed the 'Subject Theory' in my second chapter.

[126] F. Block, *ibid.*, p. 22.

[127] *Ibid.*, p. 26.

My own theoretical framework outlined at the beginning of this section combines elements from both 'structural functionalist', and 'instrumentalist' theories, while trying to subject these arguments to a rigorous historical test. I especially share Block's emphasis on 'business confidence' as a structural constraint on the action of decision makers. I also attribute primary emphasis to the wartime experience in France in terms of its contradictory effects on the strength of business and the working classes. Yet I disagree with Block in explaining the persistence and success of French planning. That is to say, instead of resorting to a circular form of argument like Block does when explaining the relative 'success' of economic reforms, I put emphasis on the threats posed from the subordinate groups, who, even if excluded from the ruling class alliance, became a predominant force in shaping the nature of economic reformism. In addition, I credit planners with the ability to have gradually created their own allies among the advanced and export-oriented segments of capital in France, thus strengthening their own power base. Therefore, when explaining the persistence of some reforms, unlike Block, I emphasize the tensions among different fractions of capital which resulted in the break-up of the 'protectionist' historical bloc which reigned during the first half of the twentieth century in France, and was substituted by a new 'modernization coalition' after the onset of planning. In Turkey, on the other hand, although the balance of power in politics shifted with the onset of planning, the working class never achieved a breakthrough in political power forcing the ruling alliance members to choose between reform and repression. On the contrary, major conflicts among the dominant class members before and during the early years of planning were played out against the backdrop of *successive shifts in the world economic system* in terms of fluctuations in the prices of traded commodities and capital transfers. Consequently, as we will shortly see, gradual incorporation into the world economy provided a context and a set of constraints within which class struggle at the national level determined the subsequent configuration of the historical blocs. In this particular setting planning was almost imposed on the Turkish state by international organizations, although such demands found a receptive echo within the internal market oriented manufacturing business sectors concentrated in the consumer durable and non-durable goods. Unlike the French planners, the early planners in Turkey who were eager to transform the protectionist mentality of the business groups received a very cold welcome by the latter, since, in the absence of a possibility of the emergence of a 'red-green' coalition which could have threatened the rule of the bourgeoisie, not a single fraction of business felt any need to risk its political fortunes by cooperating with the early planners at the expense of alienating its own partners. Consequently the type of power bloc that was constructed in France to sustain successful planning could not have been formed in Turkey, leaving no option for the first Turkish planners other than 'resignation' after realizing that their project of imitating capitalist planning in France was doomed to frustration.[128]

In the coming pages, in line with my theoretical arguments outlined above, I will address the question of the 'genesis' and 'success' of planning in Turkey and France from the vantage point of the formation and dissolution of the historical blocs which underlied different planning systems. Accordingly, my narrative will try to unravel the socio-political preconditions under which the state managers can acquire the capacity to play an active role in development. Naturally, such an endeavor will necessitate taking a short foray into the nature of state-economy relations in both Turkey and France prior to the institution of planning in order to evaluate the shifts in state interventionism which occurred in these countries when new coalitional arrangements were struck around the planning systems. Finally, this section will conclude by emphasizing the significance for economic development of the successful implementation of the First French Plan, as opposed to the resignation of the early planners who prepared the First Turkish plan.

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[128] In fact the first thorough study on Turkish planning was dedicated to the "frustrated planners all over the world." See S. Ilkin and E. Inanc (eds.), *Planning in Turkey*, METU, Faculty of Administrative Sciences Sciences Publication No. 9, Ankara, 1967.

3. FRANCE

Patterns of State-Economy Relations until the Beginning of the Second World War

In 1870, France was one of the four countries which dominated the world's industrial production and the output of manufactured goods in the country was about four-fifths as great as that of Germany, and two-fifths that of the United States.[129] Yet, following the onset of the Third Republic in 1871 until the break out of the First World War in 1914, the French economy entered a period of slow growth and the rate of industrialization as indexed by the average rate of per capita industrial production hardly kept pace with other advanced nations. In fact, by 1913 "manufacturing output was only 41 percent as high as in Germany, and 18 percent of that in the United States."[130] As to the composition of the manufacturing output indicated by France's share in the total manufacturing production in Europe, light (textiles) and intermediate goods (steel, chemicals) sectors fared much better than the investment goods sectors such as machinery and transport equipment.[131] Thus both Germany and Britain quickly surpassed France in heavy industry and the process of industrialization in France proceeded more slowly and gradually compared to its competitors. Nonetheless, the other side of the coin was that a slower growth was also accompanied by a lower rate of urbanization and hence compared to its competitors France experienced a less socially disruptive growth path, enabling the peasantry and the urban petty bourgeoisie to retain much of their economic and political importance.[132]

The performance of the French economy after 1913, during the interwar period, was dismal.[133] Perhaps even before the First World War new industrial investment was too low to maintain the momentum built up in the first half of the nineteenth century, but industrial production was virtually halted in France after 1914. Indeed, on the eve of the Second World War, France was producing a little less in consumer goods and significantly less in production goods compared to 1929 (see table

[129] J. Sheahan, *An Introduction to the French Economy*, *op. cit.*, p. 3.

[130] *Ibid.*

[131] In fact, as of 1913, the French accounted for about 13% of manufacturing production in Europe. But for machinery, where frequent technological change would be essential to take advantage of continuously emerging possibilities, it was only 5%. See J. Sheahan, *ibid.*, pp. 23-24.

[132] See S. Hoffman, "Paradoxes of the French Political Community," *op. cit.*, and J. Pontusson, "Comparative Political Economy of Advanced Capitalist States: Sweden and France," *Kapitalistate*, 1983, p. 60.

[133] See Table 1 in my introduction.

below). Moreover, industrial plants in the basic industries such as power, transport and steel were over-aged and needed renovation, and in terms of basic industrial indices such as power available to industry, steel consumption per head or the number of tractors on farms, France compared unfavorably to other industrialized countries.[134] Finally, industrial stagnation during the first half of the twentieth century left many people stuck on farms, and perhaps a third of the active labor force was employed in marginal and inefficient small farms on the eve of the Second World War; an abnormally high proportion for an industrialized economy.

Table 1

Production Indices		
	1929	1938
Total (incl. building)[a]	133	100
Total (incl. building)	125	100
Consumer goods	105	100
Capital goods (excl. building)	147	100
Building and Public Works	190	100

a. Index covers about 60% of physical volume of production in manufacturing, fuel and power, mining and construction industries. Excludes food processing, clothing, furniture, as well as most handicraft and non-factory production. Building index based on labor input.

Source: INSEE: MSA Mission to France - Data Book, 1953 series.

Various explanations have been offered to account for the relative stagnation of the French economy in the first half of this century. Explanations ranged from putting emphasis on the sociocultural to material factors such as the paucity of coal resources that is said to have deterred the development of heavy industry, and the low rate of demographic growth was also adduced as an additional factor slowing economic growth.[135] But blaming unwise government economic policies as a major cause for retardation emerged as a consensual explanation among researchers who otherwise disagreed on the relative weight of many other factors.[136]

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[134] See D.S. Landes, *The Unbound Promotheus*, Cambridge University Press, Cambridge, 1969.

[134] Moreover, as of 1950, real national income produced per worker in agriculture was only 35% of that for workers in other occupations. See J. Sheahan, *An Introduction to the French Economy, op. cit.*, p. 12.

[135] See R. Cameron and C.E. Freedeman, "French Economic Growth," *op. cit.*, p. 4 and p. 23.

[136] *Ibid.* See also H.W. Ehrmann, *Organized Business in France*, Princeton University Press, Princeton, 1957; W.C. Baum, *The French Economy and the State*, Princeton University Press, Princeton, 1958; and C.P. Kindleberger, "The Postwar Resurgence of the French Economy" in S. Hoffman (ed.), *In Search of France, op. cit.*

In reality, however, the state could not do much about the economic situation since its regulatory, promotional and entrepreneurial functions were very slim during the interwar period in France.[137] The public, in fact, did not control production except in porcelain, tobacco, railways and in military equipment. The state's regulatory powers in the sphere of distribution were also minimal, and prices, wages, and interest rates, for example, were beyond the government's purview and under the control of the free markets. Public spending was concentrated in routine tasks such as justice, police, and education, and during the 1900's "as a percentage of domestic national product, expenditures hovered around 15 percent, far below the 40 percent they were to reach after the Second World War."[138] Moreover, as opposed to the postwar period, the state did not have the Keynesian conception of using a certain proportion of its budget toward capital formation so as to counter downward trends in private investments; and hence it was rightly claimed that without a building boom, as in Britain, or a rearmament boom, as in Germany and the United States, France never really pulled out of the 1929 world-wide depression. The state could not influence the banking sector to affect the allocation of industrial investment in a selective fashion either, since in the absence of supervision by the Bank of France, the large Paris banks acted as intermediaries in channeling huge sums into foreign securities and failed to support the French industry. Indeed, although the Bank of France acted as the country's central bank, it was under private ownership, and demonstrated no inclination toward managing money or credit.[139]

Despite the absence of levers in the hands of governments to affect the investment decisions of private investors, the French state, however, was called 'Colbertist' or 'etatist' as a reference to its traditional interventionist style dated from the time of Colbert.[140] That is to say, the main concern of state interventionism was to pressure the socio-economic status quo and accordingly the state intervened in order to secure the survival and well-being of all producers. French producer groups in the first half of the century, on the other hand, commonly requested protection and unlike liberal economists, they did

[137] See R.F. Kuisel, *Capitalism and the State in Modern France*, *op. cit.*, pp. 1-31 (Ch. 1) for a thorough discussion of the economic capacity of the state prior to the Second World War.

[138] *Ibid.*, p. 10.

[139] See R. Cameron and C.E. Freedeman, "French Economic Growth," *op. cit.*, pp. 21-22 and J. Bouvier, *A Century of French Banking*, Hachette, Paris, 1973. (in French)

[140] See A. Shonfield, *Modern Capitalism*, *op. cit.*, and T. Kemp, *Economic Forces in French History*, Dennis Dobson, London, 1971.

not see any contradiction in terms in simultaneously defending a 'liberal' economy while expecting the state to rescue them in case of failure. State *protectionism* in France had a dual meaning as far as producers were concerned. *First,* it meant that, the state would shield small firms, artisans, and farmers from the consequences of competition. In order to do so, a favored tax status was accorded to marginal firms and farms whose productivity was excessively low, and the rest of the small manufacturers, shopkeepers, and farmers were also assessed a very low lump sum tax. Hence, to compensate for the low level of direct tax revenues, the state became obliged to resort to indirect taxes bearing on all consumers in a regressive fashion in order to finance its own operations.[141] In addition, the state condoned the existence of producer cartels which stifled competition and preserved the economic status quo. That is to say, in all industries strong cartels were known to exist, and producer groups formally or informally fixed prices, set production quotas and allocated markets among firms belonging to the cartel in such a way that even government orders to industry could only go to firms selected in advance by the cartel.[142] The economic consequence of such cartels was negative since prices were kept higher and production levels lower than what would otherwise have been the case in a competitive setting, and hence inefficient firms were subsidized at the expense of the more productive ones.

The *second* meaning of protectionism referred to safeguarding all producers from external competition, and this was secured by an elaborate structure of high tariffs, quotas, and special import taxes. Indeed such a protectionist trade regime traced back to the late nineteenth century (1892 Meline tariffs) when a strong coalition of agricultural and industrial interests opposed to free trade, obtained nearly complete protection from low-cost foreign-produced foodstuffs.[143] Consequently, although the peasantry was saved and "the fate that had befallen English agriculture"[144] was avoided, agricultural protection prevented farmers from moving from farming into more productive urban employment. That is to say, the continued protection of vested interests that pervaded all sectors of the economy has impeded growth by immobilizing an excessive quantity of labor in agriculture and small trade, sectors of the

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[141] See H.W. Ehrmann, *Organized Business in France, op. cit.*

[142] *Ibid.* and R. Cameron and C.E. Freedeman, "French Economic Growth," *op. cit.*, p. 12.

[143] See J. Sheahan, *An Introduction to the French Economy, op. cit.*, and W.C. Peterson, "Planning and Economic Progress in France," *World Politics*, V. IX, No. 3, April 1957, p. 376.

[144] C. Keyder, "Industrial Policy in France," *The American Economic Review*, Vo. 75, No. 2, May 1985, p. 312.

economy with a low output per man-hour. Indeed, even as of 1950, real national income produced per worker in agriculture was only 35 percent of that for industry, and therefore in economic terms protectionism provided security at the expense of discouraging output and forestalling industrial adaptation.[145] Such a protectionist regime in the interwar period contrasted sharply with the nature of state interventionism in the post-second war period which was "in the direction of encouraging private modernization, expansion, concentration, and adaptation."[146]

As it was suggested by an observer of the Italian economic scene, the reason behind bad economic management by the state during the interwar period in France was also that "bad economics seemed to make good politics."[147] Other researchers rightly linked the protectionist style French interventionism called etatism to the 'even balance' of conflicting interests in society among major social forces which inhibited decisive action on the political front. Accordingly, it was claimed that the issue in France was "one of redistributing power between the state and organized interests so that the government would be freer . . . to arbitrate between conflicting claims."[148] Moreover, among the actors involved, industrial businessmen in *heavy industry* were the first and foremost among the critics of government policies. They believed that they did not receive the support they deserved from the state and that in contrast to Germany where the state had regularly consulted with heavy industry and gave priority to industrial expansion, their own state had neglected them because of its exaggerated attention to trying to balance too many conflicting demands stemming from all segments of society. Yet, although the *Comite des Forges* which operated as an umbrella organization for the iron and steel industry voiced the complaints of industrialists, this organization itself was not very effective in the 1900's. This was so because "It had been torn by conflicting interests, for example, large versus small-scale firms, modern versus retrograde technology, export versus domestic marketing, metal producers versus consumers."[149] But in reality the internal divisions in the heavy industrial sector simply mirrored

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[145] See J. Sheahan, *An Introduction to the French Economy, op. cit.*, p. 12. See also C.P. Kindleberger, "The Postwar Resurgence of the French Economy," *op. cit.*

[146] C.P. Kindleberger, *ibid.*, p. 143.

[147] S. Tarrow, "The Crisis of the Late 1960's in Italy and France," in G. Arrighi (ed.), *Semiperipheral Development*, Sage Publications, Beverly Hills, 1985, p. 224.

[148] H.W. Ehrmann, *Organized Business in France, op. cit.*, p. 392.

[149] R.F. Kuisel, *Capitalism and the State in Modern France, op. cit.*, p. 312.

the plight of the whole manufacturing industry. That is to say, although the Confederation Generale Patronat Francais (CGPF) that was built in the early 1900's attempted to unite the employers, the internal cohesion and discipline of the employers' movement was far from satisfactory. Member organizations, i.e. several industries in all sectors, acted with disdain or indifference toward their own central confederation and refused to grant the CGPF any authority to arbitrate and resolve intra or inter-industrial conflicts.[150] Given such extreme individualism and distrust prevalent among industrial circles, other organized interests could not help but laugh at the pretensions of M. Duchemin, the President of CGPF in the interwar period, who "assigned to the employers the role of a central crystal around which all valid forces of contemporary French society would group themselves sooner of later in perfect symmetry."[151]

In scrambling for leadership in society, the industrial bourgeoisie in general, and heavy industry, in particular, were not alone. Indeed all organized interests criticized government policies for their lack of direction and felt that they were misunderstood, neglected and even mistrusted by the state. The political impotence of a single fraction of the bourgeoisie to elevate itself into a position of hegemony in the ruling class alliance was reflected in the instability plaguing many governments. That is to say, in a way reminiscent of the Third World experience in the twentieth century, in France, from the mid-nineteenth century onwards, "regimes were temporary; political institutions did not enjoy effective legitimation; and the system was questioned at every crisis."[152] As it was argued for the Weimar Republic, various regimes during the Third Republic (1981-1945) in France too were unable "either to resolve the contradictions within the bloc of dominant classes or the conflicting claim to leadership of it."[153] Therefore, contrary to the a-historical theory of the state which argues that the state plays the role of organizer of the power bloc, the Third Republic state in France remained a 'broken mirror' state whose cracks reflected the unresolved conflicts in the ruling class alliance.[154] Given the deep fissures and fragmentation in the power bloc not a single apparatus in the state could emerge as a 'core' institution,

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150 See H.W. Ehrmann, *Organized Business in France, op. cit.*

151 *Ibid.*, p. 29.

152 C. Keyder, "Industrial Policy in France," *op. cit.*, p. 310.

153 D. Abraham, *The Collapse of the Weimar Republic*, Princeton University Press, Princeton, 1981, p. 36.

154 See footnote 89 and 91 of my introduction for references.

insulating itself from popular influence and carrying out a decisive economic policy by imposing, when necessary, decisions upon investors in order to affect resource allocation in the desired direction. Instead, the whole state became an arena of struggle for organized interest groups vying with each other to receive favors from several specialized departments located in various ministries. The prerogatives of these departments often overlapped and clashed with each other, and given the lack of overall coordination, state departments struggled with each other and tried to 'steal' each others' clients.

The French state not only provided the terrain for struggle to major organized interests, but it also rested on a broad coalition that can be named a 'protectionist power bloc' formed by a variety of interests including the industrial bourgeoisie, small capital, tradesmen, artisans and peasants.[155] Export oriented interests made up of firms concentrated in textiles, mining and metallurgy remained at the margin of this bloc and contented themselves by extracting some concessions from the state.[156] The working class, as a whole, partly profited from stable employment conditions as a result of trade protectionism, but average wages were appreciably lower than in other industrial nations and until the 1936 "Matignon agreements" reached under a left-wing coalition on the eve of the second war, work conditions and industrial rights in France remained rudimentary.[157] Evaluating in more general terms, a broad yet fragile consensus existed in the historical bloc about maintaining what has been termed a 'stalemate society',[158] in the sense that as long as the economically dominant classes lacked clear and organized leadership and "their members could not rise above the level of sauve qui peut,"[159] the state in France could not help but instead could only play a zero sum game with the dominant economic actors.

In the light of the preceding discussion, a schematic mapping of the French political economy in the interwar period may be useful. The figure below primarily posits such an abstract model that can approximate best the nature of the protectionist power bloc and the links between social classes and the state. In this scheme below, as well as in others that will follow, derived from a model proposed by

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[155] See C. Fohlen, "French Bourgeoisie, Economic Liberty and the Intervention of the State," *Revue Economic*, No. 3, May 1956. (in French)

[156] See R.F. Kuisel, *Capitalism and the State in Modern France*, *op. cit.*

[157] See C. Fohlen, "French Bourgeoisie, Economic Liberty and the Intervention of the State," *op. cit.;* C. Keyder, "Industrial Policy in France," *op. cit.;* and H.W. Ehrmann, *Organized Business in France*, *op. cit.*

[158] This term was originally coined by S. Hoffman, "Paradoxes of the French Political Community," *op. cit.*

[159] D. Abraham, *The Collapse of the Weimar Republic*, *op. cit.*, p. 14.

Abraham with some modifications, I am presenting the hegemonic fraction in capital letters, and ties represented by solid lines are stronger than those represented by dashed lines.[160] A special interaction is presented with double solid lines. In the bloc formation represented below, no special relation is indicated between state apparatuses and particular interests, and on the contrary, more or less *equal access* to the state by export or domestic market oriented industries, or the traditional middle classes is the norm. Neither is any fraction of capital said to be hegemonic -- hence small letters are used -- although export oriented interests remained more at the margin of the power bloc, compared to others.

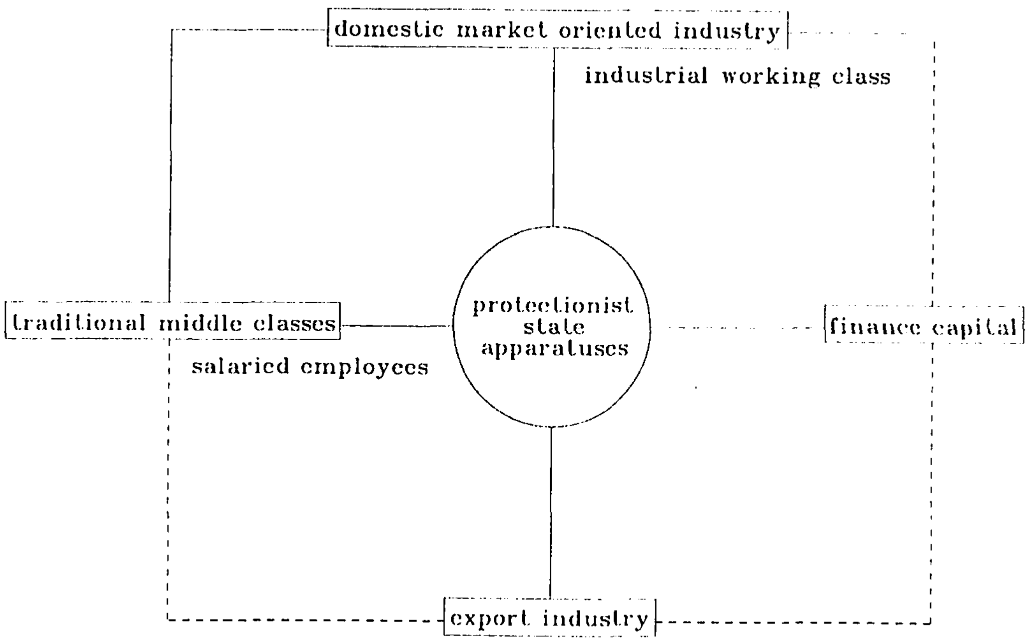

Figure 1: Interwar Period 'Historical Bloc' in France

To sum up, the French state made up of both the parliament and specialized departments located in various ministries was 'colonized' by interest groups. Deep fissures in society were equally reflected in the functioning of the various apparatuses of the state which struggled among themselves to protect their economically marginal clients from the dislocating effects of internal as well as external competition in return for votes (parliamentary groups) or bribes (specialized departments). As a result state interventionism lacked an overall coordination and direction. As said before, finance capital (the banks)

160 See D. Abraham, *op. cit.*, pp. 28-30.

was powerful but largely independent from state regulation. Even the Bank of France was privately owned, and the commercial banks channeled a large chunk of their deposits into foreign ventures at the expense of supporting either segment of French industry. The traditional middle classes (the 'petty bourgeoisie'), in their turn, were made up of family farmers, as well as urban merchants, shopkeepers and small businesses. Strong liens existed between them and the domestic market oriented manufacturing industry exemplified by the existence of protectionist producer cartels which guaranteed the survival of small producers. Free trade in agricultural products was also opposed, thus food prices were kept high and farmers subsidized. Such subsidies came at the expense of the industrial working class (and salaried employees -- the burgeoning middle classes -- as well) whose purchasing power was said to have been lower compared to that of workers in other countries at a similar level of development with France. And finally, although a fraction of the internal market oriented industry, the heavy industrial sector, scrambled for leadership in society, conflicts of interests between the large and small-scale producers prevented heavy industry from breaking their alliance with the petty bourgeoisie and opting for a growth strategy based on high wages to ensure a steady extension of production commensurate with the extension of consumption and investment.

The War Years: 1939-1945

The differential effects of the 'war' on occupied versus occupying economies in terms of resource allocation, labor productivity and industrial production are well known. During wartime the economies of the occupier and the occupied move in diametrically opposite directions because while the occupier boosts its economy via a program to manufacture armaments (military Keynesianism) and accordingly moves labor voluntarily or under compulsion from the more labor-intensive sectors of the economy to work in capital-intensive heavy industrial sectors; the occupied side suffers from the contrary tendency. France, during the Second World War, provided no exception to this universal trend.[161] That is to say, the immediate economic effect of the German occupation on resource allocation was that the departure of labor from the agricultural sector of the French economy was halted by the unstable industrial conditions prevailing in the cities under German occupation. In addition, to remain on the land meant "to be

161; See A.S. Milward, *The New Order and the French Economy*, Oxford University Press, Oxford, 1970, Ch. 12.

safer, better fed, and probably better remunerated."[162] Under the influence of the occupation heavy industries in France such as electrical industries and metallurgy suffered from interruptions in the import of basic raw materials necessary for production, and the total labor employed in these industries diminished drastically. While industrial workers were laid off, unproductive small trading and business activities proliferated in the cities, and most notably the number of jewelers and makers of small luxury articles skyrocketed under the prevalent fear of inflation and distaste for holding currency under unstable conditions. Overall, the general movement of labor out of productive work and into marginal fields meant for France a continuation of the same dismal economic trend of the 1930's (see my Table 1). Industrial production dropped sharply and "the general index fell to 65 in 1941 from a base of 100 in 1938, then hovered at about this level for the next two years before another precipitous drop in 1944 when the country again became a battleground."[163] Hence, at the time of the country's liberation, its productive capacity was, on the average, about 20 percent smaller than before the war, and industrial production was barely one-third of the pre-war rate. Perhaps most significantly for an industrialized nation trying to compete with other advanced economies, France's competitors -- thanks to military Keynesianism -- had emerged strengthened from the war, and this situation rendered the plight of France even more disheartening in relative terms when seen from a comparative perspective as indicated by the table below.

Table 2

Indices of Industrial Activity (France 1938 = 100)								
	1938	1939	1940	1941	1942	1943	1944	1945
U.S.A.	597	737	867	1165	1432	1684	1699	1312
England	272	283	191	222	236	225	219	210
Canada	119	128	158	176	180	182	219	210
France	100	128	158	64	58	53	36	48

Source: Droit Social, January 1947

Considering the true projects of the occupying Germans for the future of French economy, the table above should come as no surprise. That is to say, at the beginning of the occupation, Germany

[162] *Ibid.*, p. 294.

[163] R.F. Kuisel, *Capitalism and the State in Modern France*, *op. cit.*, p. 141.

considered France as a conquered country and proceeded to take advantage of it in terms of booty and loot, while entertaining thoughts of reducing France to an agricultural existence with some luxury industries.[164] Thus compulsory 'occupation payments' were levied on the French, and such payments from France to Germany that were equivalent to approximately 11 percent of the French national income in 1940 steadily increased and amounted to almost one-third of France's national income in 1943.[165] Nonetheless, starting by the beginning of 1941 when the Germans proceeded to reorganize the whole continent under a new economic division of labor called the 'New Order', France was accorded a less humiliating slot in this scheme as a complementary junior partner of the German industry. This new project indeed opened up some lucrative prospects for French businessmen. That is to say, after the seizure of military and transport equipment from France as booty ended, German businessmen started to place contracts in France for the delivery of many goods ranging from aircrafts to textiles. The 'Vichy' regime in France which was accepted by Germans as a legitimate intermediary, intervened on behalf of the French industrialists in order to secure necessary raw material supplies from the Germans, and to negotiate prices for the deliveries. Under such convenient conditions "a majority of business leaders of all categories identified themselves with the Vichy regime,"[166] and eagerly sought profitable contracts. In fact, already in 1941 about half of the total output of manufacturing industry was delivered to the Germans, with some industries such as construction and armaments producing entirely for the occupiers. As far as businessmen were concerned, it was hard to refuse German contracts, proclaimed a state official, "because the industrialist knew that if he worked for Germany he would have orders, receive full payment quickly, and have priority in supplies."[167]

The collaborationist attitude of business under German occupation contrasted sharply with the defiant attitude of trade unions and clandestine working class organizations. That is to say, on the one side were the business leaders who were conspicuously absent from the resistance movement and shamelessly threatened workers with deportation to Germany in case of insubordination; on the other side were the workers who were overrepresented in the resistance movement and constantly displayed

164 See A.S. Milward, *The New Order and the French Economy*, *op. cit.*, Ch. 4.
165 *Ibid.*, Ch. 12.
166 H.W. Ehrmann, *Organized Business in France*, *op. cit.*, p. 59.
167 R.F. Kuisel, *Capitalism and the State in Modern France*, *op. cit.*, p. 141.

their patriotism by sabotaging plants functioning to feed the German war machine.[168] Thus the business class as a whole was not only losing economic ground due to economic stagnation and decline, but it was also losing its prestige in the eyes of other segments of society since it was perceived as having failed the country in the face of an external threat posed against the very existence of France. Anti-business feelings ran rampant in the population and echoed at the very heart of CNR (Conseil National de la Resistance) whose post-liberation program called "for a rational organization of the economy which ensures the subordination of private to general interest" via "an intensification in production according to the objectives of a *plan set up by* the state after discussion with representatives of *all the participants in this production.*"[169]

As claimed earlier in the introduction when criticizing 'historicist' explanations of the origins, it was also true that the war contributed to the establishment of close working relations between the state administrators and industrial businessmen, although by no means was such cooperation free of conflicts, let alone led to a 'collusion' of interests as suggested by researchers deriving inspiration from R. Miliband's view of the state (see my section 2 in the last chapter). The institutional medium bringing the two sides together was the establishment of the Comites d'Organisation (CO) in 1940. The overt motive to set up such committees was to assess the needs for raw materials and labor in each sector because of the shortages of all kinds of materials during wartimes. After such an assessment the CO's set production targets for each industry and allocated raw materials accordingly. A second, more covert motive was to check German efforts to manipulate French industry as the CO's "aimed at normalizing economic contact with the occupiers and built a basis from which French authorities could negotiate."[170] Administratively speaking although the CO's were under the surveillance of the powerful Ministry of Production, private trade associations that were organized along sectoral lines acted as liaisons for the CO, "communicating advice, information, and grievances upward from individual firms at the same time that they implemented programs."[171] Yet, although the presidents of the CO's were active

[168] *Ibid.* See also A.S. Maiward, *The New Order and the French Economy, op. cit.*, and H.W. Ehrmann, *The Organized Business in France, op. cit.*

[169] See F. Fourquet, *Les Comptes De La Puissance*, Recherches, Paris, 1980, Appendix.

[170] R.F. Kuisel, *Capitalism and the State in Modern France, op. cit.*, p. 135.

[171] *Ibid.*, p. 138.

businessmen, typically heads of large-scale enterprises, they delegated their functions to full time executives who by the end of the war amounted to 6,500 employees. Thus, for the first time in French history a rather large control network aimed at managing private industry was created, and as such, executive power was given to an array of 'neutral' technical experts.

Nonetheless wartime controls exercised via the CO network differed in interventionist style from what was about to come after the liberation. Most specifically, in contrast to selective postwar interventionism which looked to the most dynamic sectors and firms rather than trying to please everyone, the CO's tried to preserve the prevailing status quo within the ruling class alliance. Thus, "as a general rule allocation of raw materials was made on the basis of production and sales figures for 1938. Although such rigidity sought its excuse in general economic conditions, it often expressed merely an unwillingness to disturb an established situation in the market and led to a freezing of production and productivity."[172] Moreover, unlike the postwar planning agency and the Treasury, the CO's could never become a 'core' institution in the sense that different services of the CO's and the technical ministries tended to duplicate and interfere with one another.[173]

The war years also witnessed the first experimentations in France with economic planning as a section of Vichy administrators was determined to introduce and institutionalize a planned economy after liberation. To this end, two equipment plans were drafted: "The Plan d'Equipment National or ten-year plan appeared in 1942; a version of this document adapted for the immediate postwar period and entitled the Tranche de Demarrage was completed in 1944."[174] Moreover, a planning agency called Delegation Generale a l'Equipment National (DGEN) was founded. The pressing and immediate motive for this was to reduce or at least camouflage the rampant unemployment. Thus DGEN was primarily conceived of as an unemployment relief agency, and as such other ministries treated it as a subordinate organization. In practice, Vichy's ten-year plan estimated amounts of credit, raw materials, and labor necessary to rebuild the economy, but *unlike* the postwar Monnet Plan it did not set up production targets. Moreover, unlike the Monnet Plan which concentrated on raising output in a few key

172 H.W. Ehrmann, *Organized Business in France, op. cit.*, p. 86.
173 R.F. Kuisel, *Capitalism and the State In Modern France, op. cit.*, p. 139.
174 *Ibid.*, p. 147.

sectors, the Vichy plan sought to please everybody by scattering its investments over a wide range of economic and social activity. "Above all, the plan echoed the desire of social conservatives to preserve the rural economy. It was dangerous to deplete 'the peasant reserves' who stabilized the population."[175] Thus, in full contrast to the postwar state, the Vichy plan's conception was that the state should act to maintain the social ballast and harmony of interests rather than initiating schemes to promote economic development. Finally, in the making of economic policy, DGEN, unlike the postwar CGP, was not given any initiative by the government and its work consisted of coordinating the equipment programs prepared by other ministries, rather than supplanting others in formulating and executing industrial investments.

Unlike the 10 year plan, however, the "Tranche de Demarrage" prepared by Vichy's planning agency DGEN in 1944 expressed more directly the aspirations of the planners rather than those of the Vichy politicians.[176] That is to say, for the first time in French administrative history, this plan attacked the businessmen for the lack of 'dynamism' indicated by their preference for speculative behavior which deprived the country of its industrial strength and led to economic disaster. Now was the time to shake the dormant industry and give preference to industrial development proclaimed the plan. It was added that although agriculture had 'a legitimate place' in the economy, France's future prosperity depended solely on its industrial capacity. In fact, given its mineral and hydroelectric resources, France could easily become "a manufacturing plant for the rest of the world."[177] The state should therefore be careful not to encourage the already existing penchant for unhealthy protectionism, but on the contrary it should try to break it. It was also necessary that an effective planning agency had to be free from political interference and administrative controls. All in all, in terms of institutional aspirations and modernizing fervor, the 1944 "Plan de Demarrage" definitely broke with the decennial plan and displayed striking similarities with the *Monnet* plan that was about to come after the liberation. The sole *difference* between the two would be such that whereas Vichy planning was confined to official circles, Monnet would prefer a consultative style -- called economie concertee -- by inviting actors directly

[175] *Ibid.*, p. 149.
[176] *Ibid.*, p. 153.
[177] *Ibid.*, p. 154.

involved in production in the preparation of his plan.

The tragedy as far as Vichy planners was concerned was that DGEN remained as an isolated machinery in the administration.[178] In fact, the business class that was the main social prop for the collaborationist government whose legitimacy was suspect, discouraged the Vichy state for lending its support to planners. Consequently the Vichy decision makers never endorsed the "Plan de Demarrage," nor did they support planners in the case of controversy with other state agencies. Consequently, also the President of the Vichy Republic, Petain, "decided against lending his assistance, and the ten-year plan was tabled."[179]

Naturally the ineffectiveness of the DGEN disappointed the planners who worked for the Vichy administration. In the meantime however, the political balance was shifting in favor of planners as the resistance movement was making very clear its desire to institute planning in France, partly in order to punish and discipline 'irresponsible' business leaders, and partly as a necessary device in itself to reconstruct a war-torn country in line with 'grandiose' industrial schemes that would guarantee a privileged slot to France in tomorrow's world.[180] So, on the eve of the liberation, the DGEN planners were optimistic, anticipating that the post-liberation government would heed their advice and adapt its two 'stillborn' equipment plans unappreciated by the Vichy administrators.

The Founding of the Monnet Plan

Vichy planners' hopes were not misplaced. At the policy level, the recovery program prepared by them, entitled the "Tranche de Demarrage," for the immediate postwar period was utilized by the post-liberation provisional government in 1944 to frame its own recovery program. At the institutional level, on the other hand, although DGEN was abolished, the planning office, together with the statistical agency and the remnants of the CO network all blended into the postwar administration and hence the personnel of the economic administration did not experience a major purge. "More important, Vichy officials were correct in believing there was not going to be a return to 'normalcy' as there had been after 1918. This time the momentum for change generated by war and the programs formulated by

[178] P. Petit, "The Origins of French Planning: A Reappraisal," *op. cit.*, p. 76.

[179] R.F. Kuisel, *Capitalism and the State in Modern France, op. cit.*, p. 151.

[180] See *ibid.*, Ch. 6.

Vichy were to merge with the powerful impetus mounted by the resistance to carry France to a new *political economy.*"[181]

The symbol of this new political economy would be nothing other than the idea of a 'plan'. In fact, prior to the fall of the Vichy regime and the institution of a provisional government in 1944, the very ambiguity of the idea of planning helped unite diverse factions in the resistance movement. Schematically speaking both the Left (socialists and communists) and the neo-liberals (DeGaulle and his followers) shared a common allergy against the liberal laisser faire policies and institutions of the Third Republic and instead advocated *economic planning* as a means of organizing industrial development. Furthermore, like the DGEN planners, both the Left and the neo-liberals had a preference for industrial modernization and held 'unhealthy protectionism' of small farmers and traditional urban middle classes (the petty bourgeoisie) responsible for the ills and stagnation of the French economy. In fact, from the vantage point of the political representatives of labor, advocating a rapid industrialization policy in basic and heavy industrial sectors made good political sense. That is to say, given the low share of industry in the GNP, and the low productivity of labor in agriculture, it was possible to realize productivity gains *while at the same time* increasing industrial employment by shifting resources from agriculture to industry. Unlike the situation that the Left was to face in the mid-70's (which will be discussed in my *Deplanification* section), economic growth did not yet call for shifting resources from low value added and labor-intensive to high value added and capital intensive industrial sectors. In short, if the concern to safeguard employment was to propel the representatives of labor to advocate industrial protectionism in the early 1970's, in the mid-1940's, the same concern expressed itself in terms of denouncing agricultural protectionism and favoring a policy of rapid economic growth.

The structural postwar reforms such as planning, nationalizations, and state control of the financial system were all conceived of as a means to curtail the interwar period influence of entrenched vested interests over state economic policy, "and were implemented against the *resistance* of the business community."[182] Thus, the immediate postwar period represented a critical historical juncture in

[181] See *ibid.*, p. 156 (emphasis added).

[182] J. Pontusson, "Comparative Political Economy of Advanced Capitalist States: Sweden and France," *op. cit.*, p. 62 (emphasis added).

French history when the balance of power among the dominant classes in the historical bloc was subsequently transfomed as a result of a major realignment of social forces during exceptional circumstances. That is to say, institutional arrangements linking organized interests to each other and to the state were in flux in the immediate postwar period as a result of two major changes that had taken place in society, i.e. the business class as a whole had lost both power and prestige and the working class had achieved a breakthrough in political power.

In the last section, I discussed both the objective (decline in industrial production), and subjective (collaboration with the enemy) bases which had undermined the power and prestige of the industrial class. General de Gaulle, the centrist politician who was the leader of the resistance and the would-be President of the Fourth Republic after liberation, had declared, as early as 1942 that "disaster and betrayal have disqualified most of the owners and men of privilege," and it would therefore be "unacceptable to leave intact a social and moral order which had worked against the nation." And, two years later, when De Gaulle, shortly after his return to France, received a motley group of employers who had come to pay their respects, he greeted them with a harsh "I haven't seen any of you gentlemen in London," adding contemptuously, "Well, after all, you are not in jail."[183]

The political breakthrough made by labor, coincided yet with another accurate diagnosis by De Gaulle who asserted that "To many the disaster of 1940 seemed like the failure of the ruling class and its system in every realm."[184] On the political front, the French right-wing had vanished as business had lost not only the sympathetic political parties of the Third Republic, but also its prewar national employers' federation, and most of its friendly press. Under these conditions, in the election of October 1945, the Communists won 26.4 percent of the vote and the Socialists 23.8 percent.[185] As a result Communists entered the government for the first time and headed three critical economics ministries. Thus a certain rapprochement between urban salary earning professional and managerial groups called 'cadres' in France, which generally voted 'socialist'; and the working class, which by and large supported the Communist party, was made possible.[186] That is to say, the new middle class professional

[183] See H.W. Ehrmann, *Organized Business in France*, *op. cit.*, p. 103.

[184] See R.F. Kuisel, *Capitalism and the State in Modern France*, *op. cit.*, p. xv.

[185] R.J. Barnet, *The Alliance*, Simon and Schuster, New York, 1983, p. 97.

[186] See P. Petit, "The Origins of French Planning: A Reappraisal," *op. cit.*

groups which had been denied their legitimate share in the 'protectionist' ruling class coalition of the interwar period did not hesitate to coalesce with the working class -- these two forces had earlier met each other in the resistance -- in a political coalition which was determined to undertake major structural reforms to undermine the power of the business class. Hence, in the short-run several direct state controls were established to diminish the role of the 'market' as an allocative mechanism: investment, credit, wages, prices, and foreign trade were all subject to varying degrees of state control.

Such tight regulations by the authorities, especially in the allocation of scarce raw materials and foreign currencies were reminiscent of the war years when the CO's undertook similar functions, and therefore could only be justified on the ground of scarcity and emergency. Nonetheless, given that 'business confidence' had lost its veto power over economic policy,[187] the left-wing coalition did not also hesitate to try to institutionalize long-range structural reforms such as nationalizations and economic planning. Both the Communist and the Socialist parties supported nationalization which was seen "as a form of democratic and patriotic retaliation against the alleged defeatist and collaborationist activities of the capitalist oligarchy."[188] In addition, some radical socialists argued that certain economic sectors were critical for the long-term performance of the economy, and therefore they had to be nationalized so as to enable the state to effectively control investment and to circumvent the veto power of the business class over its policies.[189] Consequently, nationalizations were taken in many industrial sectors such as electricity, gas and railroads; and several plants in different industries belonging to prominent collaborators were also nationalized (such as Renault). Thus, not only was a public sector created in the sphere of production, but also competition was made possible between public and private firms belonging to the same industry. Most significant for the capacity of the state to control the flow of funds to industry, all major deposit banks and insurance companies were also brought under public ownership. Thus the state could now use its control over the financial sector to add teeth to its plan, provided that it formulated a long-term program of economic modernization.

[187] F. Block, "The Ruling Class Does Not Rule," *op. cit.*

[188] R.F. Kuisel, *Capitalism and the State in Modern France, op. cit., p. 206,* p. 206.

[189] See *ibid.*, pp. 177-179, for the so called Philip report.

To put it schematically, in the eyes of the socialist reformers, planning and nationalization reforms were connected and planning would carry radical measures one step further towards the ultimate goal: socialism.[190] In order to achieve this end, socialist and communist parties resurrected the idea of a super Ministry of the National Economy (MEN) -- which was founded by the Popular Front government of the 1936-39 to reform the economy by circumventing the control of the orthodox Finance Ministry but had failed -- which would supervise the preparation of the plan and its execution. Moreover, in the autumn of 1944, this Ministry was placed under the direction of P. Mendes-France, the radical politician, who had the full support of the Left. Mendes-France embraced a Soviet style coercive planning by directly taking charge of the economic control machinery of the Vichy period in order to channel public funds into heavy industrial activities in the nationalized companies without the mediation of private businessmen. Yet this attempt to institute a socialist style of planning in France failed. This was so because from the very outset in 1944, the new Ministry of National Economy faced innumerable difficulties, as neo-liberals both in the administration and in DeGaulle's cabinet obstructed MEN's efforts to bend other ministries to its will.[191] Mendes-France was even denied help from economic administrations in his efforts to collect material for drafting a plan, and was forced to turn to Vichy's plan, the Tranche de Demarrage, for guidance. It did not then take very long for Mendes-France to resign when he also failed to obtain DeGaulle's endorsement for his project, and soon after his resignation in 1945 the MEN was dismantled and its remaining pieces were attached to its arch-rival, the Ministry of Finance.

As opposed to the Left, the neo-liberal President DeGaulle, on the other hand, embraced planning as a means to liberate the markets from the hold of special interests so as to create the most rapid expansion. Although he shared the Left's disdain for the 'existing' business class as a whole (as should be obvious from my quotations of him above), DeGaulle was not an advocate of collectivist solutions, either. He and the other neo-liberal reformers emphasized the necessity for the state management of the economy and systematic consultations between the investors and economic administrators in order to

[190] See *ibid.*, ch. 7.

[191] See R.F. Kuisel, *Capitalism and the State in Modern France, op. cit.*, pp. 191-202 for details.

remedy the disorders of the market economy and its institutional correlate, the Parliamentary supervision of industrial policy in the style of the Third Republic, that had *failed to modernize* France. Instead, they argued that in a new planned order the business class could no longer behave as it pleased as it had done before the war, and it could not deviate from the requirements of doing whatever is necessary to implement the state's long term industrialization strategy, which would be inscribed in a modernization plan. Yet above all, both the neo-liberals and the left agreed that the plan was a political device serving to forge a developmentalist alliance between the 'vital elements' of a nation who had come together in the resistance movement, and whose interests were pit against those of the 'special interests' crystallized in the protectionist bloc.

Given the endorsement of both the neo-liberals and the Left, the political stage was then ready for the institution of planning, and finally when it came, the planning reform turned out to be the product of a compromise that reflected technocratic goals in terms of its emphasis on productivity and scientific management, and socialist goals in terms of its emphasis on labor's participation in the preparation of the plan and the need for a redistribution of income in favor of economic growth. In fact, it was in December 1945 that, the neo-liberal reformer, Monnet, completed a lengthy memorandum for De Gaulle upon the President's request to argue that France had no alternative to planning if the nation wanted to occupy a privileged status in the world affairs and raise its standards of living. Accordingly Monnet warned De Gaulle that, "unless the government acted quickly before available resources were fully absorbed by other needs, economic interests would seek protection of the existing productive plant and the economy would crystallize at a level of mediocrity."[192] In political terms, Monnet was implying that unless the state acted quickly to speed up its demise, the 'protectionist' bloc could be resuscitated, and such a prospect would undermine France's economic position in the world markets by rendering the country chronically dependent on foreign aid which was necessary in the short-run given that the country was "in the *dilemma* that it must invest to increase its present insufficient output, yet this insufficient output provides no margin for investment."[193] The political solution proposed by Monnet in order to

[192] *Ibid.*, p. 223.
[193] *Ibid.*, p. 231.

deliver a serious blow to the protectionist bloc was that these retrograde elements should be bypassed in the preparation of a plan and instead all the 'vital elements' of the nation singled out as state officials, expert, dynamic and expansionist businessmen and trade unions as well should collaborate in its formulation through the medium of 'modernization commissions'. These so called 'modernization commissions' which would draft a new "Plan de Modernization et d'Equipment" would thus crystallize the forging of a new alliance opposed to 'protectionism' and the so called 'Malthusian' businessmen -- a widely used yet never defined term denoting protectionist attitudes -- was the least welcome. As said earlier, a double function was attributed to planning: it would become the microcosm of a new power bloc and it would design the 'industrial strategy'[194] to guide the action of other administrations during the implementation phase of this strategy.

Another interesting dimension of the plan entailed by the dismal economic conditions in the country was that it worked out partly to support French requests for American postwar aid by documenting the country's needs to the satisfaction of the Americans.[195] That is to say, as other war-torn European countries at the time, France too was applying for credit to enable her to procure raw materials and equipment for reconstruction and renovation. The political (basically the threat of Communist insurrection) and economic (the economic rehabilitation of Europe would boost massive sales of American goods abroad) motives behind American Marshall aid are treated elsewhere and need not be repeated here.[196] The crucial thing relating to French planning was that the funding of the first French plan was very precarious from the start, given that, as Monnet had pointed out, the insufficient output in the country provided no margin for investments. Yet American aid came to the rescue when "over one-third of planned investment in the years 1948, 1949, and 1950 was financed out of Marshall plan funds."[197] In this context, it is important to add that although Americans were lending the Marshall funds on a project-by-project basis to other countries, Monnet convinced them on the necessity to

[194] For the concept of industrial strategy see C. Johnson, *MITI and the Japanese Miracle*, Stanford University Press, Stanford, 1982.

[195] Three authors, S.S. Cohen, J. Sheahan and R.F. Kuisel who otherwise differ in explaining the economic and socio-political significance and implications of French planning refer to the 'American connection' as a major impetus to draw up a plan in France.

[196] See for instance F. Block, *The Origins of International Economic Disorder*, University of California Press, Berkeley and Los Angeles, 1977.

[197] See S.S. Cohen, *Modern Capitalist Planning*, *op. cit.*, p. 88.

channel the aid to France through the medium of a special capital equipment fund (Fonds de Modernisation et d'Equipment or FME) designed to finance the needs of the basic heavy industrial sectors singled out in the first plan as priority areas. In January 1948, the new FME was established under the joint control of the Treasury and the planning agency -- the CGP -- and thus, it became possible for the zenith of the economic administration to implement planning priorities without going through the mediation of parliament whose approval was necessary for the appropriations inscribed in the annual budgets. Moreover, necessary measures were taken to secure a continuous flow of capital to the new equipment fund even after the ending of Marshall aid, enabling the state managers to have direct leverage over investors so as to provide them with a capacity to implement the plan irrespective of what is going on in the political scene.

Externally, Monnet could count on the support of the Americans who were convinced on the necessity for a major overhaul of the French economy. Internally, the above-outlined 'vital elements' of the nation were counted on for continued support in the face of hostility by small producer groups in the city and the countryside and several 'protectionist' industrial sectors which were left out. The table below concerning the participation rates of the four major groups, i.e. that of workers, businessmen, state officials and professionals (the so called 'cadres') in the preparation of the first plan should indicate that under the impetus provided by the left-dominated governments, planning reform tried to institutionalize working class power. The major and communist-dominated trade union, the CGT, was in fact very eager to participate and gave its blessing to the first plan.[198] Moreover, CGT members headed four major modernization commissions, and in line with the Communist party's plea to the nation to initiate a 'production battle', CGT members fully endorsed the ambitious investment targets proposed by planners and sided with them when the plan came under attack on the grounds that its long-term modernization programs would cause a major inflationary thrust. Thus, working class support was a crucial ingredient for not only the origins, but also of the institutionalization of planning in postwar France. It is also interesting to add that trade unions did not shy away from defending the plan even if continued support entailed self-sacrifice. For example, when planners asked for it, workers agreed to

[198] See P. Mioche, "The Onset of the Monnet Plan: How a Conjunctural Enterprise Ended Up Becoming a Prestigious Institution," *Revue d'Histoire Moderne et Contemporaire*, V. XXXI, July-Sept. 1984. (in French)

extend the duration of the workweek beyond the legal forty hours with no bonus, in order to contribute fully to the county's reconstruction.[199] As a result, the legitimacy enjoyed by planners in the eyes of the so called 'social partners' or the 'vital elements' of the nation was enhanced.

Table 3

The participants in the Commissions of Modernization for the Monnet Plan (18 commissions, approximately 300 people)	
CGT	17%
CFTC	3%
Employers federation (CNPF)	31%
Administrators	29%
Experts and others	20%
	100%

Source: P. Mioche, "The Onset of the Monnet Plan: How a Conjunctural Enterprise Ended Up Becoming a Prestigious Institution," *Revue d'Histoire Moderne et Contemporaire,* V. XXXI, July-Sept. 1984, p. 412.

While the structured relations between the ruling groups and the subordinate strata were undergoing a major transformation, the cracks within the ruling-coalition began to deepen. The varying attitudes of the 'protectionist' power bloc members vis-a-vis the incipient planning system provide us with a yardstick to measure both the deepening fissures and the crystallization of new realignments. Small business personified by M. Gingembre, who had founded the federation of the "Petites et Moyennes Entreprises", CGPME was vehemently opposed to planning, and R. Gingembre denounced the work of the CGP "as an enterprise of a technocracy without interest to the masses of businessmen."[200] He was certainly perceptive in that several economic measures -- such as a new taxation system -- that were discussed in the planning commissions were deliberately fixed in such a way as to make it difficult for marginal, inefficient producers to survive.[201] Thus for most small businessmen, artisans, and farmers, the new state interventionism symbolized by planning meant that internal and external protectionism characterized by various subsidies which had shielded them from the ravages of a competitive market economy would end, and therefore the prospects of bankruptcy was looming on the horizon.

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[199] R.F. Kuisel, *Capitalism and the State in Modern France, op. cit.*, p. 236.

[200] H.W. Ehrmann, *Organized Business in France, op. cit.*, p. 288.

[201] See J. Sheahan, *An Introduction to the French Economy, op. cit.*, Ch. 7.

Most interesting was the attitude of the industrial bourgeoisie relating to planning. As claimed before, the intra-class conflicts intensified when certain industries who were singled out in the first place as 'industries of the future', cooperated with planners, while others either remained on the sideline, or were opposed to the whole affair. The umbrella organization for the whole industry, the CNPF, reflected the ambiguous and conflictual interests of its members by leaving it to the individual members to decide whether to espouse or to attack collaboration with the CGP.[202] In general terms, business was divided along both intra and inter-sectoral lines. In global terms those industries profiting from the plan, such as steel, electrical equipment, shipbuilding and petroleum, proved valuable allies; while neglected industries such as road transportation, construction, and textiles became outspoken opponents. Yet within these industrial sectors attitudes were far from uniform and for good reason. In fact, while 'trade associations' represented whole industries such as textiles or machine-tools, Monnet was unwilling to accord them any official status by inviting their presidents to the modernization commissions. Instead, unlike the trade unions, "business representatives on the Modernization Commissions were invited individually rather than as spokesmen for their organizations."[203]

This was so because given the brief dominance enjoyed by planners at a time when the business class had lost its veto power, and links among major interests were in flux, it was possible to treat only those business interests that were considered to be 'progressive' with special care, while acting with disdain towards the 'Malthusians'. In practice such selectivity meant that in a given industrial sector, bigger firms which could afford utilizing the most advanced machinery and production methods were chosen as 'social partners', whereas small firms were left out. Thus, although globally the CNPF which represented both small and big companies adopted a negative attitude, *some segments of the industrial class* -- heavy industrial sectors more than others, and bigger firms rather than smaller firms -- were eager to assume a 'modernist' stance and participate actively in the preparation of the plan. In socio-political terms this meant that the industrial class had now been split in two, and while one segment remained loyal to the 'protectionist' allies; the other, 'dynamic' segment, under the influence of two

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[202] H.W. Ehrmann, *Organized Business in France, op. cit.;* also P. Mioche, "The Onset of the Monnet Plan: How a Conjunctional Enterprise Ended Up Becoming a Prestigious Institution," *op. cit.*

[203] See H.W. Ehrmann, *Organized Business in France, op. cit.*, p. 285.

diverse motives did not hesitate to break away. As suggested before, both a perceived threat posed to the whole system by a potentially successful 'labor-professional middle class' alliance; and the prospects of increased return via state support of new investments weighed on the decision to split away. Consequently, a new 'modernization lobby' was being formed,[204] and for the moment, in 1946, planners were at the very center, playing the role of a 'central crystal' around which all 'vital forces' of French society had taken their place in perfect symmetry.

The preceding discussion can be mapped out by using the same symbols that I developed for Figure 1. Yet, it should be emphasized that the 'modernization bloc' depicted below in Figure 2 was an ephemeral construct. That is to say, the alliance between the proletariat and the manufacturing industry, mediated by the 'new' state managers (planners above all) did not survive the onset of the Cold War in 1947. Nonetheless many relations forged in this early postwar period both among social classes and between them and the state remained intact and set the parameters of the postwar economic development in France. (See Figure 3 for the conceptualization of the post-second war 'historical bloc' in France.)

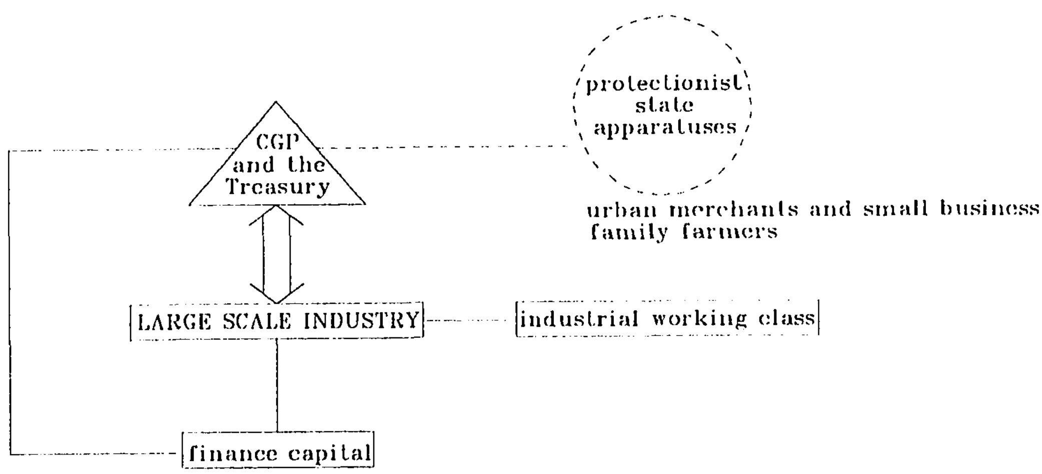

Figure 2: The Transitional 'Modernization Bloc' in France

In the bloc formation represented above, the large scale industry primarily specialized in heavy and intermediate goods sectors, characterized by the use of advanced technology and high degrees of

[204] For a similar argumentation see A. Lipietz, "Which Social Forces Are For Change?", *Telos*, No. 55, Spring 1983.

concentration was hegemonic. A very special relation existed between the core state apparatuses and the large-scale manufacturing industry, as the representatives of heavy industrial sectors were admitted to the modernization commissions as 'social partners' and consequently profited from their exclusive access to planners by securing a continuous flow of capital for their investments at a time when capital was the scarcest resource. Planners did not manage the special capital equipment fund -- the FME -- themselves, but designed the industrial policy and implemented it jointly with the Treasury Department of the Finance Ministry. The banks were nationalized and their credit decisions were subjected to the planners' approval. Thus, in sharp contrast with the interwar period, finance capital did not enjoy autonomy and its interests were subordinated to those of industrial capital. The industrial working class, in its turn, was part of the bloc, as CGT members headed some modernization commissions and endorsed some ambitious investment target in labor intensive fields, and the proletariat as a whole was represented by the Communist Party in the government and benefited from new and liberal social legislation.

The main beneficiaries of the interwar protectionist economic policies, the urban and rural petite bourgeoisie, were distinct losers. Producer cartel arrangements which shielded these groups from the effects of economic competition were dismantled, and they could not penetrate the inner 'core' of the state economic administration. The state apparatuses which were responsive to the demands of the petty bourgeoisie were in disarray, and most notably, the parliament was bypassed both in the formulation and implementation of economic policy. Yet, as we will see later, the postwar reformers could not divide the petite bourgeoisie from industrial capital. In fact, as soon as the exceptional situation of the immediate postwar years ended and the business class regained its 'veto' power over state interventionism, the 'old' alliance between small and big business was resurrected. Nonetheless, by then, many reforms of the early postwar years were institutionalized and the petty bourgeoisie did not have any choice but accept the hegemony of the industrial bourgeoisie (Figure 3).

Successful Implementation of the Monnet Plan and the Institutionalization of Planning

In general terms, the Monnet period of planning lasted into the early 1950's; it concentrated on a program of capital investment in six 'key' industries, i.e., coal, electrical power, iron and steel, cement, transportation and agricultural machinery. The overarching aim was to increase the productive potential of these 'heavy industries', on which the increase in all other forms of industrial output was believed to depend. Therefore, on the supply side, the Soviet planning experience in the Stalin period inspired the first planning model in a capitalist country,[205] in the sense that planners assigned physical production and investment targets for these 'commanding heights of the economy' to be attained in a period of five years. On the demand side, the main source of inspiration came from the Keynesian income theory which argued that a high rate of investment expenditure in basic industry would sustain and enlarge demand in other economic sectors.[206]

The important thing in judging the 'capacity' of planning is that, planners at the immediate aftermath of liberation were not only able to formulate a 'selective' industrial strategy, but through their control over investment funds -- the FME -- they were able to exert a powerful influence on the direction of investment. In fact, the private capital market was virtually non-existent, and the self-finance capacity of the private sector to finance its own investments was very low, given that the German occupation had seriously weakened the production potential of the industry. Under these conditions, during the period 1947-52, public funds accounted for 45% of total investment expenditure carried out in accordance with the objectives of the plan. At the same time, 15% of the investments were financed by subsidized credits extended by the nationalized banking system; and thus only two fifths of the investment funds came from the retained earnings of business firms (32%) or from long-term security issues in the meager private market. Overall, both the nationalized and private enterprises depended on the FME funds, while the private sector drew more extensively on the subsidized credits extended to them by the financial sector, on the condition that planners and Treasury officials approved of them first (see Table 4).

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[205] See A. Shonfield, *Modern Capitalism*, *op. cit.*, p. 126.

[206] W.C. Peterson, "Planning and Economic Progress in France", *op. cit.*, p. 353.

Table 4

Investment Expenditure: 1947-1952 (in billions of francs, 1952 prices)							
	Total		Source of Funds				
Sector	Expendi-ture	Per-cent	Retained Earnings	Security Issues	Public Funds[a]	100 x Public Funds / Total Expenditure[b]	Other[c]
Nationalized Industries							
Coal mines	539.1	10.8	96.8	39.3	339.0	62.9	64.0
Electricity	847.7	16.9	123.0	103.0	556.1	65.6	65.6
Gas	88.8	1.8	48.1	-	37.7	42.5	3.0
Railroads	184.8	3.7	12.0	8.0	156.8	84.8	8.0
Airlines	59.8	1.0	6.4	-	41.4	81.5	3.0
Total	1,711.2	34.2	286.3	150.3	1,131.0	66.1	143.6
Private and Mixed Enterprise							
Rhone River Power Authority	128.6	2.6	9.6	19.5	52.5	40.8	47.0
Iron and steel	341.0	6.8	105.7	24.3	116.0	34.0	95.0
Petroleum	223.4	4.7	163.0	25.0	17.7	7.6	27.7
Other industries[d]	588.0	11.8	243.1	140.3	8.5	1.4	196.1
Agriculture	918.3	18.4	405.3	20.0	277.0	30.2	226.0
Inland waterways	20.8	0.4	4.9	-	1.0	4.8	14.9
Merchant marine	6.3	0.1	-	-	6.3	100.0	-
Total	2,236.4	44.8	931.6	219.1	479.0	21.4	606.7
Overseas Territories	1,053.0	21.0	366.8	20.6	637.4	60.5	28.2
General Total	5,000.6	100.0	1,584.7	390.0	2,247.4	44.9	778.5

a. Includes funds from the modernization and equipment fund, treasury, and the budget.

b. This column has been included by the author.

c. Includes bank credit and loans from special organizations.

d. Includes nonferrous metals, cement, chemicals, paper, artificial textiles, and industries producing electrical and mechanical equipment.

Source: W.C. Peterson, "Planning and Economic Progress in France," *World Politics*, V. IX, No. 3, April 1957, p. 356.

By 1952 most of the plan's targets were attained or nearly attained. Given that, in 1947, business associations and foreign observers alike had declared the targets as 'overly ambitious' and 'unrealistic', this was quite an achievement.[207] In fact, only 'tractor manufacture' lagged behind, reaching only 63% of the target for the industry. The remaining five industrial sectors did pretty well. Coal production reached 95.7% of the planned output, and electrical power and steel production reached 95% and 87% respectively. Both cement and petroleum production, on the other hand, exceeded their goals by about

[207] See "Opinions and facts collected from the French and foreign press concerning the Monnet Plan," *Revue du Ministere de l'Agriculture*, No. 1, January 1947. (in French)

5%.[208]

Gauging the plan's effectiveness from the degree to which its explicit targets are realized can only provide us with a partial judgement since these indicative targets are generally kept high on purpose by planners as something to shoot at. The major criterion I am advancing instead to evaluate the effectiveness of planning is that, planners are effective if they can alter the investment decisions of economic actors by compelling businessmen to cooperate with them primarily through their control of the flow of funds to industry. It is only then that state interventionism might *bypass* the markets in order to promote selective investment projects, or it might *free* the markets so that competitive forces can function more vigorously. Thus planning can become an effective instrument to promote certain partners to a hegemonic position in the ruling class alliance via selective promotion, while weakening other entrenched interests labeled as 'Malthusians' via removing state subsidies protecting them from the ravages of a market economy. It is because most observers miss this distinction between the dual functions of planning that planners are either perceived as pro-market liberals,[209] or as socialist-dirigistes,[210] while in reality they may be both or neither.

To illustrate with an example, during the lifetime of the Monnet Plan in France, planners campaigned against all forms of internal and external protectionism shielding the inefficient, mostly small, producers in agriculture and in industry. This campaign was partly successful and an anticartel legislation seeking to remove blockages (i.e. fixing prices and shares of various firms in a given product market) caused by producer cartels passed in 1952.[211] Thus, the survival of marginal producers was made difficult. But, in the meantime planners vigorously sought to 'modernize' the steel industry which was one of the six key sectors identified by the plan for selective promotion. To this end, the planning agency prepared a detailed program "calling for concentration of facilities in larger plants capable of using modern techniques to full advantage."[212] Thus, while the CGP was campaigning against the pro-

[208] W.C. Peterson, "Planning and Economic Progress in France," *op. cit.*

[209] See for example P. Herzog, "For a democratic, national, decentralized and contractual planning," *Economie et Politique*, March 1982. (in French)

[210] Such is argued by many neo-classical economists such as B. Balassa, M. Friedman and F. Von Huyek who otherwise disagree on many issues.

[211] H.W. Ehrmann, *Organized Business in France, op. cit.*, Ch. VIII.

[212] J. Sheahan, *An Introduction to the French Economy, op. cit.*, p. 30.

duction ententes (cartels) in some areas, it was simultaneously seeking for mergers in others.

In this context, the claim I am advancing is that such was not a contradiction to blame planners for, as many researchers do; but the gist of planning lies in the fact that when planners, as good traffic policemen, use their whistle to give the go ahead signal to some investors at the expense of others, they believe they do this to prevent the whole economy from going into a jam, i.e. traffic coming to a grid-lock where nothing can move in either direction because everybody wants to be first. The important thing for France then was that planners did have both their whistle in the form of FME funds, and their carrots in the form of various incentives such as subsidized credits and tax cuts. As a result, in their chosen field, the steel sector, they were able to exert efficient pressure upon investors who were reluctant to merge by using both carrot and stick methods. More specifically, planners first asked the steel companies to formulate investment proposals to meet production targets; the replies indicated that most companies intended to rebuild plants in much the same location to provide the same product mix, with the same scale of production, as before the war.[213] Planners rejected this approach in the name of progress towards greater specialization and concentration among the smaller producers in order to minimize costs and maximize both the production and export potential. Accordingly in some individual cases, they resorted to incentives by giving preferred access to credits to steel companies willing to expand their production capacity. Yet when some industrialists refused to cooperate other methods were used to convince reluctant businessmen. For example, "the staff of the Commissariat (CGP - V.M.) was able to play one industry group against the other: when for fear of over-production the Wendel group of the steel industry refused to install a continuous strip mill, the companies located in the north of the country and grouped in the USINOR combine eagerly availed themselves of the opportunity to outdistance the production of their competitors. This led to similar modernizations and a reorganization of the eastern companies into the SOLLAC and SIDELOR combines."[214]

A final question remains. That is to say, how can one explain the fact that the planning reform was successfully institutionalized and that planning was not abrogated after the business class regained

[213] *Ibid.*, and A. Shonfield, *Modern Capitalism*, *op. cit.*, Ch. 7.

[214] H.W. Ehrmann, *Organized Business in France*, *op. cit.*, pp. 287-288.

its veto power on state economic policies? In fact, after the onset of the cold war, business began to reorganize in France, while the success of the Marshall Plan and the cold war deeply divided the Left. The expulsion of the Communist Party from the governing coalition in 1947 led to the withdrawal of the trade union supporting this party, the CGT, from the planning process although the other trade union federations refused to follow suit. The discredited 'special interest' groups, on the other hand, began to organize. Some observers feared the the Fourth Republic had fallen prey to interests like "beet growers, steelmakers, and home distillers. Governments were vulnerable; specialized parliamentary committees became colonized . . . by the end of the 1950's private interests staffed almost 5000 consultative committees, councils or tripartite boards."[215] Most significantly, organized labor remained at the periphery of these network of growing bilateral relationships between various interest groups and the state administrators, and moreover due to intense rivalries among them, trade unions gradually "lost control of the governing boards of the nationalized enterprises in the 1950's and even drifted away from their *ministere de tutelle,* the labor department."[216] But a year before the withdrawal of CGT from the planning process, the peak business organization, the CNPF, was created in June 1946 as a federation of business associations. This confederation developed fully in the late 1940's and "covered 50 to 60 percent of total employment and 90 percent of capital installed. As early as the 1951 elections, where organized business subsidized some candidates, business lobbies were able to influence parliamentary decisions. This restoration of influence gave business a means, if need be, to resist the persuasive power of the planners."[217]

Yet planning remained as am important influence on resource allocation and market forces were not allowed to affect resource allocation, especially in the heavy industrial sectors. Why? Earlier, in the introduction of this chapter, I criticized Block's circular argument explaining the institutionalization of *some* labor induced reforms instead of all of them. Block had argued that the reforms which are most beneficial to aid the capital accumulation process would be retained without providing us with a non-teleological criterion to evaluate the usefulness of reforms for the economic system. Block's failure

[215] R.F. Kuisel, *Capitalism and the State in Modern France, op. cit.*, p. 258.
[216] *Ibid.*, p. 259.
[217] P. Petit, "The Origins of French Planning: A Reappraisal," *op. cit.*, p. 74..

stems from two basic reasons. *First,* he overlooks the capacity of state managers, under certain historical conditions, to influence or even determine investment behavior of businessmen. *Second,* he conceives of the business class as a static and conflict free entity and does not take into account the ability of state managers to play off some industrial sectors against the others, thus creating allies for them. To start with the former issue, Block underestimates the capacity of state managers for diminishing, if not totally circumventing, the effects of business confidence as a veto on state policy in 'normal times'. In fact, in post-second war France, such a situation was made possible when nationalizations and state control of the financial system definitely contributed to a shift in the balance of forces between the state and business groups. Consequently planners were provided with a considerable leverage to influence corporate investment decisions. In general terms, planners consolidated their power via a policy of 'exceptionalism' and *thus they did not leave any choice to business groups but to cooperate.* That is to say, by using their control over the financial markets and by resorting to price controls, planners, in cooperation with the Treasury officials, put "French firms in relatively difficult market positions that force them to come to the state for capital or for *relief from general regulation.* In exchange for granting exceptions to such firms the state secures their agreement to operate in accordance with its overall industrial strategy."[218]

Could investors simply ignore the planners' incentives, and undertake a major investment project without the plan's approval or support? Earlier I outlined some of the stick and carrot methods used by planners to convince reluctant businessmen. Especially during the lifetime of the First Plan, investors did *not* have any choice given that capital markets were rudimentary and self-financing extremely low (see Table 4). But even by 1960 self-financing as a percentage of total investment was merely 44%, thus impelling businessmen to continue heeding planners' advice.[219] The same year, a single investment project could still receive a package of incentives, which could include:[220]

a loan of investment funds at 4-5% (instead of 8%).

tax reductions on that portion of capital raised in the market: a sum equal to 5% of an approved increase in capital can be subtracted from profits tax for a period of up to seven

[218] P.A. Hall, "Economic Planning and the State: The Evolution of Economic Challenge and Political Response in France," *op. cit.*, p. 180 (emphasis added).

[219] S.S. Cohen, *Modern Capitalist Planning, op. cit.*, p. 22.

[220] *Ibid.*, p. 24.

years. On an issue of one million francs, the advantage comes to 175,000 francs.

state guarantees of loans in private market.

reduction of building taxes from 13.20% to 1.40% for construction needed for industrial regroupings, conversion or regional development.

accelerated depreciation rates of up to 50% in the first year for investment in scientific and technical research.

accelerated depreciation rates (up to 50% in the first year) for workers' housing to accompany new industrial developments.

accelerated depreciation allowances for firms which are awarded a *Carte d'Exportateur* (over 20% of business goes to exports).

subsidies for equipment of up to 10-20% of costs for plants located in specially designed regions.

Finally, it needs to be added that planners in France -- unlike the Turkish planners -- were very *selective* in the distribution of incentives to industrial projects.[221] Thus, it became possible for planners to create allies for themselves from among the business class by playing off certain sectors against others by providing access to investment funds to certain industries at a time when capital was scarce and business did not have the capacity to self-finance. It was *not* possible for the 'excluded' private interests to bypass planners and receive direct benefits from other key state administrations either, since planners' approval was sought for all medium to long-term loans issued by various banks to individual firms. Hence the CGP and the Treasury together have established a tight control over the French credit system, thanks to postwar reforms. In addition, although the special capital funds such as the FME were controlled by the Treasury and not the CGP, the collaboration between these two 'core' agencies in the postwar period was exemplary. (More detail will be given in the next section.) Consequently, "French firms have learnt that it is not worth putting up a scheme for a loan of any size to their bank without clearing it first with the Commissariat (i.e. the planning agency - V.M.)."[222]

To sum up, French planners became successful by being instrumental for elevating a certain segment of capital to a position of hegemony in the power bloc. In the meantime the balance of power both between the state and business groups and also within the power bloc shifted. The former shift which was made possible when the working class achieved a breakthrough in power proportionate to business' decline both in power and prestige preceded the latter one; and subsequently in

[221] See R. Penaud and F. Gaudichet, *Financing, Selectivity of Credit and Monetary Policy*, Economica, Paris, 1985. (in French)

[222] A. Shonfield, *Modern Capitalism, op. cit.*, p. 169.

contradistinction to the interwar state, the postwar French state acted to create the most rapid expansion of capitalism. The planning commission, in its turn, not only became a microcosm of the incipient 'historical bloc', but it was also "widely recognized as an effective conduit reinforcing the voice of industrial capital within the state and articulating its demands for expansionary economic policy."[223] To illustrate the latter claim with an example, when, shortly before the outbreak of the Korean War, in 1952 parliament sought to curtail modernization credits, the industries that were particularly benefiting from the plan, "such as steel, electrical equipment, shipbuilding, and petroleum, proved valuable allies of the Monnet office in its eventually successful efforts to have the credits restored."[224] Thus, first thanks to the capacity of planners to circumvent 'business confidence' in the early postwar period, and second thanks to their ability to create vested interests in society by playing off some sectors of business against the others, planning was institutionalized and the First Plan was successfully implemented. In fact, in contrast to the interwar period, and starting by the onset of the Monnet Plan, 'industry' became the fastest growing sector of the economy (Table 5), and within this sector, investment in intermediate goods sectors achieved a preponderant influence. The rate of investments also increased to almost 20% in 1949, from its quite low average level of 12 to 13% in the interwar period (see my Table 3 in the introduction). Thus a major obstacle which impeded rapid economic growth was irreversibly broken, and now France was ready to take its privileged place in the international economic division of labor.

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[223] P.A. Hall, "Patterns of Economic Policy: An Organizational Approach," in S. Bornstein, *et al* (eds.), *The State in Capitalist Europe*, Allen and Unwin, London, 1983, Ch. 2.

[224] H.W. Ehrmann, *Organized Business in France*, *op. cit.*, p. 290.

Table 5

Indices of Production, Major Industrial Divisions, 1946-49 (1938 = 100)					
Sector	1946	1947	1948	1949	Index 1949 (1946=100)
Agriculture	83	85.5	91.5	99	119
Industry	77	87	103	109.5	142.5
Services and building	91	99	109	115	126
Total	81	89	102	109	134

Source: J.J. Carre, P. Dubois, and E. Malinvaud, *French Economic Growth,* Stanford University Press, Stanford, California, 1975, p. 26.

Partly in the light of what has been said so far, and partly at the expense of running slightly ahead of our story (see the next section on development), it may now be possible to conceptualize the power bloc in France. This bloc formation pictured below corresponds to the postwar years starting roughly after the onset of the Cold War in 1947 (which was also the year when the economic impact of the plan was first felt) and still surviving, albeit with some minor changes (see the section on deplanification). It is different than the 'transitional' modernization bloc (Figure 2) in two basic ways. *First,* throughout the 1950's and 1960's planners pursued an aggressive and extroverted industrialization strategy in intermediate and capital goods sectors, according priority to economic rationalization and rapid growth, hence directing resources into industrial investments in the heavy industry and *export sectors,* rather than into traditional consumer durables and nondurables. Thus certain sectors composing 'large scale industry' in Figure 2 were pitted against each other throughout the post-second war period and the export oriented sectors in high technology fields received more benefits from the state than the domestic market oriented sectors. *Secondly,* the petty bourgeoisie renewed its interwar alliance with industrial capital (Figure 1), although this time under the sway of the latter. That is to say, small and less efficient production units have come gradually to serve as suppliers to big industrial firms and the economic viability of small capital both in urban and rural areas depended on its ability to adjust the size of its workforce to short-term fluctuations in demand.

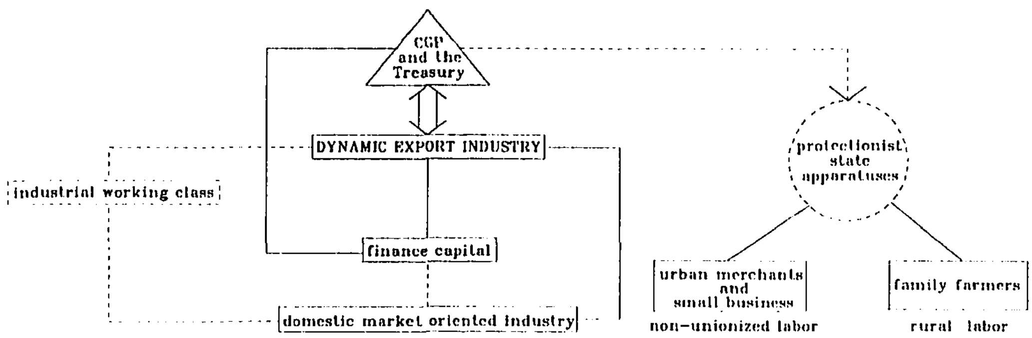

Figure 3: The Post-Second War 'Historical Bloc' in France

As seen from this figure, a very special relation existed between the core state apparatuses and the dynamic sector, as the CGP designed the industrial policy and the Treasury intervened selectively via fiscal resources under its control to enhance profitability and competitivity of these industries, be in private or public hands. In addition competition in these sectors among various firms was also manipulated by the state as it organized competition via forced mergers and certain exemptions from price regulations, to create an oligopolistic and politically controlled market. Nationalized commercial banks (finance capital), on the other hand, were primarily responsive to the needs of dynamic industrial sectors as the Encadrament de Credit system[225] and the close supervision of the *Banque de France* by the Treasury, through their joint participation in the National Credit Council, subordinated 'monetary' policy to the needs of industry. The old industrial bourgeoisie, on the other hand, that primarily produced for the internal markets never enjoyed privileged access to the state as it did during the first half of the 20^{th} century. Profits in consumer nondurables such as textiles, clothing and leather goods and certain branches of capital and intermediate goods, such as steel and machine tools, remained low due to both excessive competition uncontrolled by the state and the lack of access to subsidized credits. Yet, even these sectors had access to short to medium term commercial bank lendings, albeit they could only bor-

[225] Encadrement de Credit (EC) system referred to the leverage used by the Treasury over the banks to manipulate the flow of funds to industry. To simplify, a ceiling was established for each bank to regulate the maximum amount of credit they could lend to the private sector. Then, the intersectoral flow of credit to industry was manipulated by government officials as they created *exemptions* form EC rules for certain categories of lending. That is to say, when the state exempted certain industrial high tech sectors geared to exports from *encadrement* rules, commercial banks' loans to these industries did not count towards the fulfillment of their respective credit quotas, therefore exemptions from the EC system favored the concentration of credit in these selected areas in accordance with the state's industrial strategy.

row from the market rates. An expansionist 'fiscal' policy, on the other hand, benefited both the new dynamic, and the old and internal market oriented segments of industrial capital in different ways, as increasing real wages benefited the old bourgeoisie by finding new market outlets for its products, and as the state itself became a major buyer for the products of the dynamic sector, especially high tech military equipment. As a result, although the 'social wage' remained low, real wages were steadily increasing and in this sense French labor had a stake in this particular industrialization strategy, although it was excluded from access to the core of the state. Finally, below the core apparatuses of the state used to lie a multiplicity of peripheral apparatuses (such as certain technical ministries, the ministry of labor, of agriculture and the parliament) that were loosely connected to the core, yet had direct access to their 'petty bourgeois' clientele consisting of shopkeepers, merchants and the operators of small businesses in the cities and family peasants in the countryside. In a way, subsidies and tax relief to the petty bourgeoisie detracted from potential resources available for productive investments, and the political need to integrate small business limited the ability of the French state to move resources from declining to expanding sectors of the economy. In this sense, small capital was part of the 'historical bloc', albeit in a subordinate position, retreating to certain -- and as we will see gradually shrinking -- apparatuses of the state. A considerable segment of the working class in its turn, that was employed by small capital and mainly composed of North African immigrants, could not benefit from minimum wage legislation, and in this sense nonunionized proletarians both in the cities and the countryside were distinct losers given the political-economic arrangements that I have been outlining.

4. TURKEY

Patterns of State-Economy Relations: 1923-1939

When Turkey emerged as a new Republican nation in 1923 from the rubbles of the collapsing Ottoman empire and following a successful war of independence against the Greek army that had occupied the country under the benediction of France and Great Britain, the *balance of classes* at the birth of the new Republic dictated a continuity rather than a rupture with the internal socio-economic arrangements of the recent past as well as external economic links with the West.[226] That is to say, the Turkish liberation movement that constituted the basis of the new state had drawn its support mainly from small property owning classes both in the cities and the countryside such as local notables, landowners, merchants and civil or military bureaucrats. The urge to prevent what was propagated by the Allies, i.e., a return of non-Moslem landowners to Anatolia whose lucrative properties had been confiscated by Moslem notables in the aftermath of the Balkan Wars (1912-1913), provided the rallying motive which mobilized all property owning Moslem groups around a program of national independence, and under the leadership of the disbanded bureaucracy and the Ottoman army and pitted against the victorious powers (the Allies). Consequently the class composition of the liberation movement largely determined the nature of the new state's economic policies once the Republic was founded as a one-party regime governed by the Republican People's Party (RPP). In fact, it was RPP whose clandestine organizations had provided leadership and coordination to various resistance movements during the independence struggle that had mushroomed across the country among those strata of the population whose economic interests were most threatened by foreign occupation. Therefore, in social terms the War of Liberation culminated in what can be called a National Democratic Revolution supported by the national bourgeoisie and carried by the military and bureaucratic groups who provided the leadership via the medium of RPP.

Two specific features of the class structure in Turkey at the very outset of the young Republic, and which were the results of the internal dynamics of the Ottoman society as well as its increasing

[226] There is a growing consensus among Turkish scholars on this issue. For a recent and comprehensive analysis see C. Keyder, *State and Class in Turkey*, Verso, London, 1987.

contact with the West in the Eighteenth and Nineteenth centuries should be emphasized. First, while more than 80% of the population lived in the countryside, small and owner-cultivated peasant holdings was by far the predominant unit of agrarian production -- due to the peculiar relations between the Ottoman state and agrarian producers that had prevented the dissolution of the petty commodity production[227] -- thus both a landholding nobility and landless peasantry were largely absent. Second, small peasants were mostly brought within the orbit of market relations throughout the Ottoman empire in the nineteenth century as the industrial revolution in the West had stimulated demand for a variety of cash crops produced in Anatolia. Thus as a result of the growing marketization of segments of the agricultural sector, (non-Moslem) merchant capital had acquired substantial control over the production process in agriculture. Therefore, although the birth of the republic in 1923 was accompanied by large scale population movements as Moslem merchants from former Ottoman territories now captured by Russia came as immigrants to replace the deposed non-Moslem merchant class, the nature of the Turkish economy and its location in the world economy remained unaltered in 1923.[228] *That is to say, it was a fundamentally agrarian economy with a negligible industrial sector, exporting agricultural commodities and raw materials to pay in return for its imports of manufactured consumer goods.*[229]

Government economic policies throughout the 1920's under the new state were in fact designed to consolidate this particular economic pattern of market dependency on the West by encouraging export agriculture. Foreign capital was welcome in the Turkish economy, which, through trading ventures, merchant houses and banks, directly participated in the distribution of credit to support and organize export-oriented agriculture.[230] The state, in its turn, established the Agricultural Bank and doubled its credit to farmers between 1924 and 1930.[231] In addition the state used its own resources to build an

[227] In English the best work on the political economy of the Ottoman state in the early period is written by H. Inalcik, *The Ottoman Empire: The Classical Age*, New York, 1973. The first two chapters by C. Keyder, *ibid.*, provide a good summary of the literature.

[228] For the extent of population movements at the beginning of the new Republic see C. Keyder, *ibid.*, Ch. 4.

[229] In 1914, for instance, 45 percent of exports consisted of agricultural commodities and 38 percent of raw materials. On the other hand, 60 percent of imports were manufactured commodities and only 7 percent were raw materials. See *Fifty Years of Social and Economic Development in Turkey*, The State Statistical Institute Publication, Ankara, 1973 (in Turkish).

[230] For the 1923-1929 period the definitive work is C. Keyder, *Turkey in the World Economy: 1923-1929*, Yurt Editions, Ankara, 1982. (in Turkish)

[231] In fact agricultural credit increased from TL 17 million in 1924 to TL 36 million in 1930. See R. Margulies and E. Yildizoglu, "Agrarian Change: 1923-1970" in I.C. Schick and E.A. Tonak (eds.), *Turkey in Transition*, Oxford U.P., Oxford, 1987, p. 273.

extensive road and railway network[232] in order to facilitate the transportation of the five major export crops which were cotton, tobacco, figs, raisins and hazelnuts. As a result, total agricultural output, in fixed prices, increased by 115 percent between 1923 and 1929 while the production of export crops rose even more substantially.[233] Accordingly, while the producers of exportable cash crops and urban merchants benefited from the state's economic policies, the economy became overly dependent on export revenues generated by the agricultural sector alone.

The inconveniencies of the excessive dependence on foreign markets were highlighted when, starting in 1929, the commercial sector suffered a drastic backlash because of the recession in the West called the 'Great Depression' and subsequently market prices of Turkey's five major export crops fell by 50 percent or more in just three years.[234] Exports as a whole fell by 30 to 40 percent during the same period and correspondingly the imports fell by half between 1929 and 1936 leading to a drastic contraction of the domestic market. Merchants and cash crop producers suffered dramatic setbacks in economic power as foreign trade opportunities declined and as a result many farmers switched to subsistence crops such as cereals when merchant credits ceased to finance their operations.[235]

The response of the Turkish state to the crisis took the form of a crucial break with the Ottoman past when the economy was integrated in the world system as a supplier of raw materials, and instead the state shifted away from export agriculture and became actively involved in production through the State Economic Enterprises (SEE) as well as in financing industry and agriculture through the state banks. Although this situation was not peculiar to Turkey, and in many Latin American countries an overall framework of import substituting industrialization (ISI) was adopted with state investment constituting the driving force to counter the deleterious impact of the depression on the economy, policy responses in Turkey to the Great Depression differed from Latin American countries[236] in many respects due to differences in class structure. That is to say, because a landholding oligarchy that was

232 Roads increased from 18,335 kilometers in 1923 to 22,053 km in 1927 and 29,636 km in 1930; during the same period, railways increased from 3,756 km to 5,639 km. See R. Margulies and E. Yildizoglu, *ibid.*, p. 286, footnote 7.

233 R. Margulies and E. Yildizoglu, *ibid.*, p. 273.

234 See D. Avcioglu, *The Social Order of Turkey*, Tehin editions, Istanbul, 1976, p. 484. (in Turkish)

235 C. Keyder, *State and Class in Turkey, op. cit.*, p. 101.

236 The standard reference work on Latin America written from a neo-dependency perspective is F.A. Cardoso and E. Faletto, *Dependency and Development in Latin America*, University of California Press, Berkeley and Los Angeles and London, 1979.

also engaged in foreign trade was absent, the response to the crisis in Turkey did not take the form of a middle class rebellion under the leadership of the urban industrial sector, against a narrow-based hegemonic bloc of foreign merchant capital and the landed oligarchy. On the contrary, neither a sizable industrial sector nor an urban proletariat was present in Turkey as effective political actors that would provide the social dynamics behind industrialization and the rapid expansion of internal markets. Yet, by the same token, the state did not have to face vigorous opposition to its policies from the landed oligarchy as was the case in Latin America and therefore it could become involved in all branches of the economy without much opposition. Consequently an extensive industrialization drive known as *etatism*[237] was formulated and it featured four main economic characteristics.

First, etatism was based on the protection of the domestic industry from foreign competition. To this end, in 1930, the government created a national Central Bank and all transactions in foreign exchange were monopolized by this bank. Accordingly, as the government wanted to promote the consumption of locally produced goods, the import of most consumer goods was prohibited or restricted through quotas. *Second,* the state supported the creation of a national industrial sector based on ISI via fiscal and monetary means. A new private bank (the Is Bank) which was created in 1924 was officially promoted under the auspices of the President himself as this bank in 1937 came to hold 38 percent of the deposits in national banks[238] and became instrumental in advancing loans to industry. This bank held shares in all the new firms created during the 1930's to substitute for the import of consumer non-durable goods, while the state officials themselves became entrepreneurs as in 74.2 percent of all manufacturing firms established between 1931 and 1940 the founding entrepreneurs were bureaucrats.[239] *Third,* the state itself became a major producer of intermediary goods such as copper, ceramics, chemicals and paper although light manufacturing areas were left to be exploited by the new industrial bourgeoisie, with the exception of textiles where both the state and private investors undertook investments. In the meantime, between 1929 and 1934 state revenues increased from 10.8 percent of the GNP to 18 percent and as the increasing revenues were used for promoting industrialization, the manufacturing

[237] For a very well documented work on Turkish etatism see K. Boratav, *Etatism in Turkey*, Gercek Editions, Istanbul, 1974. (in Turkish)

[238] C. Keyder, *State and Class in Turkey, op. cit.*, p. 106.

[239] C. Keyder, *ibid.*, p. 106.

share of the GNP which was 10.5 percent in 1929 reached 16.6 percent in 1935.[240]

The last important characteristic of etatism in Turkey was marked by a conscious policy to secure necessary manpower for industry. In order to release potential workers from the peasantry, the government refused to subsidize the agricultural sector and let the prices of both cash and subsistence crops decline following world prices, while imposing new taxes on agriculture. Thus, many poorer peasants who could not pay the new taxes migrated to the cities and supplied industry with the needed manpower. Therefore, although throughout the 1920's there had been a real shortage of labor, this situation changed drastically after 1929, and the state (unlike Latin American states) shunned away from the regulation of working hours and of wages, and instead condoned the decrease of real wages by 25 percent between 1934 and 1938 in order to 'encourage' industrial growth.[241] In the meantime, as soon as the labor supply problem for industry was solved, the decline in the level of agricultural incomes was no longer condoned. Soon after the shock of the Great Depression was over, and starting by 1932, the state lent support to subsistent crop producers through a subsidized price support program for wheat, produced by the mass of small and middle farmers in Anatolia.[242] In contrast to the 1923-1929 period, subsistence crops were encouraged as the government became the main buyer of cereals, and as a result the cereal production was expanded while in the meantime investible funds required by industry were extracted from agriculture via state controlled price mechanisms (i.e. the prices of agricultural inputs supplied by government monopolies to the farmers were held well above the world market prices while farmers marketed their outputs at the prevailing world market prices). Consequently the cereal farmer was brought within the orbit of market relations and became sensitive to price movements, although the class structure of the Turkish agriculture where small producers were predominant remained unaltered.[243]

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[240] C. Keyder, *ibid.*, p. 103.

[241] G. Kazgan, "The 1927-35 Depression in Turkish Economy, Capital Accumulation and Organization" in *Social and Economic Problems of the Ataturk Period: 1923-1938*, Istanbul, 1977, pp. 231-274. (in Turkish)

[242] R. Margulies and E. Yildizoglu, *op. cit.*, p. 274. The best work on the agricultural policies of the Turkish state in the 1930's is F. Birtek and C. Keyder, "Agriculture and the State: An Inquiry into Agricultural Differentiation and Political Alliances: The Case of Turkey," *Journal of Peasant Studies*, July 1975.

[243] Accordingly to a survey in 1937, 85.28 percent of all holdings were smaller than 10 hectares. See R. Margulies and E. Yildizoglu, *ibid.*, p. 276.

Evaluating retrospectively in terms of social alliances, 'etatism' signified the forging of a coalition between bureaucrats and private manufacturers of consumer non-durable goods and at the expense of other strata in the population. Nascent manufacturers benefited from the steady move away from free trade by establishing new manufacturing plants in order to take advantage of the bureaucratic restrictions and quotas on the imports of consumer goods. Consequently Turkey passed the threshold of the early phase of industrialization under the guidance of a bureaucratic stratum who had provided the leadership for the independence struggle, had formed the single party state, and now supervised a nascent industrial bourgeoisie, thanks to its control of foreign trade and the banking sector. However, unlike the Latin American situation depicted by Cardoso/Faletto (see section 1 in the last chapter), neither party of the ruling alliance had much use for the incorporation of popular groups in the economy since the early stage of industrialization did not yet require the nurturing of a broad internal market. On the contrary, price and tax policies and labor regulation were designed to repress wages and extract resources from agriculture in an attempt to maximize rapid economic and industrial growth. Thanks to the recession in the West and the relative weakness of popular groups in Turkey who could not find allies and threaten the ruling class coalition, at the end of the etatist period (roughly the end of the Second World War), Turkey emerged as a relatively developed Third World nation akin to Brazil, Mexico and Argentina in terms of production profile and national income.

Drawing a balance sheet of the period in quantitative terms, the economy grew by an average of nine percent in the 1930's until the break out of the Second World War and by 1939 the share of the industrial sector in the GNP was already 18 percent, almost twice of what it was at the beginning of the new etatist period.[244] Moreover the ratio of foreign trade to the GNP that was as high as 28.4 percent in 1925 at the zenith of the free trade period, contracted to 11.9 percent in 1939. But although foreign trade had displayed chronic deficits during the 1920's, with the exception of 1938, exports always outweighed imports between 1933 and 1945 and thus Turkey accumulated substantial currency reserves.[245] That is to say, thanks to the dramatic decrease in imports due to the production of con-

[244] See Y. Kepenek, *The Turkish Economy*, Savas Editions, Ankara, 1983, p. 81. (in Turkish)
[245] See Table IV.6, Y. Kepenek, *ibid.*, p. 80.

sumption goods in the country, in the 1920's, etatist policy seemed to reach its target of economic self-sufficiency and independence from intrusions of foreign capital as was the case in the past, when balance of payments were consistently in the red. Bureaucrats were also free to use the state's revenues solely to foster industrial growth, because redistributive schemes were nonexistent and many basic infrastructural projects were already completed in the 1920's. Consequently a symbiotic relationship was forged between the bureaucracy and the nascent industrial bourgeoisie, while small and middle farmers as well as merchants, urban small producers, and industrial workers were all denied access to the benefits of growth and excluded from the political arena, thanks to the structure of the one party regime where the ruling party was closely associated with the state.

We can summarize the preceding discussion by presenting a schematic of the power bloc formation during the etatist period (Figure 4).

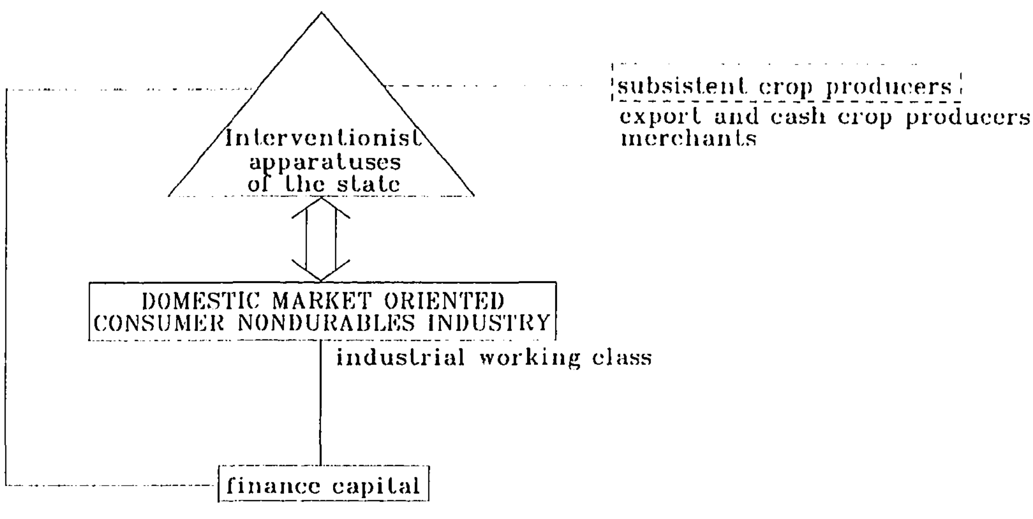

Figure 4: Etatist Historical Bloc in Turkey: 1929-39

As in the figures drawn for France, I am presenting the hegemonic fraction in capital letters, and ties represented by solid lines are stronger than those represented by dashed lines. A special interaction is presented with double solid lines. So, in the bloc represented above, a symbiotic relationship is indicated between the ruling bureaucratic stratum and the nascent Turkish industrial bourgeoisie. The state intervenes in the economy purposefully by using various levers under its control such as price and foreign trade regulations, taxation, etc., to extract resources from agriculture in favor of industry and to minimize the cost of wages for the burgeoning business class. In addition the state closely supervised the flow of funds to industry and the public or quasi-public (the Is Bank) banks lent long-term loans to the industrial firms at the expense of merchants and small producers who did not enjoy access to credit as they had in the past. The state itself became involved in some intermediate goods, whereas specialization in light manufacturing areas which produced formerly imported consumer nondurables was left to the private sector. The import of these consumer goods was prohibited and naturally profit margins were very high in these sectors.

Urban and rural small producers as well as industrial workers, on the other hand, were distinct losers in the etatist style economic policy making and the mutually beneficial links between export crop producing small peasants and merchants were broken decisively when the Great Depression broke out in 1929. Yet the subsistent crop (cereals) producing small and middle peasants fared somehow better than other small producers under etatism due to the one party state's emphasis on self-sufficiency in food. Nonetheless they were denied direct access to the state under the strict rules limiting political participation, and therefore when the government's pricing policy turned against them, they had no recourse but withdrawal from production. Hence no protectionist apparatus existed in the state which would promote the interests of the petty bourgeoisie and given that a landed oligarchy with resources of its own was nonexistent in Turkey, the ruling bureaucrats did not face serious resistance (from the countryside) to their aggressive (early) industrialization strategy.

The Break up of the Ruling Alliance and the Rise of the Democrat Party: 1939-1954

Although Turkey did not participate in the Second World War, certain internal and international developments in the early 1940's brought the end of the etatist period and led to the dissolution of the coalition between bureaucracy and the industrial bourgeoisie. The key internal factor which threatened this alliance was the rise of merchant capital and the renewed links between merchants and marketized farmers during the war years. Despite its monopoly on the distribution of credits and scarce foreign exchange earnings, the political authority in fact did not have at its disposal, at the outset of the Second World War, a set of instruments and policies to prevent the black market operations characteristic of war economies. As a consequence, widespread profiteering by merchant capital resulted. Had certain developments in the world economy, and established etatist links between the state and peasantry not helped, the war in itself would of course not have elevated merchant capital to a position where it could undermine the stability of the coalition between bureaucracy and its nascent industrial bourgeoisie. On the external front, during the second war years, the world wide demand for agricultural products and especially cereals dramatically increased and consequently export trade in agriculture became lucrative once again, as it also was in the 1920's. Yet producers of cereals could not benefit from changes in the world markets, because, given the structured links between bureaucrats and industrialists, the RPP state continued to fix prices for cereals much under the world market levels. Thus, during the war years, the policy of extracting resources from agriculture in favor of industry continued, and worse, intensified. The added onus on the lot of peasants was that, with the onset of the war, Turkey mobilized a huge army and the government demanded great sacrifices of the peasantry which constituted about 80 percent of the population. Such sacrifices included conscription where about one million adults were taken out of the labor force in agriculture, and the confiscation of draft animals from peasants for military use, both measures delivering a severe blow to agricultural output. Cereal producers who were already brought within the orbit of market relations during the etatist period, did however have some exit mechanisms. That is to say, a parallel black market which approximated world market prices for cereals quickly developed, and the state fell short of controlling this market as economic measures intended to force peasants to sell surplus grain to the army backfired due to the limited means available to the government to prevent merchants from establishing mutually beneficial links with direct producers. Merchants in their turn, not only benefited from skyrocketing prices for cereals in the internal (black) markets, but also export revenues harvested by them rose by about 250 percent between 1940 and 1943.[246] Thus, merchants residing both in the rural and urban areas emerged from the war immensely strengthened in economic terms. Typically the rural component of merchants dealt with direct producers, while urban merchants were engaged in foreign trade, although both urban and rural

[246] R. Margulies and E. Yildizoglu, *op. cit.*, p. 277. The authors cite from a very comprehensive work in Turkey that is available in French and Turkish: S. Yerasimos, *Turkey in the Process of Underdevelopment*, Gozlem Editions, Istanbul, 1976, p. 1327. The original version in French is given as a doctoral dissertation to the University of Paris in 1973.

merchants speculated on the markets of staple agricultural commodities.

Unfortunately the expansion of merchant capital at the expense of industry can not be adequately documented in the absence of economic indicators since black market profiteering was not shown in official statistics. Yet indirect indicators such as the absolute fall in per capita income by more than twenty percent between 1940 and 1945,[247] and the corresponding contraction in industrial activity when the number of merchant firms registered in the statistics of the Chambers of Commerce was skyrocketing, attest to the massive enrichment of merchants throughout the war years.[248] As a result of all these, the immediate interests of merchant capital that had become the economically most powerful group in the country by the end of the war were pit against an etatist economic policy based on protectionism and the encouragement of industrial growth. In other words, the interests of merchant capital dictated, "on the one hand, an open economy with a liberal foreign trade regime, and on the other, the revitalization of agricultural production, in order to boost the volume of both domestic and international trade."[249]

Merchants and farmers might still have been denied access to politics, if it were not for the foreign and especially American pressure in the immediate postwar period, aimed at rendering Turkey a supplier of agricultural commodities to the West (particularly cereals to feed Europe in postwar reconstruction), and a purchaser of manufactured commodities from the West. This view, very much in line with the orthodox economic theory of *comparative advantages,* found expression in the reports of various American experts who visited Turkey at the end of the war. In a likewise fashion, these experts recommended the curtailment of etatism and specialization in agriculture and agriculture-based industry, rather than specialization in intermediate and capital goods industries.[250] Such arguments met a

[247] See Table IV.7 in Y. Kepenek, *op. cit.*, p. 83.

[248] An article written by H.A. Sanda, "Merchants on the Increase," *Yurt ve Dunya,* 3 (19), 1941, p. 19 (in Turkish) and cited by R. Margulies and E. Yildizoglu, *op. cit.*, p. 288, provides interesting observation: "Since the Second World War, while Turkey's foreign trade has contracted, domestic trade has expanded on an unprecedented scale . . . Statistics of the Istanbul Chamber of Commerce indicate that in 1941, 1026 new companies registered at the Chamber . led to a severe shortage of commercial office space in Istanbul. The constant rise in commodity prices following the war has attracted people with money into the field of commerce and they have invested this money in commodities . . . These people have secured unbelievable profits . . . As a result of this, a massive accumulation of capital is taking place in the commercial sphere."

[249] R. Margulies and E. Yildizoglu, *op. cit.*, p. 272.

[250] In fact in 1948 Max Thornburg who was an adviser to the United States Department of State visited Turkey and expressed his conviction in his written reports that the curtailment of etatism and the favoring of free enterprise must be a prerequisite of American aid. See M.W. Thornburg, "Turkey: Aid for What?", *Fortune,* October 1947. Also M.W. Thornburg, *Turkey, An Economic Appraisal,* Twentieth Century Fund, New York, 1949.

receptive audience as they corresponded closely to the economic perspective dictated by the new postwar balance of forces among economic actors. In addition the U.S. government was endowed with a set of economic incentives to convince a recalcitrant RPP government to adopt the so called 'liberal' free trade policies. That is to say, the U.S. government had devised a recovery program for Europe, and this scheme of dollar grants was extended to Turkey in 1947 in exchange for economic liberalization. Consequently "American funds advanced to Turkey between 1946 and 1950 were equivalent to around three percent of the GNP, allowing imports to increase by 270 percent over the war-time average."[251] In line with the orthodox theory of comparative advantages, American grants were designed to help Turkey fulfill its role in the market-designated division of labor in the postwar world economy.[252] Hence, Marshall grants were used in Turkey for the import of 15,000 tractors and other kinds of agricultural equipment and road-building machinery in order to raise the productivity and total output of the agricultural sector.

The new social and economic development described above found their political expression in 1946 when the transition to a multi-party regime was made possible when the ruling RPP split over a debate on land reform and a new political party called the Democrat Party (DP) adamantly opposed to 'etatism' was created. Naturally the new party drew its main support from the peasantry who made up 80% of the population, because, as claimed earlier, several million peasants were well aware that the costs of the industrialization effort had been borne by them while its fruits were enjoyed by others. Consequently, when the elections were held in 1950, the DP came to power by winning an overwhelming majority.[253] The first years of DP rule witnessed radical economic transformations in line with the priority accorded to the commercialization of agriculture. American aid continued to arrive in increasing volumes and together with the surplus reserves accumulated during the etatist years, all foreign exchange earnings were used in the promotion of rapid mechanization in agriculture as well as in the development of a massive road network designed to facilitate the marketization of agricultural

[251] C. Keyder, *State and Class in Turkey, op. cit.*, p. 119.

[252] On the Marshall Plan, see G.S. Harris, *Troubled Alliance: Turkish-American Problems in Historical Perspective: 1945-1971*, American Enterprise Institute and the Hoover Institution, Washington D.C., 1972.

[253] See C. Erogul, "The Establishment of Multiparty Rule: 1945-1971," in I.C. Schick and E.A. Tonak (eds.), *Turkey in Transition, op. cit.*, pp. 101-118, on the political aspects of the DP rule. It must also be noted that DP received the bulk of its votes from the relatively more commercialized rural areas and big cities.

products.[254]

Certain economic policy measures adopted by the DP also helped to increase the total agricultural output and productivity besides the mechanization program. That is to say, through the Agricultural Bank, ample credits were advanced by the state to rural producers at subsidized rates, and in addition public expenditures rose 250 percent between 1950 and 1955, primarily to facilitate the marketization of agricultural products.[255] The new tractors that were purchased by peasants, thanks to the availability of cheap credits, were used in the process of land reclamation and the area under cultivation expanded by 50 percent between 1946 and 1955.[256] When such developments were combined with a fortuitous external factor in the sense that the worldwide demand for agricultural products dramatically increased during the early 1950's (partly as a result of the Korean war), the total agricultural output in Turkey reached unprecedented levels. In addition, the ratio of exports to GNP substantially increased, and as in the 1920's, the Turkish economy once again was linked to the world markets as a major exporter of primary products.[257]

As far as peasants were concerned, an overwhelming majority of them enjoyed the material profits of these developments and increased their real income. In fact the DP government which drew its electoral support from the rural areas made sure that large numbers of small and middle farmers benefited from the land distribution schemes and the import of tractors. Consequently, even the least propertied peasants acquired new land and machinery and in contrast to many countries where landlessness and income polarization resulted from agricultural development, the commercialization of Turkish agriculture was closely supervised by the state in order to prevent social dislocations. Political

[254] See Table 9.1 on the Numbers of Selected Farm Machinery: 1948-1960, R. Margulics and E. Yildizoglu, *op. cit.*, p. 281. While in 1946 there were hardly 1000 tractors in the country, by 1955 the number of imported tractors had reached 43,000.

[255] In 1950-54, rates of discount of the Central Bank of Turkey were at a very low three percent. In addition, the government lowered commercial bank interest rates from 12 percent to 8.5 percent in 1951. During the years 1950-1955, public expenditures rose from TL 1.47 billion to TL 3.31 billion, the highest single increase of no less than 42.2 percent taking place in 1952. See C. Keyder, "Economic Development and Crisis: 1950-1980," in I.C. Schick and E.A. Tonak (eds.), *Turkey in Transition, op. cit.*, p. 306. The author cites from the best work on the economic developments in the DP period written in English, Z.Y. Hershlag, *Turkey: The Challenge of Growth*, Lerden: E.J. Brill, London, 1968.

[256] See C. Keyder, *State and Class in Turkey, op. cit.*, p. 130.

[257] The ratio of the volume of foreign trade to the GNP can be taken as an indicator of extroversion and indicates that the economy was becoming increasingly extroverted especially between 1950-54. See Table V:9, Y. Kepenek, *op. cit.*, p. 126.

patronage mechanisms correspondingly played a determining role in the allocation of new resources to village communities, despite the adoption of a liberal and free trade rhetoric, which, if permitted full power in the determination of creditworthiness, would probably have led to large scale proletarianization, which did not occur. On the contrary, the number of owner-occupied small farms "increased form 2.3 million in 1950 to 2.5 million in 1952, and to 3.1 million in 1983."[258] Agricultural production concomitantly increased substantially for both cereals and industrial crops and provided the major impetus behind the impressive economic growth which recorded a 12 percent average between 1950 and 1953.[259]

Needless to say, merchant capital that had expanded in the wake of the war was the main beneficiary of agricultural development. Although the Turkish economy was becoming too dependent on foreign markets, both imports and exports were allowed to rise substantially and since all restrictions to foreign trade were canceled, merchants were provided with new trading opportunities in the early 1950's. Consequently the share of 'services' in total GNP reached approximately 40 percent in 1952 while that of agriculture was 43 percent,[260] i.e. higher than what it was when DP came to power. It is also interesting to note that during the new and extroverted phase of economic development in Turkey which had started in 1947 by the release of Marshall funds, and which ended in 1954 when the international terms of trade abruptly turned against agriculture, the annual increase in agriculture averaged 11.5%, whereas the manufacturing industry could only score 6.5% annual growth.[261] In addition, if one analyzes the development of sub-sectors in the so called service industry, it is interesting to see how *trade* doubled its earnings in just three years between 1950 and 1953.[262] The development of another 'service' subsector, namely *real estate,* also seems as impressive as trade. This is hardly surprising however, given that public funds were made available through political patronage by the ruling DP to a large number of petty and unorganized capitalists for lucrative contracts to build roads and housing.

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258 C. Keyder, *State and Class in Turkey, op. cit.*, p. 131.

259 See Table 10-1: National Income by Sectors in C. Keyder, "Economic Development and Crisis: 1950-80," in I.C. Schick and E.A. Tonak (eds.), *Turkey in Transition, op. cit.*, p. 295.

260 *Ibid.*

261 S. Pamuk, *The Development of the Crisis and the Question of Alternative for Turkey, op. cit.*, Table 1, p. 53.

262 See Table V. 8 on the development of the 'service' industry in Y. Kepenek, *op. cit.*, p. 121.

Understandably, *industrialists* paid the cost of all of these developments and the share of industry in the GNP that had risen to 18 percent in the 30's declined to 11.8 by 1952.[263] The data available for 1955 concerning the sectoral distribution of bank credits highlights the demise of the industrial sector. In fact, in full contrast to the etatist years, industry garnered only 2.73 percent of these credits while 'agriculture' and 'services' (basically trade and construction) scored 30.78 percent and 66.49 percent respectively.[264] Consequently, industrialists diverted to other more profitable activities in the early 1950's, and perhaps paradoxically for a 'liberal' regime, in order to fill the gap created by industrial disinvestment, the DP was forced to undertake new public investments especially in the energy and transportation sectors.[265] As a result, the weight of the SEE investments that was about one third of all investments at the zenith of the etatist period in the mid-thirties, dramatically increased to 60 percent. Industrialists however were not expressing any serious discontent with the policies of the DP regime, as long as full scale economic growth provided new investment opportunities in housing, agriculture and trade; and thanks to the agricultural boom, the Turkish economy was expanding, offering profitable opportunities to all fractions of the Turkish bourgeoisie.

If we schematize the bloc formation described in this section, the contrasts with the previous bloc corresponding to the etatist phase of development (Figure 4) are easy to identify at first sight. We can even claim that the bloc corresponding to the 'liberal' open-economy phase of development in Turkish history consists of a thorough reversal of the relations between the state and social forces in the preceding stage of development: now it is merchant capital which is hegemonic and rural small producers are allied to them, whereas the industrial class remains outside of this alliance.

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[263] See Table 10-1 in C. Keyder, "Economic Development and Crisis: 1950-80," in I.C. Schick and E.A. Tonak (eds.), *Turkey in Transition*, *op. cit.*, p. 295.

[264] See Table V.2 on the sectoral distribution of banking credits in Y. Kepenek, *op. cit.*, p. 99.

[265] *Ibid.*, p. 115.

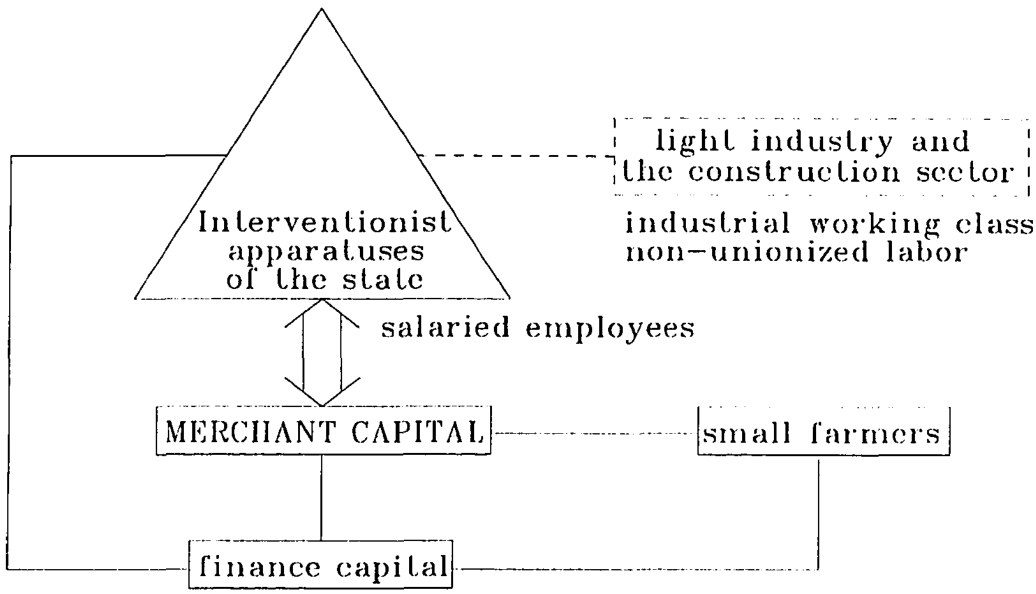

Figure 5: The Historical Bloc in the Extroverted Phase of Economic Development: 1939-1953

The state managers, in fact, mobilized all external (Marshall funds) and internal (bank credits) resources in their hands to speed up the commercialization of agriculture. Given the boom in the worldwide prices of agricultural commodities produced in Turkey, an open trade regime benefited small farmers and above all the merchants which directly purchased basic staples from farmers and then marketed them in the cities or abroad. Merchants also had ample access to bank credits at the expense of industrialists. Perhaps paradoxically for a 'liberal' regime such as the DP which represented commercial interests, the state could not withdraw from its direct involvement in the production process in order to fill the gaps created by disinvestment. Yet, while many industrialists who lacked access to investment funds diverted to non-industrial activities, a new and numerous group of medium sized capitalists concentrated in the 'construction' sector was created as a byproduct of the lucrative contracts offered to businessmen to help state officials carry out infrastructural public projects especially in the energy, housing and transportation sectors. Given a restrictive 'industrial relations' legislation prohibiting the right to strike, as well as the small size of the internal market, both the organized workers in the manufacturing sector and unorganized laborers who worked in construction projects were clear losers. So were the salaried employees whose size was growing as an offshoot of the state's increasing involvement in the economy. In fact, they could neither organize, nor protect themselves against the inflation in food and housing prices.

The Demise of the Democrat Party and the Burgeoning of a 'Modernization Bloc' Supporting Economic Planning

The impressive economic growth of the early 1950's where per capita income increased by 28 percent between 1950 and 1953 came to an abrupt end in 1954 when declining world prices for agricultural commodities and weather conditions undermined Turkey's new found momentum. In fact prices of primary goods started to decline worldwide in 1953, and Turkey, not unlike other Third World nations who were overly dependent on foreign outlets for their economic performance, began to experience large trade deficits.[266] Consequently in 1954 agricultural output and exports decreased by 15 percent and per capita income by 11 percent.[267] In short, although it was through the commercialization of agriculture that the economy was provided with a spurt to grow, this commercialization was also responsible for the transmission of the (unfavorable) world economic conjuncture to the Turkish economy. The DP government's response to price fluctuations in primary products, hampering internal economic growth, consisted of some ad hoc protectionist measures which led to some unintended consequences and culminated in the accumulation of capital away from the hands of farmers and merchants and into the hands of industrialists. This was so because, when in 1954, a considerable gap had occurred between the demand for imports and foreign exchange earnings, the government, despite its liberal rhetoric, was forced to resort to severe trade controls. In a way reminiscent of the etatist years, some restrictions on international transactions and import licensing were imposed and credit importation was frozen.[268] Thus, another protectionist episode started in the history of the young Turkish state "which at the same time benefited a small but growing manufacturing class."[269]

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[266] For the evolution of balance of payment deficits in the 1950's, see Table V-9 in Y. Kepenek, *ibid.*, p. 126.

[267] For the economic data relating to the 1950's see M. Singer, *The Economic Advance of Turkey: 1938-1960*, Ankara, 1977. This is a useful source in English.

[268] The best work on the foreign trade regime of Turkey in English belongs to A.G. Krueger, *Foreign Trade Regimes and Economic Development: Turkey*, Columbia University Press, New York, 1974.

[269] C. Keyder, "Economic Development and Crisis: 1950-80," in I.C. Schick and E.A. Tonak (eds.), *Turkey in Transition*, *op. cit.*, p. 297.

Naturally the so far neglected urban industrial sector received effective protection and incentives to produce for the internal market at a time when the government was obliged to impose restrictions and quotas on the import of consumer goods. With such incentives industry began to grow faster than agriculture, and consequently industry's share in the national product increased from 11.8 percent in 1952 to 16.3 percent in 1957, when the share of agriculture was dropping from 43 percent to 38 percent.[270] Despite this increase in the share of manufacturing as a ratio of the GNP, and the subsequent formation of new economic sectors, the government could not fully proceed with the policy of import substituting industrialization since its own stakes depended on the satisfaction of merchants' and farmers' demands. That is to say, the state, via its control of the financial system, sought to channel resources to retail trade and agriculture which received the lion's share of credits at the expense of the manufacturing sector. Yet a considerable group of rich farmers and merchants who had accumulated significant fortunes throughout the war years and its aftermath, were eager to invest in new industrial ventures to fill the gap created by the restrictions on the imports of many consumer goods to the country. Naturally, these would be industrialists who were no longer willing to engage in the circulation of commodities and export trade in the aftermath of the 'agricultural boom', expressed discontent with the ad hoc nature of the government's policies, since although a protectionist trade regime had created a potentially lucrative internal market for many consumption goods, the state refused to channel a large proportion of banking deposits to finance industry. Therefore these would be industrialists had to rely on their own trade and agriculture based accumulated earnings for their investments, and as a consequence the production capacity of many new manufacturing plants built in the mid-50's was far from what would have been optimum scales, from the vantage point of efficiency.

Despite these limitations, however, a new episode in Turkish economic history started nonetheless, partly as a result of and partly despite the state's economic policies. During this new phase of economic development which marked the initial stages of ISI which would become a willful policy after the onset of economic planning in 1960, substantial merchant and farmer profits were diverted to industry, and according to a survey executed in the late 1950's, it was found that 43 percent of all

[270] See Table 10-1 on the National Income by Sectors, *ibid.*, p. 295.

industrialists were ex-merchants and 20 percent were ex-farmers.[271] Yet farmers and merchants did not invest in the same fields. That is to say, the urban commercial bourgeoisie which was located in Istanbul, sought to invest in consumer durables *directed exclusively at the internal market.* Such a specialization in consumer goods and a limited industrialization was also sanctioned by international aid agencies, as a World Bank mission headed by its vice president visited Turkey in 1953, and advocated an economic orientation away from an exclusive reliance on agriculture, and towards the internal production of both consumer nondurable and durable goods.[272] Although the DP government was reluctant to heed this advice, a new bank (the Industrial Development Bank of Turkey -- IDBT) was established under the auspices of American aid agencies and the World Bank, and most industrial projects of the period were supervised and funded by this bank. In fact "there is hardly a large firm established in this decade (1950-1960) which did not receive credit and precious dollar funds from the IDBT: it was through this mechanism that the internationalization of Turkish capital proceeded -- through the internationalization of bank credit to industry."[273]

This bank was located in Istanbul and exclusively dealt with the urban commercial bourgeoisie who also had chosen the same site to launch its operations. As said before, a second (would be) fraction of the industrial bourgeoisie originated however from the countryside. Its origin was found in the commercialization of agriculture in the sense that an especially fertile region in the south of Turkey, Cukurova (Cilicia) became the only region in Turkey in the 1950's where the export boom in agriculture and growing mechanization led to the concentration of the land and productive resources. Cotton was the main commodity grown in this region and due to a number of historical reasons, large cotton farmers, unlike other farmers in the rest of Anatolia, were able to expel sharecroppers from the land and accumulate large fortunes through enclosures and the exploitation of seasonal wage labor during the 1950's.[274] Thus Cukurova became the only region where capitalist farming based on contractual

[271] A.P. Alexander, "Industrial Entrepreneurship in Turkey: Origins and Growth," *Economic Development and Cultural Change*, July 1960.

[272] On the so called Chenery mission see the illuminating article by Y. Kucuk, "On the Development of the Concept of Planning in Turkey," in O. Turel (ed.), *Two Decades of Planned Development in Turkey, METU Studies in Development*, 1981, Special Issue. (in Turkish)

[273] C. Keyder, *State and Class in Turkey, op. cit.*, p. 139.

[274] Under the auspices of the State Planning Organization in Turkey some interesting empirical research on the economic and social development of the Cilicia region was undertaken in the 1960's by a number of sociologists. The results were later published. See J. Hinderlinck and M. Kiray, *Social Stratification as an Obstacle to Development: A*

relations between the landowners and wage earners was experienced in Turkey, as opposed to Central and Western Anatolia where owner-cultivated and small scale peasant ownership was the norm. Consequently most successful landlords in Cukurova started to invest in the processing of cotton in the 1950's and a successful and profitable jump from cotton to yarn and textiles was achieved. In contradistinction to industrialists in Istanbul who produced for a protected internal market and did not have to compete in international markets, textile manufacturers aimed to export at least part of their product. Therefore the lines of intra-bourgeois conflicts of material interests between the industrialists of commercial origin in Istanbul, and the industrialists of farming origin in Cukurova, were already visible, but did not surface in the 1950's, since both fractions of the industrial bourgeoisie were united in common opposition to the economic policies pursued by the DP government.

From the industrial bourgeoisie's point of view, the economic opposition to the DP was centered around many issues, and this common opposition concealed the divergent set of interests between the two main fractions of the industrial capital at least until the overthrow of the DP by a military coup in 1960. The first line of common attack against the government stemmed from the DP's reluctance to extract resources from agriculture and transfer them to industry. Investible funds in industry were too low because of the reluctance of the government to initiate a *tax reform*. In fact the agricultural sector was virtually tax-exempt, and from 1953 to 1959 the average income tax return had declined in real terms by more that thirty percent. In addition, as said earlier, the majority of bank credits were made available to commerce, construction, and farming, while the manufacturing industry was starved of funds. Moreover, in contrast to the etatist period, relative prices favored agriculture over industry as the government subsidized agricultural inputs by selling them to farmers below market prices, thus detracting from its own revenues that otherwise could have been used to foster industrial growth. Consequently during the ten years of DP's reign, the average rate of investment remained a mere 12 percent of the GNP,[275] a very low figure, and the political balance of forces characterized by a stalemate among different fractions of the bourgeoisie made it very difficult to augment this figure.

Study of Four Turkish Villages, New York, 1970. All of the four villages in the study were in the Cilicia region.

[275] See A. Sonmez, "The Re-emergence of the idea of Planning and the Scope and Targets of the 1963-1967 Plan," in S. Ilkin and E. Inanc (eds.), *Planning in Turkey*, METU, Faculty of Administrative Sciences Publication No. 9, Ankara 1967, p. 38.

The second line of criticism by the industrial bourgeoisie of the DP economic policies originated in the government's willingness to extend the economic boom at any cost, even after the downturn of prices for agricultural commodities on the world market. That is to say, DP relied on both inflationary policies and short-term borrowings in international capital markets, as well as on bilateral economic aid, in order to finance rapidly growing public investments.[276] The nature of public investments expressed the states' preference for agriculture over industry as infrastructural and public works projects designed to improve agricultural productivity were fully underway with almost no regard for the cost of these projects. In fact, when by 1958 foreign credit sources were drying up, the government kept financing new large-scale agricultural projects without equivalent increases in taxes, simply via monetary emission by the Central Bank, causing prices to double between 1953 and 1959. And it was in this particular historical context that the increasing discontent of the industrial bourgeoisie coincided with the criticisms of international lenders, as Turkey's foreign creditors in 1958, after negotiations in Paris with the IMF, US authorities and OECD, strongly urged the DP government to adopt a kind of economic planning.[277] This was perhaps the *first occasion* when international agencies advocated planning to a 'liberal' Third World government.

Internal and External Pressures on the Democrat Party for Instituting Planning

The type of development planning that was recommended to Turkey was designed to coordinate and rationalize public investments, assure proper use of foreign assistance, and control the macro-balances of economic development. It would be no exaggeration to say that both fractions of the Turkish industrial bourgeoisie eagerly embraced this particular concept of planning[278] as this type of 'indicative' planning contained some assurance that priority in economic development should be given to the industrial sector. Moreover foreign creditors and the indigenous industrial bourgeoisie shared similar

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[276] See Z.Y. Hershlag, *op. cit.*, and Y. Kepenek, *op. cit.*, for the evolution of public investments during the DP regime.

[277] See C. Mihcioglu, "The Early Days of the Founding of the State Planning Organization," *Ankara University, Faculty of Administrative Sciences* No. 522, 1983 (in Turkish) and G. Uras, "The Foreign Salesmen of Intelligence to Turkey," *Milliyet newspaper*, August 22, 1984 (in Turkish).

[278] In a revealing political development a new party called the 'Freedom Party' was formed as a result of an internal split in the DP and this party appealed to both Istanbul businessmen and intelligentsia in general. The most informative work on the political history of the DP is C. Erogul, *The Democrat Party: Its History and Ideology*, Ankara University Publication, Ankara, 1970.

opinions concerning the irrationality of DP's economic policies in 1958. That is to say, foreign creditors worried about the skyrocketing of the foreign debt that amounted to 850 million dollars in the late 50's, while the reserves of gold and foreign exchange were practically gone and exports were stagnating at the level of 300 million dollars a year. The 1960 government budget was estimated to have a deficit of about 1000 million Liras and government borrowings from the Central Bank amounted to 348 million Liras.[279] the DP government, on the other hand, save for the half-hearted 1958 stabilization measures, refused to pursue a policy of financial restraint. On the contrary, already by the summer of 1958 "inflationary financing became once again the general practice in every sector of activity. It has been estimated that if all the projects included in the 1960 Budget and State Economic Enterprise's programs had been carried out, the public sector would have ended 1960 with a deficit of roughly 3000 million TL."[280]

As a response to the internal and external pressures brought to bear on the government for the institution of planning, DP adopted a 'wait and see' tactic as would any rational actor confronted by irreconcilable demands from crucial clients. In fact, international financial circles could not be confronted at a time when the government incessantly demanded foreign credits; but neither could the nonindustrial fractions of the bourgeoisie, namely merchants and farmers, who constituted the main pillars of the ruling alliance upon which the government rested. Thus, in order to please all these constituencies, DP, chose not to alienate its own anti-planning supporters, while placating other demands via palliative measures. The ingenious solution found consisted of a move attempting to avoid the preparation of an overall economic plan for the economy, while setting up a Ministerial Coordination Board that would presumably assist the government in deciding on the investment projects to be carried out in the public sector. Yet, although this Coordination Board was able to reassemble a comprehensive list of the ongoing and would be investment projects of the various State Economic Enterprises, members of the Board were not given any fixed frame of reference let alone any objective criteria by the government for promoting and selecting investment projects. Instead they were merely instructed "to give

279 A. Sonmez, "The Re-emergence of the idea of Planning and the Scope of the Targets of the 1963-1967 Plan," in S. Ulkin and E. Inanc (eds.), *Planning In Turkey*, METU, Faculty of Administrative Sciences Publication No. 9, Ankara, 1967, p. 38.

280 *Ibid.*

higher priority to the projects intended to improve the balance of payments, and had to rely on an extremely empirical, 'project-by-project' basis of selection."[281] It did not therefore take long for the work of the Coordination Board to come under attack by the OECD, criticizing it for the absence of an overall direction and target by saying that it was handicapped "by the absence of an overall development program."[282] Thus, the intensity of the pressure exercised from abroad to involve the government in development planning began to increase and finally an agreement was reached with the 'famous' Dutch planning expert Prof. J. Tinbergen for the preparation of a 'Development Plan' for Turkey.

In April 1960, approximately two months before the military takeover, Tinbergen visited Turkey together with his assistant and countryman Dr. J. Koopman who was supposed to stay in Ankara to continue preliminary studies for the Development Plan initiated by Tinbergen. Although apparently the DP was now seen as bowing to external pressures for the institution of a development plan by opposition groups in the country who were also stressing the same need to coordinate investment projects and assure a proper use of foreign assistance, the reality was strikingly different. That is to say, by inviting Tinbergen and Koopman to Turkey, the DP did not really mean to institute economic reform in the country as can be evidenced by the treatment Dr. Koopman received from the government. Although a committee made up of high level civil servants that supposedly would be in charge of planning was formed, the government made it very difficult for Koopman to receive any assistance from the experts of the Ministry of Finance and university circles, hence emasculating Koopman's efforts to obtain the required information for drawing up a plan. The opposition newspaper that supported planning might have been exaggerating the situation a bit, but was right in principle when it asserted in the aftermath of the military takeover that:

> "Tinbergen has been coming to Turkey for the last few months. But the ex-government had, so to say, imprisoned him in a room of the Middle East Technical University. He could only get in touch with the so-called economists of the Ministry of Foreign Affairs. Poor Tinbergen, isolated from all Turkish experts who were right in the middle of the Turkish economy and holding its pulse, was to make a 10 year Plan -- yes 10 year -- for Turkey. How could Tinbergen make a 10 year Plan when he was doubtful of the accuracy of the information which was given to him by the genius diplomat-economists?"[283]

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[281] A. Sonmez, *op. cit.*, p. 32.

[282] Turkey 1958, *OEEC*, Paris, p. 13, cited by A. Sonmez, *ibid.*, p. 32.

[283] This article was published in *Akis* on July 13, 1960 and is included in the unpublished folder of Prof. Tinbergen in the archives of the SPO, Ankara.

A letter written by Tinbergen and addressed to the Minister of Foreign Affairs in the immediate aftermath of the military takeover backs up these assertions. In fact in this letter Tinbergen complains that although in his first visit to Turkey in April 1960, the government had promised to furnish him with the required economic data for the preparation of a plan, this data was never given to his assistant Dr. Koopman. In addition, Dr. Koopman who now stays permanently in Turkey, says Tinbergen, has yet to receive the salary promised to him by the former DP government. Perhaps the only counter-evidence against my assertion that the DP attempted to isolate and neutralize foreign planning experts in order to prevent the preparation of a plan, although claiming to the contrary and apparently aiming to deceive the foreign world, comes from an article published in a foreign journal two weeks prior to the revolution. In this article it is claimed that Mr. Koopman was pleased "by the equipment at his disposal and the help he receives to collect necessary information."[284] But how could 'poor' Mr. Koopman say otherwise when as confessed in the same article that Turkish public opinion was kept totally in ignorance of the preparation of a plan and that Dr. Koopman was not allowed to give any interviews. Apparently an exception was granted for the foreign press but with one condition: a high functionary of the Minister of Foreign Affairs would be present in the interview apparently to assist, but in reality to watch and supervise what Dr. Koopman had to say to the foreign press.

It would however have been wrong to conclude from the above passage that the two months that elapsed between the arrival of foreign experts in Turkey and the removal of the government was wasted. Mr. Cilingiroglu who was an expert assigned to help Dr. Koopman wrote a report every day about the activities of Koopman and the interviews he had had that day. A close inspection of these unpublished reports shows that however frustrated Dr. Koopman was in obtaining the information regarding the economy and financial situation of the country -- especially he was looking for information necessary to calculate the incremental capital output ratio and sectoral input-output tables -- he was very pleased on two counts. First, he was able to contact Turkish private manufacturing business circles and see that they were, contrary to what he thought before, not against the concept of planning and even eager for it. And second, Mr. Koopman was pleased to see that the idea of planning had wide-

[284] From *De Zakenwereld Journal*, May 14, 1960, included in Tinbergen's folder. Tinbergen's letter to the Minister dated September 9, 1960 is also in the same folder.

spread support in the country among the educated professional groups, university circles and civil servants, including army officers. And perhaps, more significantly, a young group of 'technicians' was readily available in the country who were now mobilized for the preparation of a plan, and hence the required preparatory work and documentation could be obtained if only the government were willing to cooperate. In other words, Koopman had realized that against the bloc of 'traditionalist' forces in the country that was represented by the DP, a developmental-modernizing bloc was being formed. *Although foreign capital and indigenous industrial capital formed the two pillars of this bloc, a third element that was so far -- due to DP's economic policies -- dormant was now added to the bloc: technocrats or modernizing civil servants.* To put it most succintly, the ground was now fertile for transforming the nature of the state's economic policies and planning would have been the symbol of a new 'political economy' oriented to respond to the needs of productive capital. What Koopman did not perhaps know was that the triple modernizing alliance among the three actors was quite fragile and although hidden beneath the common aspiration of industrialization, latent conflicts were bound to surface once this alliance triumphed politically in overthrowing the government as a result of a military coup in May 1960.

In the light of the socio-economic and political developments which I discussed in the last two sections, we can now try to picture the stalemate between the 'modernization' and ruling merchant-farmer blocs in a figure below in the wake of the 1960 military coup which brought an end to the DP regime.

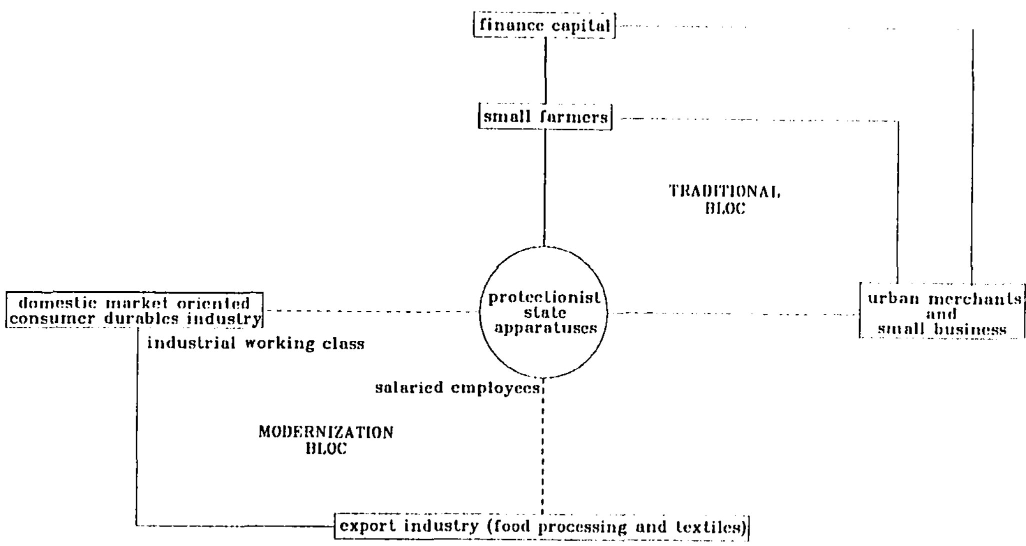

Figure 6: Transitional Stalemate between the Modernization and Liberal Blocs in the Wake of the Military Coup in 1960

The first observation in order is that the military coup was triggered by a 'dual power' situation in society where no single fraction of capital could emerge as hegemonic and the rising industrial bourgeoisie refused to submit itself (as a minor partner) to the dominance of the 'liberal' merchant-small producer alliance. In fact both fractions of the industrial bourgeoisie which were united in their common opposition to the policies of the DP regime favoring agricultural and commercial sectors had recourse to action independent of the state. That is to say, the wartime accumulation of capital had accrued in the hands of large cotton farmers in Cilicia who were now eager to invest in export oriented textiles, and in the hands of importers and exporters in the big cities, who now had no choice but divert their profits into import substituting manufacturing investments as a result of restrictions on foreign trade triggered by the shortage of foreign currencies. In addition, a new investment bank in Istanbul was created under the auspices of foreign capital to finance directly industrial investments in the light manufacturing sector. Naturally both the salaried employees and the proletariat were potential allies of the 'modernization' bloc. In fact, an ISI policy would directly profit these strata as such an economic strategy called forth the broadening of the internal market. Moreover, the skyrocketing inflation during the last years of the DP regime had hurt the fixed income groups in the population, including the workers, civil servants and army officials, more than the rural producers whose real income did not decline thanks to generous state subsidies, cheap credits, and relative prices (manipulated by the government) favoring agriculture over industry.

The state managers in fact increasingly isolated themselves from the burgeoning modernization lobby as the ruling autocratic party rested its rule on the protection of small producers who made up its constituency, shielding the 'petty bourgeoisie' from the deleterious consequences of a sharp decline in the world market prices of agricultural commodities. In addition, the state continued to finance infrastructural public investment projects, irrespective of their inflationary consequences, in order not to lose the support of the small businessmen who benefited from various public works contracts, at the expense of alienating its own salaried employees (including the military officials). Hence, as opposed to the earlier periods mapped out in Figures 4 and 5, the whole state machine turned into a 'protectionist' apparatus, intervening in the economy to safeguard petty bourgeois and rural small producer interests at a time when these interests were pit against industrial expansion and economic development (as opposed to the 1939-53 period when the commercialization of agriculture was the driving force behind economic growth).

Different Draft Proposals for a Bill Instituting Planning in Turkey

The young group of technicians who worked with Koopman and Tinbergen during the two months preceding the military takeover became the first founders of the State Planning Organization (SPO) in Ankara and they imparted a certain technocratic stance on its functioning that lasted only two years and was abruptly ended with the collective resignation of the four departmental heads of the SPO -- a phenomenon symbolizing the break up of the modernization bloc -- an unprecedented and unique act in the history of the Turkish bureaucracy. In order to understand the dynamics that led to this resignation we should first focus on the differences of opinion relating to economic matters among early planners and other members of what I call the modernization alliance, including a fourth element which was now added automatically to the alliance as an outcome of the military takeover, i.e., military bureaucrats who via the revolutionary National Unity Committee attempted to influence the course of economic reforms. Fortunately at least three sources exist to trace back the genesis of cleavages dividing the modernizing bloc members in the immediate aftermath of the coup. To start with, three different projects of 'Planning Law' vied with each other, the so-called 'Tinbergen', 'Orel' and 'Inan' projects, and the 'Orel' project that was named after its inspirer Colonel Sinasi Orel -- who later became the first head of the SPO -- triumphed eventually after getting the benediction of the military rulers. The competition among these three projects can be seen as the very first manifestation of the conflicts among the developmental alliance members to establish their own hegemony over others.

A short three-page "Memorandum on the Organization of a Central Planning Bureau" written by Tinbergen and Koopman on June 22, 1960, four weeks after the coup, set the tone of the conflict and established its parameters. In this celebrated memorandum Tinbergen revealed the nature of planning that he thought was desirable for Turkey and the characteristics of the planning organization that would carry it out. "The type of planning it seems appropriate to apply in this country is not the interference, in considerable detail, of government agencies with the economic activities of the private sector,"[285] says the very first sentence of the memorandum. Accordingly, the rest of the memorandum shows that its authors were perhaps inspired by the French model of planning, the *Commisariat General au Plan (CGP),* when they recommended an 'indicative' planning based on selective incentives for the private sector, with the SPO retaining absolute veto authority over the investment projects of the State Economic Enterprises (SEE). That is to say, only those projects that are in accordance with the guidelines of the plan would be approved and without such an approval it would not have been possible to allocate budgetary sources for public investments.[286] Moreover, Tinbergen deemed it appropriate to adopt the French style 'three stages' model for Turkish planning described earlier. To reiterate briefly, in the first stage the government would decide upon the desired average rate of growth for the country during the five-year planned period. In the second 'sectoral' stage, on the basis of an input-output model, and given the predetermined rate of growth, the total amount of investments (and savings) that are needed in order to achieve this growth rate would be determined, and then these investments would be divided both among different fields of activity and between private and public sectors as well.

[285] J. Tinbergen and J. Koopman, "Memorandum On the Organization of a Central Planning Bureau," June 22, 1960 in C. Mihcioglu, *op. cit.*, pp. 247-249.

[286] From the letter of J. Tinbergen, on June 24, 1960 to an unspecified Minister, *ibid.*, pp. 249-250.

Accordingly the need of foreign aid defined as the difference between the actual domestic savings and desired total volume of investments could be calculated. And finally, in the third stage, planners would test different sectoral investment 'projects' using several criteria,[287] and those found appropriate would be approved (if an SEE project) or supported via tax and credit incentives (if a private project). According to Tinbergen it was also mandatory that there should be "a clear separation of tasks between those who make a plan and those who carry it out."[288] In other words, the SPO will not be responsible for the actual allocation of incentives but merely for choosing the lines of activity (sectors) in which government support was needed so as to channel private investments in accordance with planning priorities. Moreover -- like the French CGP -- the SPO was conceived of as a very small and 'elite' technocratic agency composed of some 10 members, most of them economists, under the supervision of a Minister of State for planning. The SPO would mobilize various working groups within the state and in society to draw up various parts of the plan, but of course final responsibility for putting these parts together would have belonged to this 'elite' organization.

It is interesting to note that Mr. Inan, who was the General Director of Statistics under DP and now a cabinet member of the revolutionary government drew up a 'Draft Bill' for the 'Planning Law' specifying that this Bill was based principally 'on the memorandum by J. Tinbergen dated June 22, 1960'. But whereas the emphasis of Tinbergen was to create a technocratic elite agency within the bureaucratic Turkish state designed after the French model, Inan understood the model entirely differently. That is to say, Inan envisaged a planning office whose function was the coordination of work to be carried out basically by 'ad hoc' specialized commissions dominated in membership by the representatives of the private sector. Moreover, of the 66 persons to be employed in the SPO, only some 20 have been designated as 'experts on economic planning', and traditional state bureaucrats predominated, in contradiction to Tinbergen's view of a planning agency exclusively made up of economists. Like Tinbergen's proposal, on the other hand, the main emphasis was on instilling

[287] These criteria may include the contribution of this investment in terms of value added, additional employment created and finally foreign exchange earnings generated by this investment. See I. Uludag, "Investment Incentives with respect to Industrial Strategies," *Proceedings of a Symposium organized by Marmara University and SPO concerning export and investment incentives*, Marmara University Orta Dogu ve Islam Ulkeleri Ekonomik Arastirma Merkezi Yayin No. 4, Istanbul, 1980 (in Turkish).

[288] Tinbergen's letter to the Minister, *op. cit.*

confidence in the private sector vis-a-vis the plan while avoiding a plan that would be too imperative. But unlike Tinbergen's proposal, Inan's proposal did not embody a notion of *'Industrial Strategy'*. That is to say, neither clear cut macro-economic objectives to be attained were defined, nor the desirable lines of activity for the private sector were specified. While in Tinbergen's model, the experts of the SPO emerged as the technocratic formulators of the state's industrial policy, in Inan's model they were reduced to their traditional bureaucratic roles, merely registering the wishes of private capitalists on what the state should do to help and bolster them, and then a comprehensive list of these wishes was called a 'plan'.[289]

The Orel draft bill that was chosen by the 'military' as the basis for the Law establishing the SPO was very different and more in the same 'aura' with Tinbergen's memorandum. There is perhaps nothing surprising in this because it was the same team of young experts who worked with Koopman and Tinbergen -- the would-be founders of Turkish planning -- that helped Colonel Orel draw up his bill while keeping Dr. Koopman informed about what was happening in 'Orel' commission meetings. This bill embodied the main principles of the 'memorandum' while adding two new elements. First, what is called the 'High Planning Council' (HPC) composed of 15 members -- 7 ministers and 8 experts from the SPO -- was thought of as the main higher decision-making body of the SPO and a high advisory organ for the government. This was a crucial step for Turkey in curtailing the nearly total freedom of governments to take major economic decisions with no regard for the technical adequacy of these decisions. The bureaucratic machinery of the country was inherited from the Ottoman patrimonial tradition of state slavery -- kapikulu -- where bureaucrats could never contradict the Sultan and risked losing his favor if they behaved otherwise.[290] Now, the establishment of the HPC aimed to instill in the content of economic decisions some expert feedback, hoping to establish a balance between the elected and non-elected arms of the state. And second, the 'Orel' bill aimed to establish an 'Economic Council' probably designed after the French model of an 'Economic and Social Council', as a body designed to deepen the democratic content of the plan by conveying public opinion regarding the plan to the HPC

[289] It is fact asserted the Dr. Koopman, who read Inan's Bill, did not like it saying that none of Tinbergen's views were reflected in the document (C. Mihcioglu, *ibid.*, p. 256).

[290] See S.J. Shaw, *History of Ottoman Empire and Modern Turkey*, Cambridge University Press, 1977.

and also by helping the assimilation of planning priorities by the public at large, as well. Almost all interest and pressure groups were represented in the 'Economic Council' and perhaps most significant from the point of view of an exclusive political system closed to the left was the fact that six trade unionists were included among the 70 members of the council.

On August 5, 1960, two months after the coup, the 'Orel' and 'Inan' bills were discussed in the military 'National Unity Committee' and Orel's project won. So in this first manifestation of conflicts among the members of the 'modernizing' bloc, the Inan project backed by manufacturing capital lost to the alliance of foreign capital and 'technocrats'. This was not however a clear cut victory because the 'Economic Council' opposed by the military was deleted from the bill and the composition of the HPC was changed to involve four technocrats (the planning commissioner and three heads of the 'economic', 'social' and 'coordination' departments) and four ministers, including the Prime Minister as the head of the HPC. So, the first clash among the bloc members resulted in a compromise and the bloc was still intact.

Further Conflicts among the Supporters of Planning

Aside from the story of the clash among various draft bills, two other sources exist to detect main lines of cleavages among the classes and class fractions that together reacted against DP's economic policies and supported planning.

The first of these sources consists of the private or public meetings between Dr. Koopman and individual Turkish industrialists or the representatives of business associations. Dr. Koopman in fact, who felt that it was absolutely necessary to alter the investment patterns of private business in Turkey, sought the cooperation of business for this end. In these meetings he tried to convince them that they should invest in line with planning priorities, and therefore full cooperation from private investors was necessary for planning's success which was tantamount with the modernization of the country's productive apparatus. Business did not seem to be much impressed. Business was especially reluctant to cooperate with planners by providing them with information concerning several aspects of their future investment projects including the expected rate of return from these projects. Planners, on the other hand, claimed that they were going to determine the main branches of activity in which the private sector would specialize and therefore they needed this information. Perhaps the reason businessmen were not cooperating was that from their point of view such an exercise in industrial policy under the name of 'indicative planning' meant sharing their power over investment decisions with state functionaries and they preferred to retain absolute autonomy over corporate decision making, thus rejecting a vigorous state policy designed to re-structure capital. Furthermore, since unlike the French planners, Turkish planners lacked both direct control of investment funds and means to influence lending practices and direct the flow of credit to industry, as well, businessmen in Turkey could afford not to cooperate with planners.

From the vantage point of the business organizations, planning should do two things. First, state investments should definitely be planned to make sure that the SEE do not compete with the private sector in fields that businessmen have already made investments or plan to invest. Second, businessmen sought all possible state incentives -- such as tax reductions, grants or loans bearing a rate of interest below the market price, subsidized by the Central Bank -- irrespective of the fields of activity they would be engaged in, and moreover they expected the state to 'rescue' them in case they failed. "Should not private business be helped in case they incur a loss given that we live in a *democracy?*" uttered an eminent spokesman for business, reflecting the general concern of manufacturers as a whole.[291] Moreover, given that major businessmen had already invested in fields designed to substitute imports and oriented to internal markets, they sought the cooperation of planners to protect their markets by putting 'quotas' and heavy taxes on imported goods that were produced in Turkey.

Koopman -- and technocratic planners -- were staunch believers in orthodox economics and unlike state bureaucrats they publicly condemned 'protectionism' and the state policies of bailing out inefficient enterprises for whatever reasons there may be. Planning should create an environment conducive to the flourishment of private business, said Koopman by adding that enterprises -- either public or private -- should abide by general market criteria and try to rationalize their production by minimizing their costs and increasing the productivity of labor. "Protectionism is not a healthy method"[292] he

[291] The meeting between J. Koopman and the Istanbul Chamber of Industry took place on October 26, 1960 and the unpublished notes of this meeting is included in *Koopman's folder* in the archives of SPO, Ankara.

[292] *Ibid.*

added. In this dispute about the relative merits of protectionism, the indigenous and foreign representatives of technocracy seemed to frame this question in terms of facilitating the expanded reproduction of capital and the extraction of relative surplus value (respectively called 'investments' and 'innovations'), and hence opposed private capitalist interests in name of a collective notion of 'capital'.

As was the case with the draft bills, planners found a powerful ally in the ruling military committee who backed the notion of industrial strategy although with some reservations. Unpublished documents of the meetings designed to discuss the 'strategy' of the first five-year plan that were held among planners and the 15 members of the ruling committee, together with some invited university professors, in June 1961, may serve as a yardstick to measure differences of opinion -- and convergences as well -- between planners and military bureaucrats.[293] In these meetings planners' ideas about taxation reforms to increase the rate of savings in Turkey and their views about the reorganization of the inefficient SEE by rejecting to bail them out when they failed, created a rather 'positive' echo among the members of the military committee. (I will talk about the content of these reforms and about why they failed in the next section.) However it would still be a mistake to lump these two non-elected groups in the state together as a single body under the 'rubric' of bureaucracy as one observer did.[294] In fact, a close inspection of the meetings show that in contrast to planners' neo-liberal conception of the state,[295] not unlike the founders of French planning, military bureaucrats were still informed by an etatist-patrimonial tradition, holding the state responsible for the welfare of its citizens giving priority to 'social justice' and 'full employment' over economic growth and efficiency. In this context, planners' emphasis on adopting capital intensive production methods, perhaps at the expense of employment to maximize the productivity of labor -- defined as output per unit of labor input -- found a cold reception among military bureaucrats. And reciprocally military officers' emphasis on 'social' planning to decrease the income gap among social classes and perhaps to minimize ethnic tensions between geographical regions -- although this was never publicly confessed -- was not readily embraced -- and not

[293] See the unpublished document of the *Milli Birlik ve Planlama Danisma Kurulu Toplantisi Zapti*, June 10, 1961 - June 12, 1961 in the archives of SPO, Ankara.

[294] G. Tuzun, *op. cit.*

[295] The post-second world war conception of neo-liberalism -- very distinct from Freidmanist usage -- is thoroughly explained in R.F. Kuisel, *Capitalism and the State in Modern France*, Cambridge University Press, 1981. See Chapters 8-9.

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rejected either -- by planners who seemed to be preoccupied with the productivity of investments rather than their distributive effects. Planners also antagonized military rulers by attacking the desirability of military expenditures that was amounting to 30% of the state's budget, eating up the portion that was left for productive investments. A member of the ruling committee hastily responded that these expenditures were 'necessary' for national security purposes and that the budget of the Ministry of Defense was the best prepared and the least wasteful one among the budgets of individual ministries. In short, planners learned a valuable lesson: it was not easy to convince individual businessmen or military bureaucrats of the merits of an efficient capitalist system, and what was optimum from the vantage point of rapid economic growth may not have been politically feasible. Thus, benediction from the representatives of international organizations did not seem to suffice in promoting technocrats to a position of hegemony in the modernization bloc, as say was the case in postwar France or Japan.[296]

The Planners' Collective Resignation

The golden year of planning when planners were able to draw the not unconditional support of the military National Union Committee members ended with the November 1961 elections that brought to power a civilian coalition government whose members were divided about the relative merits of planning and their views varied from absolute denouncement of planning as a 'communist' ploy to considering planning as an almost sacred developmental device. Moreover even within the Republican People's Party (RPP) which as a party policy was in favor of planning, partly because their main political rival, the DP, was against it, opinions were divided, not the least because S. Inan himself -- whose project was defeated -- was a member of the party. But perhaps most significant with respect to struggles within the developmental alliance was the fact that elected politicians vied with each other to draw the support of business groups and reciprocally indirect yet effective pressure was brought to bear on planners by different fractions of capital via their political representatives who transmitted these pressures to planners either through informal channels or during the HPC meetings.[297]

[296] See R.F. Kuisel. *ibid.*, for France. For Japan see C. Johnson, *MITI and the Japanese Miracle*, Stanford University Press, 1982.

[297] Since no proceedings of these HPC meetings are published or even kept in the archives, I relied on *my interviews* with planners and politicians who participated in these meetings. There was anonymous agreement among the 20 planners I interviewed between September and December 1986 in Ankara and Istanbul about the undesirable intrusions in SPO's affairs by politicians, who, on behalf of private investors, often meddled with planners problems.

Throughout these struggles between planners and politicians, the former invariably looked at issues from the vantage point of the expanded reproduction of capital. In operational terms, this meant removing major institutional obstacles to private investments -- such as uncertainties about the long-term conditions of the market, the small size of the market, inadequate infrastructural facilities, etc. -- as well as reducing the concentration of investments in short-term and unproductive fields such as land speculation, real estate and gold. Indeed some individual incidents may reveal the actual configuration of the balance of forces among the members of the modernization alliance that planners sought to tilt in their favor with diligence, refusing to be de-promoted by the government to the status of civil servants like traditional state bureaucrats. One such incident relates to the use of social insurance funds that were mainly used to provide luxury housing for the middle classes. Claiming that an average of 34% of the gross fixed capital investments was eaten up by luxury housing,[298] planners fought for more productive uses of these funds to foster development of capital intensive industries. but to no avail. In addition, inspired by a Japanese or French type of industrial policy where technocrats would first identify the industries to be developed; and then choose the best means of rapidly developing these industries, planners also attempted to prevent the formation of unwanted branches of industry. Such was the case in 1961 when -- before the elections -- planners lobbied against and were able to prevent the realization of a project proposed by the private sector for the creation of an auto industry based on assembling imported parts in the country. Deciding that such an industry would have been competitive internationally if and only if its scale of production was no less than 50,000 cars a year and that the proposed project was far too small, planners did not approve of this project which did not conform to their notion of optimal size of production. They fared however less well after the elections with regard to the creation of the 'Eregli Iron and Steel Works' that was a significant joint enterprise between the state and private sectors. Although planners were not in principle against this project which was in line with their priorities, they pointed out the fact that the Morrison/Knudson corporation which was in charge of the project was not bringing the latest technology to the country and that a similar steel mill was built in Greece by the same corporation with a more advanced technology. However, since this project was

[298] See "Milli Birlik ve Planlama Danisma Kurulu Toplantisi Zapti," *op. cit.*

labeled as a private enterprise project despite the fact that its majority shareholder was the state, planners' approval was not needed and their private lobbying efforts to change the terms of the agreement with the foreign contractor, to their dismay, led nowhere.

Aside form these individual 'instances' of clashes among planners and private interest groups, a more systematic documentation of the dynamics leading to the collective resignation of the first planners may be obtained by comparing briefly the objectives of the Strategy Document of the first five-year development plan (1963-1968) that was approved by the Council of Ministers on June 19, 1961 before the elections, with those objectives finally retained in the final text of the plan, approved by the civilian coalition government.[299] Theoretically speaking, as it was stipulated by the Planning Law, the 'plan' itself should have been nothing but the technical elaboration and operationalization of the political choices laid out in the Strategy document; but such was not the case with the first plan. Discrepancies between the Strategy Document and the plan essentially pertain to three fields where major structural built-in obstacles were diagnosed by planners as inimical to the accumulation of capital and remedies were accordingly proposed.

The first of these discrepancies in the difference of outlook between the Strategy document and the plan itself concerns what is called 'Agricultural Reforms' in the strategy. In fact the draft of the First Five-year Plan that was prepared according to the strategy document was based on a report prepared by a foreign Food and Agricultural Organization (FAO) expert and foresaw a maximum limit to land holdings although "this limit was to vary according to regions, irrigation possibilities, and other characteristics of the land. A Commission was to be set up to implement the agricultural reform measures. On the other hand, the draft included proposals for the improvement of land tenure, the use of machinery and fertilizers, and the organization of agriculture in general, by encouraging agricultural cooperatives."[300] Yet, this project pertaining to land reform was not even discussed by the HPC of the coalition government because the governmental members of the committee were opposed to it. Technocrats, on the other hand, were insistent on this refoım because from their point of view the distribution

[299] For the section below I mainly draw on A. Sonmez, *op. cit.* and *The Objectives and Strategies of the Five Year Development Plans*, SPO publications, Ankara, May 1983, pp. 2-17 (in Turkish) and *my interviews*.

[300] A. Sonmez, *ibid.*, p. 41.

of agricultural land especially in the southeastern regions of the country provided incentives for 'absenteeism' and for the neglect of land holdings. Because of this situation the agricultural surplus was too low, making it difficult to feed the workers that would be released from the rural areas during industrialization, and the gap between the average income in the agricultural sector and other sectors was too high. This situation was a hindrance to productive investments that could hardly be spurred given the insufficient size of the domestic market stemming from the archaic nature of relations of production prevailing in agriculture.

Secondly, because more than 60 percent of industrial investments in Turkey was made by the SEE, the success of the Development Plan depended on the efficiency of these enterprises. Planners therefore vigorously sought a SEE reorganization reform. In the traditional Turkish practice of the so called *'etatisme'*, these enterprises fulfilled the double functions of supplying the private sector with raw and semi-finished intermediate goods at subsidized prices while buying their raw materials from rural producers for prices higher than the prevailing market prices so as to protect both producers and consumers from the winds of free competitions. In addition politicians relied on these enterprises for erratic welfare distribution measures and favoritism in order to obtain local political support. Consequently the SEE were forced to borrow from the Central Bank to meet their deficits which resulted either in increased inflation or the curtailment of productive investments so as to meet these deficits from funds allocated for new investments in the budget. In addition, governments used these enterprises to decrease unemployment by forcing managers of the SEE to hire too much manpower, resulting in the low productivity and even zero or negative marginal productivity of labor employed in these enterprises.

In their turn, planners, rejecting these *etatist* practices of protectionism of the inefficient and favoritism, tried to instill in the state a new conception of state economic intervention, based on rational market criteria and holding public managers accountable to the public at large for their deficit. In order to accomplish this end, planners proposed that the state should reveal to the public the amount of subsidies distributed by the SEE to private interest groups -- either producers or consumers -- so that once the total sum of these subsidies was deducted from the deficit of the enterprise, the efficiency of its management could be evaluated. By rejecting in principle the indiscriminate allocation of these subsidies to business groups on the basis of favoritism, planners were also denouncing an industrialization strategy based on providing cheap inputs for the private sector which could endanger the economic health and effectiveness of this sector by rendering them too dependent on subsidies, and consequently providing no incentive for the rationalization of management practices. In addition by proposing a new pricing policy for the SEE that should conform to market criteria, planners aimed to generate some additional funds in the economy -- given that the ratio of savings to GNP was a mere 12% -- that should have been used in accordance with the priorities of the plan and especially for undertaking new investments in capital goods. In short the actual functioning of the SEE was seen by planners as useful for individual capitalist interests and politicians, but dysfunctional for the expanded accumulation of capital. Hence radical measures to reform these enterprises were laid out in the draft proposal according to which "all the SEE's would be attached to a central authority which would exercise the function of control over the general management and investment policy of the SEE's and assure their coordinated action. This central body would assure financial auditing as well as maintain a permanent staff to introduce new methods of organization, personal management, etc. On the other hand each individual SEE would be given a free hand in its day-to-day operations and management. The central authority should be kept away from political and private business interferences. This principle of reorganization, *almost identical with the organizational patterns of the biggest international corporations,* was also refused by the HPC and deleted from the text."[301]

Finally, the last severe disagreement between planners and politicians that initiated the whole process leading to the planners' collective resignation, relates to the *financing of the investments* included in the plan. In fact, it was estimated by planners that in order to attain the 7% average annual rate of growth chosen for the planned 1963-1967 period, the ratio of total investments to the GNP would have to have reached 18.3%, a figure calculated from a Harrod-Domar type growth model assuming an average of 2.6 capital/output ratio.[302] Accordingly given the total amount of available foreign aid, internal

[301] A. Sonmez, *ibid.* (emphasis added).

[302] In fact $g = \frac{s}{k}$ was assumed. See Y. Kucuk, *op. cit.* for an elaboration and criticism of the model.

resources should have amounted to 14.8% of the GNP and in the present state of public savings this meant a shortage of 1.2 billion TL. Because the government refused to use social insurance funds or modify the pricing policy of the SEE's to generate the required funds, it was necessary to increase public savings via new taxes. Although the coalition government accepted to raise a new 800 million TL via new indirect taxes, this still left a shortage of 400 million TL as the government strictly refused to legislate new taxes, and even statements in the plan's draft such as "even in the final year of the plan, when all the increases in tax revenues have been realized, the tax burden in Turkey will still be smaller than it is in more developed countries"[303] were considered excessive and too frightening to private business interests and deleted from the text.

Planners had a proposal of their own to generate the required funds to finance their plan and perhaps more. Prof. Kaldor of Cambridge, England who was invited to Turkey by the SPO had come up with an agricultural taxation reform proposal *that was also very favorable to incentives for increasing agricultural output.* That it to say, the new reform would exert pressure on landowners to operate their plots efficiently via rationalizing production because the proposed taxation was progressive in the sense that an average net product would be calculated for each particular region and type of land and because farmers would not pay taxes for the products they get above this average, they would be motivated to mechanize their production and shun away from the underutilization of land. In the present state of affairs agricultural income was practically tax-free, even though agricultural income constituted over 40 percent of the GNP. This situation was a hindrance for the creation of new funds that could be used for industrialization, aside from the fact that this system created a social environment that provided no compulsion to improve labor productivity so as to accelerate agricultural development.

When the Turkish government refused to adopt Kaldor's proposals for land taxation, planners did not resign. The last drop that made the water spill over was the insistence of the government that planners should declare to the public that the GNP would grow by an estimated 7.6% for the first year of the plan. Given the shortage of funds due to the government's refusal to finance all of the investments outlined in the plan, planners calculated that only a 6.5% growth rate was feasible. Moreover,

[303] A. Sonmez, *op. cit.*, p. 42.

they grudgingly accepted the removal of their proposals in the first draft that were written in accordance with the strategy document, but asked the government to revise the strategy document so that its objectives could be rendered consistent with the revisions made in the final text of the plan. The government in its turn, not only refused to revise the strategy, therefore maintaining the objective of a 7 percent rate of growth while the means necessary to achieve this objective were all rejected, but it also increased its pressure on planners to 'lie' to the public that a 7.6 percent rate of growth for 1963 was within reach. Planners did not think that they could do what the government expected them to do, without denying their own material existence and their self-image as 'honorable technicians' which was consistent with their 'status'. By putting the question in terms of self-denial and motivated by the fear of getting reduced to the status of a state's *servant* by giving false information to the public, there was not much choice left to the founders of Turkish planning, but to resign, in October of 1962.[304]

The Prime Minister Ismet Inonu did nct welcome this decision and attempted to change the planners' minds but to no avail. Tinbergen himself who was serving as the chief advisor to the SPO and coming to the country four to five times a year for short periods of time, sympathized with the Turkish planners and in his private meeting with the Prime Minister, he stood for the same principles that led to their resignation.[305] In addition, in his memorandum dated November 28, 1963, a year after the resignation, Tinbergen remained loyal to the principles of the necessity of curbing building activity in luxury housing, and endorsed the planners' view of the need for tax reforms that hindered productive investments, etc., and declared that "in practically all the issues brought up by the SPO in the HPC, I agree with their opinion."[306] International organizations in their turn expressed their own high esteem for the young planners by offering them good positions in their institutions. That was perhaps all they could do because in 1962's Turkey the bloc of foreign capital and technocrats proved to be too weak to advance to a position of hegemony in the coalition of modernizing forces. And this modernization alliance itself now was broken as the flirtation between manufacturing capital and planners was over and

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[304] Planners themselves never published a book or article about their own motives underlying their decision. I was able to interview three of the four early planners and based my judgements on these interviews.

[305] This meeting took place on November 13, 1962 right after the resignation. A note on its content was found in *Tinbergen's folder* in the SPO archives.

[306] Tinbergen's Memorandum on November 28, 1963, *ibid.*

the burgeoning technocratic wing of the alliance had literally eclipsed from sight with the departure of planners for abroad.

Political Economy and the Hegemonic Bloc after the Resignation of the Founders of Turkish Planning

Shortly after the resignation of the first planners, the First Five Year Plan (1963-68) was put into effect. It responded closely to the wishes of the domestic market oriented industry and endorsed fully the so called import substitution industrialization (ISI) strategy that lasted almost 20 years (the lifetime of the first 3 plans), and became the overriding industrial policy of the nation, calling forth the formulation of a macroeconomic policy consistent with the requirements of the new ISI model. While discussing the work of Cardoso/Faletto, we saw that ISI was not a Turkish creation and was implemented in certain Latin American countries with a sizable internal market such as Argentina and Brazil. There are in fact striking structural similarities between Turkey and Latin American countries in the nature of internal and external forces and their particular interaction which provided the initial impetus for the adoption of ISI strategies in these countries, albeit at different times. In addition, in terms of economic policy, the most substantial common element between Turkey and Latin America was the pursuit of a closely governed and protectionist 'foreign trade policy' designed to protect domestically produced consumer durables from outside competition. A natural corollary of this policy was that behind the high tariffs and quantitative restrictions on the import of consumer goods, the state allocated chronically undervalued and scarce foreign exchange earnings to benefit industrialists so that they could import necessary inputs (capital and intermediate goods) to manufacture consumer goods. Hence, behind the protectionist walls erected by the state, an oligopolistic business class, accustomed to profits above the averages in the world markets for their products, was created. Thus, as I did for France (Figure 3), partly in the light of my preceding analysis on the economic performance of the Turkish economy under planning, and partly at the expense of running slightly ahead of our story (see the next section on development), I can now lay out an abstract model of the political economy of the ISI model as it was implemented in Turkey. It should be added that this model is a conceptualization of the golden phase of the ISI strategy before its virtual bankruptcy that preceded a political realignment among major forces in Turkish society, as well as between them and the state. (This political realignment will be the subject of my deplanification section.)

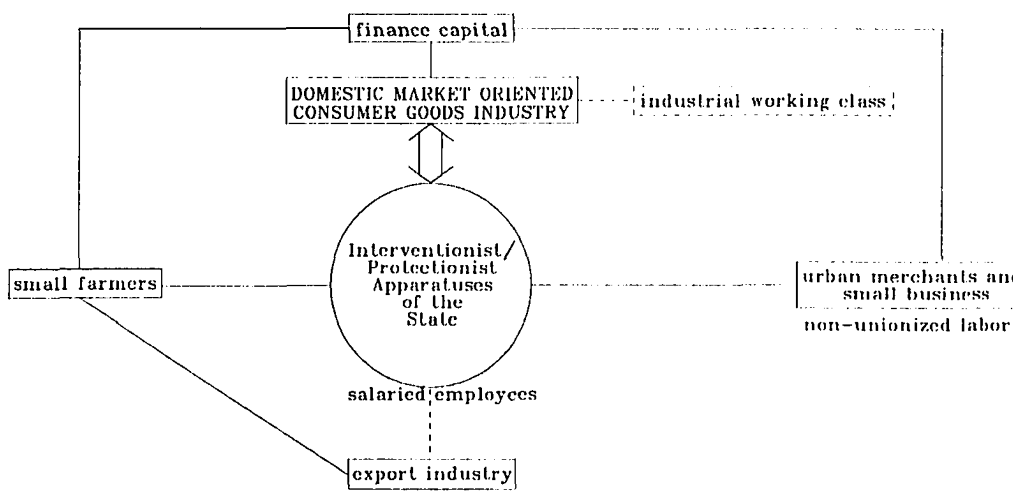

Figure 7: The Historical Bloc in the Planned 1963-79 Period in Turkey

As seen from the bloc formation represented at the top, the domestic market oriented light manufacturing sector (consumer durables) characterized by high degrees of concentration was hegemonic. An indication of the extent to which the industrial sector as a whole profited from the policies of the state may be detected from figures on the composition of GDP throughout the planned years, displaying a decisive trend in favor of manufacturing and at the expense of agriculture. Also when we compare the sectoral growth rates in industry and other sectors (agriculture and services), we again see a definite imbalance in favor of industry.[307] Finally, the distribution of profits within the industrial sector indicates that the producers of consumer durable goods received profit rates higher than export oriented producers of non-durable goods such as textiles. The state enterprises which were concentrated in heavy industry display low profits and even some losses throughout the planned years.[308] The hegemony of the domestic market oriented sector should hardly surprise anyone given that a very special relation existed between this sector and the state. This was so because cheap inputs were at the disposal of this sector since the

[307] See *Planned Development in Turkey and the State Planning Organization, op. cit.*, pp. 25-56, 28.

[308] The text of the Second, Third and Fourth Plans published by the SPO in 1968, 1973 and 1979 respectively contains invaluable information on this subject.

state oriented both its production (the SEE operated with deficits because they subsidized private industry) and its foreign trade policy (quotas, high tariffs and an overvalued exchange rate) to cheapen the cost of production in private industry. Also a reflationist fiscal policy aimed at boosting internal demand helped the 'protected' industrialists find market outlets for their products, while various incentives such as cheap interest rates and tax reductions convinced businessmen to undertake massive investments under minimal risk conditions. Nonetheless, as a whole, the protected and internal market oriented sector was characterized by low efficiency and high costs because the excessive domestic market orientation, combined with the availability of cheap inputs and guaranteed markets, made it unnecessary from the vantage point of industrialists to worry about their productivity and competitive position. Yet, despite all these advantages given to the manufacturing sector, industrialists complained about insufficient public support, and lacking a completely reliable exponent of the policies they favored within the state apparatus or in the party politics, they sought to create their own exclusive organizations such as the Turkish Industrialist Businessmen Association. Why?

This was so because the Turkish state -- unlike the French state -- did not have a 'core' in the sense that no 'privileged' apparatus which could respond solely to the hegemonic fraction's interest while denying access to the others including the so-called 'special interest groups' existed. In fact, although the SPO was intended at the very beginning to fulfill this function of mediating between the (would be) dynamic sectors of business and the rest of the state apparatus while being impermeable to other interests, it could never carry out the 'modernizing' role that it was supposed to do. Therefore, in contrast to France where there was a clear-cut separation and hierarchy between the 'interventionist' and 'protectionist' state apparatuses, in Turkey these two functions were not separated, and major economic apparatuses combined and alternated between them. Furthermore, economic administrators -- under the sway of politicians -- mediated between different fractions of capital and did not hesitate to carry out certain policies inimical to the interests of the industrial bourgeoisie when deemed necessary to preserve social and political harmony and the basic hierarchy of interests in society. The support and subsidy policy of the state for basic agricultural products for instance provided for terms of trade that consistently favored the marketized small-medium peasants to the dismay of the industrial sector. In a similar vein, small manufacturing and commercial capital harvested part of the rent created by the protectionist trade regime as the state condoned the allocation of some import quotas to them by the chambers of industry and commerce controlled by small business in the 60's. Finally, another dimension of the conflict between industry and other fractions of capital was due to the allocation of bank credit since the state owned banks often allocated large sums of subsidized credits to marketized farmers and small businessmen (especially in the construction sector), while commercial banks refused to accord priority to any single sector and preferred to loan short term credits to be used in speculative fields, especially construction and foreign trade. In economic terms, the clientelistic relations between the state and social groups inevitably led to inflation as many organized groups had some power to resist the imposition on them of an undue portion of the bill for the state's general backing of ISI. And as a result, unionized workers in the protected sector, as well as marketized farmers, merchants and operators of small businesses succeeded in keeping their income level intact or even slightly improved it during the planned period. ("In 1977, daily wages in manufacturing were the same as those in Greece (which enjoyed almost three times the per capita GNP) and double those of South Korea.")[309] Therefore if we judge the real losers of the economic policy from its distributional consequences, we can point to nonunionized workers in the small business sector[310] as well as to the fixed income groups such as the state's employees as the groups who paid the cost of development without receiving any of its benefits.

Summary and Conclusions

The discussion of the origins of planning in Turkey and France in this section was based on a perspective conceiving of planning as both a microcosm of the power bloc and an institution whose functioning shapes economic development. In explaining the reasons why planning became a more efficient instrument for development in France than Turkey, I focused on the differing nature of shifts in state interventionism as a result of a contrasting realignment of social forces in these two countries prior

[309] C. Keyder, "Economic Development and Crisis: 1950-1980," in I.C. Schick and E.A. Tonak (eds.), *Turkey in Transition, op. cit.*, p. 301.

[310] In fact, the average wage in small manufacturing companies employing 10 workers or less was around only 40 percent of the average wage in larger firms employing 100 or more workers. See A. Aksoy, "Wages, Relative Shares and Unionization in Turkish Manufacturing" in E. Ozbudun and A. Ulusan (eds.), *The Political Economy of Income Distribution in Turkey*, New York, 1980.

to the onset of planning. To reiterate my methodological bias: changes in the world economic system do not produce direct results determining the internal balance of social forces, but the external dynamic provides a set of constraints within which class struggle at the national level produces specific outcomes.

During the interwar period both the Turkish and French states experimented with national-autarchic development strategies, and state interventionism was, above all, oriented to safeguard the equilibrium of forces among different fractions of capital in the ruling class alliance via a policy of external and internal protectionism. In the immediate postwar period, the U.S. which had emerged as the leader of the capitalist world had both an interest in and the capacity for preventing the reoccurrence of such statist controls. The so called Marshall Plan then became the chief instrument via which the U.S. attempted to design a novel international economic order. Yet such a project had differential implications for Turkey and France: while U.S. funds were used in France to finance the ambitious industrial reconstruction program of the first plan, Turkey was only allowed to import agricultural machinery in line with the U.S. project to integrate this country into the international economic division of labor as a producer of cash crops and industrial raw materials.

In both Turkey and France the catalyst facilitating the founding of planning was the need to document the needs of the country to the satisfaction of foreign lenders. Thus, the external dynamic should be taken into account, but ultimately the final outcomes concretized by the publishing of the first plans far surpassed the imagination of foreign lenders. Ultimately it was therefore the internal class relations which determined the social and political preconditions under which the state's economic managers could play an active and positive role in economic development. More specifically I raised two specific questions addressed by the literature crosscutting between political sociology and development studies, and tried to formulate certain hypotheses to answer these questions in the light of the social and political struggles for the institution of economic planning in Turkey and France. To reiterate, these two questions were: *a)* how can one explain the dynamic through which the reforms come about that increase the rationality of capitalism; and *b)* why do some of these reforms become successfully institutionalized while others fail.

In answering the *first question,* the striking political difference between the two countries was that, as opposed to France, the Turkish bourgeoisie did not, at the outset of planning, confront the problem of integrating a working class movement inspired by communism so as to prevent the formation of a radical 'labor-middle class' alliance which could have threatened its own rule. In fact, in France planning was founded at a time when labor had achieved a breakthrough in power proportionate to business' loss of prestige and material strength during German occupation. In Turkey, on the other hand, 'business confidence' never lost its veto over state economic policies, as it did in France, due to some exceptional circumstances. Planning was therefore brought onto the political agenda in this country by the manufacturing capital itself which resented the pro-peasant and merchant bias in the ruling Democratic Party economic policies. In contrast, in France, planning was not brought onto the political agenda by business or at its behest; it was imposed on business by a reformist group of state administrators, who, having enjoyed full political support by the left-wing parties were determined to radically alter the investment behavior of businessmen and eliminate inefficient producers from the market place. In addition, these reformist state administrators, the so called 'cadres' in France, had already established close working relations with private investors in the context of the CO's during German occupation and thereby had acquired the extensive knowledge of the market mechanisms prior to the onset of planning.

Consequently both the nature of the realignments among social forces and the nature of 'hegemonies' resulting from the onset of planning were different in Turkey and France. In France the industrial bourgeoisie split in two, and some advanced segments allied with reformist state administrators and the working class representatives, while other fractions remained loyal to their protectionist allies such as merchants and small producers. The planning modernization commissions became the institutional medium through which a new 'modernization lobby' was forged in opposition to protectionist interests. Hence, *it is possible to hypothesize that* an analysis of the nature of the incipient modernizing blocs and the conflictual relations among the bloc members, as well as between them and the former members of the power bloc is of primary importance in unraveling the dynamics through which capitalism can reform itself via economic planning.

In trying to answer my *second question* relating to the relative success in the institutionalization of some reforms, I laid out two major claims to explain the long-term success of postwar reforms in France, as opposed to the failure in Turkey exemplified by the resignation of the founders of Turkish planning. Success in France meant that the institutional reforms initiated by the left-wing governments removed some of the political obstacles to the transformation of the economy by linking the state to the dynamic sectors of capital, characterized by the use of advanced production methods and a potential for international competitiveness. Two hypotheses have been developed and illustrated in the case of France in this context. *First,* the ability of planners to institutionalize planning reform depends on their ability to at least partially circumvent 'business confidence' as a veto on state policy in 'normal times'. Contrary to what F. Block asserts, such a situation is possible when planners are provided with direct control over the flow of funds to industry when business lacks means to self-finance. Consequently, business is left with no choice, but to cooperate. Hence a thorough analysis of the organization of financial markets is necessary to understand the effectiveness of planning and further detail will be given in the next section. *Second,* when planners can have access to investment capital, especially at a time when capital is scarce, the control of such funds (the Marshall funds and then the FME in France) enable planners to create vested interests from among the business class. Thus, although at the beginning, the whole business sector was opposed to planning, the sectors benefiting from the First Plan turned out to be strong allies of Monnet and sided with him against other fractions of capital which denounced planning.

Failure of planning in Turkey, in the context of the two separate questions I am trying to answer, has two distinct meanings. *Firstly,* in Turkey, not a single fraction of the manufacturing bourgeoisie was bold enough to disrupt its links with the pre-capitalist and small producer interests, and the flirtation between industrial businessmen and planners lasted only for a brief period, since these two entities coalesced only momentarily as a result of their common allergy to DP's anti-industrialization policies. Thus, in the face of the industrial sector's refusal to let the planners guide them 'to their true interests', Turkish planners could not distill the specific interests of certain segments of capital from an agglomeration of particular interests, and then present these specific interests of the advanced sectors of industrial capital as in the interests of the nation. In short, planning reform was thwarted from the very beginning because the composition of the 'modernization lobby' in Turkey, and the relative balance of power between this lobby and the excluded interests were not conducive to a structural overhaul of the dependent capitalist economy. To put it differently, early planners learned a bitter lesson on the political consequences of imitating the capitalist planning of advanced countries when the protectionist ruling bloc in their own country was strong enough to thwart an incipient planning experience that would question the industrial class' exclusive prerogatives over corporate decision making. And *secondly*, neither could the early planners successfully institutionalize their existence within the Turkish state. In fact, planners' attempts to affect the allocation of resources in the economy consistently failed in Turkey, given that in the context of the High Planning Council (HPC) they had to confront politicians who were adamantly opposed to planners' priorities for development. All fractions of the bourgeoisie exerted pressure on planners via the mediation of elected politicians who had the upper hand over planners in the HPC, and therefore unlike France where planners manipulated the flow of funds to industry via their discretionary control of special investment funds, planners in Turkey could not circumvent parliamentary control over their activities. Early planners in Turkey attempted to carve out a niche for themselves in the state machine but their attempts to generate necessary capital funds for industry to attain high rates of growth backfired in the face of a mounting campaign against their proposals for fiscal, agriculture, and the public enterprise reforms. Therefore planners could neither force businessmen to cooperate, nor create stakes for planning in certain pre-selected sectors of business as French planners did. Consequently, unlike France, Turkey remained heavily dependent on foreign sources for economic growth and failed to deepen its production profile. It is now the story of the evolution of planning systems and the structured differences in Turkish and French economies to which we turn.

III. THE DEVELOPMENT OF ECONOMIC PLANNING IN TURKEY AND FRANCE

Earlier while discussing various theories on development and on the state, I argued that through macroeconomic and industrial policies designed by the economic planners contemporary capitalist states may be instrumental in shaping the nature of class relations and the consequent patterns of economic development, albeit within the limits defined by the political balance of forces within their countries. Furthermore, in my last section on the 'genesis' of planning systems I attempted to spell out the social and political preconditions under which the state economic managers in France and not in Turkey could develop not only an active interest in but also a capacity for successful interventionism. To reiterate, relative 'success' in France referred to, first, the ability of planners to mobilize the economic resources necessary to finance rapid economic growth; and second, the problem of the allocation of these resources among alternative investment projects in a way that would privilege productive investments in capital goods sectors. Hence one should distinguish interventionism designed to 'generate' economic resources (i.e. capital and labor) from interventionism aimed at the effective 'allocation' of these resources. Such a distinction in fact provides the starting point and theoretical inspiration for the present section. That is to say, this section will principally claim that the limits imposed by the nature of the power bloc which constrain planners' room for maneuver have been more severe in Turkey than in France regarding both dimensions of state autonomy. In other words, planners in Turkey not only encountered unsurmountable obstacles in trying to generate economic resources in the form of taxation, agriculture and public enterprise reforms -- discussed in the last section -- but their capacity for affecting the allocation of industrial investment in a selective fashion was also more limited than that of their French counterparts.

The sociological literature on development and the state has either confused the two dimensions of state autonomy, that is the capacity to appropriate a surplus from society in the form of taxes and the capacity to selectively allocate this surplus to productive spheres, or has treated them as parallel developments. Typically the functionalist school argued that an increase in the autonomy of the state was called forth by the changing requirements of capitalist reproduction. More historically grounded research, such as the late Poulantzas', on the other hand, claimed that the evolving political power of the working class in western societies goes a long way in explaining the phenomenon of 'welfarism'[311] which may have been functional in stimulating domestic investments by preventing shortfalls in consumption and boosting internal demand. In my last section on the genesis of planning systems, I rejected the functionalist approach by showing that the relative economic autonomy of the state is a product of history and not the result of economic necessity; it is not conjured up just because it is 'necessary' for accumulation to proceed. In the case of Turkey I argued that the reforms proposed by the early planners would have brought economic benefits to the industrial fraction of capital in the longer run. But since such reforms involved economic costs to the industrial bourgeoisie in the short term and political costs as well, and since the proposed agricultural and taxation reforms threatened industrialists' partnership with landowners, small capital and merchants, a structural overhaul of the dependent capitalist economy was prevented. In the case of France, on the other hand, the relative economic autonomy of the state was made possible by the particular postwar circumstances of the reconstruction of the state and economy resulting in a major realignment in the ruling class coalition, and such a realignment provided the basis for the institutionalization of the planning reform.

Some scholars who reject the functionalist approach such as late Poulantzas and Cardoso/Faletto, in their turn, identify both the capacity of the state in deriving a larger surplus from society and the use of this surplus as transfer payments and for the public provision of social services as parallel developments expressing the growing power of the working class and its allies. As to the indicator of the state's economic capacity, the ratio of the government budget to national income is taken as the ultimate criterion and it is supposed that welfare or legitimacy expenditures[312] of the state grow as the public budget expands. Even the most cursory comparison of Turkey and France, however, challenges the idea of such a correlation. In fact, although the French government appropriates a larger amount of surplus from society in the form of taxes necessary to meet its expenditures than the Turkish government, paradoxically the ratio of welfare expenditures of the state to total budgetary expenditures is

[311] See N. Poulantzas' last work entitled, *State, Power, Socialism, op. cit.*

[312] See J. O'Conner, *The Fiscal Crisis of the State*, St. Martin's Press, New York, 1973.

higher in Turkey than France. To put it differently, the French state allocates a larger portion of its budget for capital formation than the Turkish state. In this section I hope to explain this persistent feature of French public policy, i.e. the maintenance of a high ratio of capital expenditure to total state expenditure, by illuminating the key role of planners in France as a powerful pressure group within the state which attempts to orient the budget towards capital formation. In Turkey on the other hand, planners failed to accomplish the same since a myriad of political compromises stemming from the nature of the power bloc in Turkey determined the use of the state funds, and such compromises ruled out a selective use of these budgetary funds privileging capital goods investments.

In short, the sociopolitical limits to increased public sector revenues and to the use of these revenues for the pursuit of industrial investments are different in Turkey and France. Consequently French planners are endowed with greater autonomy thanks to the postwar reforms initiated by the left-wing governments that removed some of the political obstacles to the transformation of the economy by linking the state to the dynamic sectors of capital. In this context, I argued that since French planners could exercise direct control over the flow of funds to industry when business lacked means to self-finance, they could circumvent 'business confidence' as a veto on state policy even after the exceptional circumstances of the immediate postwar era had vanished. Hence an analysis of the organization of financial or capital markets was necessary to understand the continuing effectiveness of planning. Accordingly, in this section I will primarily focus on what I call the second dimension of the relative state economic autonomy, i.e. *allocational effectiveness*, which can be defined as the use of political power to bypass the markets in the choice of investment projects and thus to secure conditions for the concentration of resources in the potentially most dynamic sectors of the economy.[313] Unfortunately in the social science literature on the state and development not only is the first dimension of the relative autonomy regarding the state's ability to generate economic resources not adequately explored, but the second dimension of state interventionism which I called allocational effectiveness is not taken into account at all.

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[313] Technical efficiency at the level of the firm, which can be defined as the optimal use of productive factors at given techniques to maximize production and minimize costs, should be distinguished from 'allocational effectiveness' in the sense described above.

My own distinction of these two forms of relative state autonomy is rooted not only in the empirical realm where we can identify different indicators of these two separate interventions -- these indicators will be revealed throughout this section -- but also in the fact that these two components of state autonomy reveal different political constraints imposed on the state managers. That is to say, if the state's 'generative' capacity to garner its revenues is limited by the nature of alignments in the power bloc, its 'allocative' capacity to bypass the markets and directly influence private and public investment decisions can be seen as the expression of the weakness of the financial fraction of capital. These two dimensions of state autonomy which are contingent on the balance of class forces in politics, in their turn, determine the extent of planners' effectiveness, provided that the plan's effectiveness is not gauged by measuring the degree to which its explicit targets are realized but by its influence on sectoral resource allocation. Hence it will be my *principle argument* in this section that in order to understand planners' instrumental role in economic development we have to examine closely the construction (and destruction) of the hegemonic fraction of the dominant classes throughout the evolution of planning systems in Turkey and France. Accordingly, I will discuss the evolution of planning in these two countries from the standpoint of power blocs, and I will discuss the changing nature of hegemonies in these blocs as planning evolved. Such a discussion will necessitate a thorough analysis of the *organization of capital markets* in Turkey and France to argue that thanks to the weakness of the financial fraction of capital which was the result of the postwar nationalization of private banks, French planners were endowed with effective tools to implement their industrial strategy which was inscribed in the modernization plans. Turkish planners, in their turn, were bereft of similar means as private banks maintained their autonomy, and planners themselves could not dispose of any discretionary funds which could have been used to affect the allocation of industrial investment in a selective fashion, as French planners did.

The key impact of the organization of financial markets on resource allocation has been neglected not only by sociological studies on development but also by economic science. In fact, in theoretical economics capital markets were not considered to have any appreciable impact on industrial behavior and in many influential studies economic growth was formulated as the result of a technological dynamic vertically free from political interventionism.[314] Some recent inter-disciplinary studies

[314] See for example, J.J. Carre *et al., French Economic Growth, op. cit.* The classical article which has settled the common paradigm in economics as to the neutral interaction between capital markets and industrial behavior is written

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informed by A. Shonfield's magisterial survey of economic policy differences among the advanced nations, however, convincingly argue that cross-national differences in the financial markets have had a determining influence on the variations among capitalist countries in the shaping of dissimilar patterns of industrial organization and growth.[315] It is also true that the leverage wielded by financial capital over corporate decision making depends on the cash flow situation of each enterprise. In other words, when industrial companies finance their investment projects to a greater extent through internally generated financial resources (self-financing) than through external capital procurement, financial capital loses its leverage over industrial capital. Naturally, the share of external borrowing in total investment resources of industrial firms varies extensively. Yet when we look at the national averages and compare internal sources as a percentage of total sources in the finance of investments among seven OECD countries, we can see that on the average industrial capital in France relies on external sources of finance significantly more than its counterparts in other advanced capitalist economies.[316] The same observation also applies to Turkey where the linchpin of relations between industry and the banks is characterized by the heavy dependence of industrial firms on both short and long-term debt to meet their needs of finance. Like France, the industrial sector in Turkey too has had throughout the planned period one of the highest debt-equity ratios compared to other developing capitalist ratios. Furthermore, since in both Turkey and France stock markets have been underdeveloped, industrial capital did not have any option but to depend on bank credits as the principle external source of financing new investments. Needless to add, given the very limited development of the stock exchanges, Turkish and French savers did not have many options other than placing their money in banks, unless they chose to hoard cash or gold at home. As a result, both the Turkish and French banks were in a position to exercise a proportionately greater influence over the affairs of industry than commercial banks could in countries where a wide range of assets are offered to savers on the capital market.

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by F. Modigliani and M. Miller, "The Cost of Capital, Corporation Finance and the Theory of Investment," *American Economic Review*, June 1958. The crux of the argument is based on assumptions of perfect information, competition, market integration and tax-neutrality in the functioning of capital markets. See S. Myers, "The Capital Structure Puzzle," *The Journal of Finance*, July 1984.

[315] See A. Shonfield, *Modern Capitalism, op. cit.*

[316] See R. Gonec, "Capital Market Changes and Corporate Strategies," paper prepared for the Eni-Isvet conference on "The Interaction between the firm and its environment," Milano, January 29-30, 1987, mimeo, graph 1 on p. 9.

Naturally when banks decide on the allocation of investment credits, market criteria prevail over other considerations in the shaping of resource allocation. In practical terms this means that banks use short-term revenue and profitability information as the main signal for their assessments of industrial companies and in their investment and divestment decisions.[317] Consequently heavy reliance by banks on short-term financial indicators discourages investments in the capital goods sectors since such sectors -- in the absence of political machination -- make a lower rate of profit in their early years than other industries because of the huge investment in fixed capital that is required at the outset. Governments therefore can not direct funds to desired heavy industrial sectors when the financial fraction of capital is endowed with full autonomy in the making of credit allocation decisions. Earlier I defined the second dimension of the state autonomy or 'allocational effectiveness' as the use of political power to bypass markets in the choice of investment projects in order to secure the concentration of resources in the potentially most dynamic sectors of the economy even if these industries may not be profitable in the short-term. Such an effectiveness -- which is the *sine qua non* condition of planners' capacity in shaping the nature of class relations in their society -- should be seen as positively correlated with the underdevelopment of stock markets but inversely related to the autonomy of the commercial banks. And, although enterprises both in Turkey and France do not significantly rely on the issue of bonds and stocks as a major source of external finance, the 'autonomy' of the banking sector in Turkey sharply contrasts with the substantial control exercised by the state over financial capital in France. In the context of Turkey, it has been mentioned before that bank credits were made available to commerce and construction while the manufacturing sector was starved of funds during the reign of the Democrat Party. The 1960 coup d'etat, in its turn, instituted planning and declared it as a panacea against the evil of underdevelopment but failed to endow planners with major tools to discipline the banking sector and turn the financial system into an instrument of planning. In France, on the other hand, the postwar reforms discussed in the last section provided French planners with the means to influence lending practices, and to direct the flow of credit into desired industries. Therefore, from the very beginning,

[317] See F.M. Scherer, "Take-overs: Present and Future Dangers," *Brookings Review*, Winter/Spring 1986, for a theoretical discussion of the inherent dangers concerning competitiveness and growth prospects of the economy when short term financial indicators are used to assess industrial firms' real value.

French planning was linked to the use of finance in terms of loan guarantees via the control of non-budgeted discretionary funds and administratively established interest rates as an instrument of selective intervention in the economy. In short, unlike Turkish planners, French planners could exert leadership in industrial affairs by pursuing specific goals in industrial organization and influencing "who produces what and how."[318]

In the light of what has been said so far I can now outline my basic propositions in this section regarding the effectiveness of planning in the two countries. Concerning France, I will argue that French planners have been instrumental in shaping the nature of class relations in their society by affecting both the composition of power bloc and the nature of hegemony within it. Indeed French planners intervened selectively not only to promote the development of particular industries but also they exercised determining influence in the promotion of particular firms to a monopolistic position within the same industry. Consequently, small and middle-sized production units have come to serve as sub-contractors to a modern competitive sector. Thus small business went through a metamorphosis and labor-intensive and less efficient production units were either forced to transform themselves so as to 'become pawns' to the modern sector or they were impelled to eclipse from existence as a result of the state interventionism.[319]

The chapter on France will be organized in two sections to illustrate these claims. First, I will discuss the effectiveness of planning on a synchronic-static scale to argue that the gist of planners' efficacy in France consisted of elevating the modern industrial sector to a position of hegemony in the power bloc. In the second section, I will discuss the evolution of planning from the standpoint of a change in the nature of hegemony in the power bloc as it evolved. It will be argued that in the first phase of planning which roughly corresponds to the period before France's entry into the European

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[318] See J. Zysman, "The Interventionist Temptation: Financial Structure and Political Purpose" in W.G. Andrews and S. Hoffman (eds.), *The Fifth Republic at Twenty*, State University of New York, Albany, 1978, p. 253. Also note that my usage of the term 'planner' encompasses any state administrator who designs and/or implements industrial policy by acting as a player in the financial marketplace so as to bypass the markets in deciding on resource allocation priorities. Therefore it will be more appropriate to talk about the existence of a 'planning community' in France, comprised of the CGP, the Ministry of Finance and the Ministry of Industry officials. As is well known, the top staff of these 'core' state apparatuses are mainly drawn from the so called Grands Corps, i.e. the graduates of elite universities, namely ENA and the Polytéchnique: see E.N. Suleiman, *Elites in French Society*, Princeton University Press, 1978.

[319] See A. Lipietz, "Which Social Forces are for Change?", *Telos*, Number 55, Spring 1983, pp. 13-35.

Economic Community (EEC), planners have been instrumental in promoting heavy industrial sectors oriented to domestic markets as a whole, but due to the internal market orientation of economic policy a significant transformation in resource allocation was ensured without a concomitant change in the scale of production units. In the second phase of planning, in line with planning's new orientation after the entry into the EEC in 1958, planners used their discretionary power via both horizontal and vertical subsidies[320] in such a way as to create a dynamic monopoly capital concentrated in skill and capital intensive investment goods sectors and oriented to exports. (This configuration is what I depicted in Figure 3 in the last section.) This phase of planning, in its turn, came to an end in the mid-70's, when, for a combination of internal and external factors which will be discussed my last section on *deplanification,* economic growth in France came to a standstill and the question of a political realignment in the power bloc appeared on the political agenda.

As to the effectiveness of planning in Turkey in shaping the nature of class relations, the principle argument of this section will be that in the absence of discretionary control over the flow of capital funds to industry, the Turkish planners relied on other extra-market mechanisms to transfer public funds to the accounts of the internal market oriented industrialists in consumer goods industries. Consequently, the resulting strains on the budget undermined the independent capacity of the state as an agent of economic growth. Moreover, the private industrial sector could not substitute for the state as the main pole of growth either since in the absence of state control over the reinvestment of profits, the beneficiaries of economic policies did not have any reason to plow back their profits to desired but risky capital and skill intensive fields. Instead, the producers of consumer durables maximized their earnings by investing in land and real estate speculation, and they extended their trade network via buying new transportation vehicles and opening marketing agencies all over the country. The restructuring of capital via deepening the industrial profile was naturally prevented because insofar as the state allowed profit margins to be kept high via various protectionist mechanisms, the local industrialists did not have any reason to move their resources to new fields and away from consumer industries.

[320] Conventionally, subsidies are described as horizontal or vertical. Horizontal subsidies are available to any company that meets a given set of criteria; vertical subsidies are open only to companies within a certain industry. For an illustration for France, see H. Aujac, "An Introduction to French Industrial Policy," in W.J. Adams and C. Stoffaes (eds.), *French Industrial Policy,* The Brookings Institution, Washington D.C., 1986.

In order to illustrate these claims the chapter on Turkey will be organized in two sections. First, I will discuss the basic administrative mechanisms through which planners subsidize the private sector. Namely, emphasis will be put on three subsidy schemes designed to benefit the manufacturing bourgeoisie: the provision of low priced inputs produced in the state economic enterprises (SEE's), generous tax rebates, and the preferential allocation of scarce and overvalued foreign exchange. I will claim that it was through the political allocation of these scarce resources that planners played a key role in shaping the nature of hegemony in the power bloc. In the meantime, the actual allocation of these scarce resources that required the planners' stamp of approval can be conceived of as the key domain around which major lines of economic conflicts in the power bloc were crystallized. (I pictured the functioning of the Turkish political economy in the planned period in Figure 7 in the last section.)

The second section will primarily discuss the sociopolitical reasons underlying the collapse of the ISI policy in Turkey before any deepening, i.e. import substitution in investment and capital goods sectors, was made possible. In discussing the sociopolitical reasons which prevented successful deepening in Turkey, I will challenge the assertion made by the 'modernization' theorists and 'liberal' economists that there has been 'too much' intervention by the state and the panacea lies in liberating the private sector from the strangle hold of planners. I will claim that these views overlook both the nature of the state-business links in relatively advanced peripheral economies such as Turkey, and they also neglect the existence of multifaceted and unequal links with the core economies. Likewise, I will claim that one should not pre-impute 'developmental' interests to local capitalists in the Third World, as modernization theorists do, and instead one should take into account the nature of the political economy in a given country in analyzing class positions, class projects, and class behavior. Following my empirical analysis of the political economy throughout this section, I will conclude that to the extent that industrialists were rendered economically powerful in Turkey, their real interests increasingly lied in choking off further industrialization rather than promoting it. Hence a commitment to economic development in Turkey will require a different type of planning and government intervention in the process of industrialization not yet found in the peripheral countries which have adopted capitalist planning of the core economies.

I will conclude this section by discussing the relevance of my historical investigation for the conceptualization of the state autonomy in a comparative context. More specifically, I will argue in favor of a reversal of the dominant paradigm that views the state as an independent actor endowed with the capacity of affecting class relations in the 'periphery' in a way conducive to development as opposed to the 'democratic' and 'pluralistic' state in the 'core' which serves as a conduit for struggles among interest groups. In fact, contrary to what the dominant paradigm suggests, it was the postwar French state where planners could insulate themselves from popular pressures and take decisive action to favor investment goods sectors, whereas Turkish planners lacked means to direct the flow of funds to industry in a selective fashion.

5. FRANCE

Major Claims

The great weakness of planning, commented one sympathetic observer, is that, it was "a most difficult activity with limited possibility of clear-cut success and high probability of starkly visible failures at best."[321] True, when one views planning from the forecasting end by attempting to measure the plan's effectiveness by measuring the degree to which its explicit targets are realized, more often than not he is surprised to see how far apart the *quantified* targets and actual achievements are from each other. And in the case of the perfect match between the targets and the realization rates, would the 'liberal' opponents of planners credit them with a 'real' contribution to growth? By no means. Says the ardent proponent of 'free markets' J. Rueff (an ex-Finance Minister in France): "planning is no different than a cock who believes in bringing the dawn via its cock-a-doodle-doo."[322] But why not? Who can in fact contravene Monsieur Rueff granting that the task of measuring the effects of planning on development would have been easier if it were possible to dissociate these effects from other factors affecting development? Unfortunately it is not possible to determine with certainty the efficacy of planning in causing development due to the impossibility of comparing the actual economic performance of a planned economy with a simulation of development in the absence of planning.

And suppose one approaches the question of planning's effectiveness not from the 'indicative' or forecasting end, but from the 'coercive' or resource allocation end. Can we then measure with certainty planning's role in the actual configuration of the production profile at a given point in time in a country, as opposed to what would have been the case if investment decisions were simply guided by market signals? To answer this question positively, we need some method of determining how a certain industry -- promoted by planners -- would have behaved and performed in the absence of a given set of interventionist policies designed by planners and aimed at this industry itself. Given the impossibility of direct experimentation no one so far could come up with a clear cut causal statement.[323] Planners, in

[321] See J. Hayward, "National Aptitudes for Planning in Britain, France, and Italy," *Government and Opposition*, Vol. 9, No. 4, Autumn 1974.

[322] See the article by M. Crozier, "Reflections on the Eighth Plan," in *Le Monde*, August 8, 1980 (in French).

[323] For an application of the econometric techniques to measure the contribution of planning to growth, see S. Estrin and P.M. Holmes, "The Performance of French Planning, 1952-1978," *Economics of Planning*, Vol. 16, No. 1, 1980.

their turn, do not even try to address these questions, except adopting a modest stance by saying that the plan should be seen as the expression of the economic strategy of the government, and in due process when government officials ask for it, planners both give and seek advice and thus play a certain (unspecified) role in the decision making process.[324] In addition, planners comment on the academicians' ordeal when these 'outsiders' try to apply econometric techniques to measure planning's efficiency: "industrial policy cannot be modeled easily: it defies representation in the economists' equations."[325] Such a statement uttered with undisguised amusement by a planner is in fact consistent with the daily practice of planners in France. Says the judicious observer A. Shonfield: "they (i.e. French planners -- V.M.) are strikingly unlike the popular image of the planner as a backroom boy with a slide-rule and a row of figures, and very little else. I remember one of them responding to a question of mine about how he checked upon some rather suspicious-looking production statistics for one industry. He picked up a piece of paper which was lying on the table in front of us and having brought it to his nose, sniffed at it energetically: 'One relies on one's sense of smell' he said."[326] Indeed planners do rely on their intuition rather than explicit blueprints in the making of industrial policy. Or at least they are perceived as doing so by others as an interlocutor from the world of big business comments: "My observations convince me that good industrial policy, like good cooking, is more an art than a science."[327]

It is true that French cooking can not be emulated in the absence of correct raw materials and kitchen equipment, but nonetheless one can at least make an effort to spell out these necessary ingredients, if not come up with a precise recipe. And this is precisely what this section aims at. Earlier, I argued that Turkish planners' effort in imitating the capitalist planning of France led nowhere because similar sociopolitical ingredients were lacking. Now, I will proceed in line with my analogy of planning as a traffic policeman who can both wave his hand and/or blow the whistle, and in the absence of direct causal experimentation, I'll provide some indicators regarding the effectiveness of planning at

[324] See the revealing introductory comments by the former head of the CGP, P. Masse, in J.H. McArthur and B.R. Scott, *Industrial Planning in France*, Harvard University Press, Cambridge, Massachusetts, 1969.

[325] See C. Stoffaes, "Industrial Policy in the High-Technology Industries," in W.J. Adams and C. Stoffaes (eds.), *French Industrial Policy*, *op. cit.*, p. 38.

[326] See A. Shonfield, *Modern Capitalism*, *op. cit.*, p. 138.

[327] See "Comments" by F. Didier, W.J. Adams and C. Stoffaes (eds.), *French Industrial Policy*, *op. cit.*, p. 38.

both the 'indicative' and 'coercive' levels. To reiterate, at the purely indicative level, planners attempt to minimize future uncertainties stemming from the (irrational) operation of free markets both in national and international scales. To this end, planners try to adequately forecast future trends of major economic indicators such as price, production, investment, consumption levels, etc., so that major economic players such as the government and private investors can adjust their own economic behavior in accordance with planners' forecasts. Hence, through forecasts, planning tries to influence economic behavior on a purely informational basis without recourse to sanctions or incitations. On the 'coercive' level, however, planners attempt to decide how resources are to be allocated, and then enforce their priorities on investors via positive tools by providing them with a wide assortment of subsidies, called incentives, or via negative tools by imposing sanctions and vetoing certain investments that violate the plan. Judging the general effectiveness of planning in the shaping of class relations in France, in affecting both the composition of the power bloc and the nature of hegemony within it, is the main concern of this chapter. We should therefore proceed through some workable hypotheses grounded in the view of planning as both an 'indicative' and 'coercive' enterprise, so as to spell out some indicators of effectiveness. Accordingly four such hypotheses are outlined below. The first of them views planning from the forecasting end and will be discussed in the next section. All of the rest (Propositions 2, 3, and 4) view planning from the resource allocation end, and they all relate to what I, in the previous section, called the two dimensions of the relative economic autonomy of the state: 'generative' versus 'allocational' autonomy.

Proposition 1: At the 'indicative level', the planning process works through civilian participation in the modernization commissions and exerts 'indirect influence' on the behavior of economic agents by providing them with comprehensive information in terms of sector specific as well as macroeconomic forecasts. To the extent that the agents made use of these forecasts, the overall effect seems to have been towards expansionism since forecasts led industrial firms to anticipate the future in a more optimistic way than they would have done without the plan.

Proposition 2: Within the state administration, the French planners play a key role as a pressure group in securing the allocation of a larger share of the budget towards industrial investments and capital formation than would have been the case otherwise.

Proposition 3: On the 'coercive level', the French planners did have at their disposal the financial means to force their resource allocation priorities on the economy, and they consistently employed these means of selective influence to fund profitable enterprises in the capital intensive intermediate and investment goods sectors of the economy.

Proposition 4: The amount of pressure brought by the state to bear upon individual firms and industries to comply with its industrial policy was subject to both supply and demand constraints. On the supply side, planners' capacity in influencing company strategies was inversely related to the degree of self-financing as a percentage of total investment finance in the private sector. On the demand side, planners attained their ultimate goal of rendering France internationally competitive in the production of certain high tech products to the extent that the state could control the market in which these products were sold.

Forecasts

Proposition 1

Forecasts in econometric language refer to the values that basic economic parameters such as the growth rate, exports, imports, sectoral production and investment levels, savings and government expenditure, etc., are expected to take at the end of the four- to five-year planned period. It is hoped that forecasts will reduce the uncertainty of the future and that the owners of capital will adjust their own investment behavior accordingly. It should be added that, the quality of forecasts may be affected negatively for an interconnected set of reasons. This is so, first and foremost because, planners forecasts stem from the work of modernization commissions where social partners confront each other and shy away from divulging their future plans to their competitors. Hence on the average, the projected demand and production figures are distorted "in the hope of misleading foreign (and perhaps domestic) competitors."[328] State officials, in their turn, in the hope of preventing supply bottlenecks in many industries, tend to exaggerate future demand so as to help insure an adequate supply. In addition,

[328] See J.H. McArthur and B.R. Scott, *Industrial Planning in France, op. cit.*, p. 430.

because commission reports are widely spread through numerous channels and they are extensively commented on in the public, planners cannot always make known in advance certain expectations so as not to draw accusations about 'self-fulfilling prophecies'. It would have been impossible, said a former French planning commissioner, "to announce in the Fourth Plan, in the middle of negotiating the Evian agreement, that one million people were to be repatriated from Algeria, even if one had considered this outcome as probable. Similarly, it would have been very difficult to forecast in the Fifth Plan an annual 2.5% increase in the general level of prices. In both cases, the government would have been reproached for having caused an unpopular event, even though it had simply predicted that such an event was probable."[329]

Aside from the issue of distortions, reducing the quality of forecasts, even if we suppose that at the end of the planned period ex-ante forecasts perfectly match the outputs, this still does not prove the effectiveness of planning. This is so because indicative planning's effectiveness is premised on its ability to influence the *investment behavior* of economic actors to ensure that the economy develops along a resource allocation path desired by planners. Therefore, a perfectly accurate forecast may have no impact on the economy if private expectations were already mutually consistent with the planners' estimates. In order to infer the effects of planning from forecast-outcome comparisons, therefore, one has to show that because the owners of capital were somehow pessimistic about the future of the economy they would not have invested in the desired fields, and indicative plans convinced them to the contrary. That is to say, it's possible that "very optimistic forecasts could raise growth to a higher rate than would otherwise have occurred, through their influence on enterprise decisions, even if they proved to be inaccurate in detail"[330] and this would be effective planning. And indeed the available survey material -- which is far from complete and satisfactory -- suggests that this may have been the case. The authors of the most authoritative study on French economic growth, for example, on the basis of material collected in interviews, conclude that the picture of a growing economy provided by the plan, in which production would be sure of finding sales, must have played a significant part in growth. This

[329] P. Masse, *ibid.*, p. xxii.

[330] See S. Estrin and P.M. Holmes, "The Performance of French Planning 1952-1978", *op. cit.*, p. 3.

was so because the conventional business wisdom during the early years of planning did have a pessimistic view of the future and for example: "according to the witnesses we have consulted, it seems likely that the growth expectations set forth in the Second National Plan (1954-57) were in contradiction to the conventional wisdom at the beginning of the 1950's, which expected that only low rates of growth were possible."[331] A prominent head of French planning, who earlier in his career had served in the public-owned Grant Electricity Company (EDF) corraborates this argument claiming that EDF "would never have decided in 1946 to choose as its objectives a near doubling of its highest prewar production figure, had it not been provided with a corresponding growth outlook (in the plan) for other sectors of the economy."[332]

In short, many observers who studied 'indicative' aspects of planning in France concluded that by announcing the required changes in the productive capacity of the economy to accompany a predetermined rate of growth, planning probably contributed in making the increases in productive capacity happen. Be this as it may, there is at least one aspect of indicative planning where the evidence is more conclusive, suggesting that many firms do indeed base their investment decisions on the plan's forecasts, and the influence of the forecasts on firms improves as the size of the firm increases. To back up this claim, the results of the 1967 study conducted by the INSEE (the French Statistical Agency) with a sample of 2000 firms are give below:

[331] See J.J. Carre *et al.*, *French Economic Growth*, *op. cit.*, p. 471. For the later phases of planning similar observations are confirmed by S. Estrin and P.M. Holmes, *ibid.*

[332] P. Masse in J.H. Arthur and B.R. Scott, *Industrial Planning in France*, *op. cit.*, p. xxi.

Table 1
The Influence of Plan Forecasts on Industrial Firms, January 1967
(percent)

Influence of National Plan forecasts (percent of replies)	Number of employees in the firm					
	10-99	100-499	500-999	1000-4999	5000-& over	Total
On investment decisions:						
Significant	8	11	20	29	51	24
Slight	28	36	38	40	42	37
Nil	64	53	42	31	7	39
On production decisions:						
Significant	9	11	16	28	35	20
Slight	25	35	36	41	47	37
Nil	66	54	48	31	18	43

Source: J.J. Carre, P. Dubois, and E. Malinvaud, *French Economic Growth,* Stanford University Press, Stanford, California, 1975.

In interpreting the replies on should consider three things. First, to the extent that the interviewed desired to be helpful to the agency carrying out the inquiry, the replies may have exaggerated the real influence of forecasts on the behavior of industrial firms. Second, even if such a statistical distortion were the case, one can not discount the positive influence of forecasts on industrial expansion since the top French firms which claimed to have taken forecasts into account were also responsible for a large percentage of the total national turnover. And, third, if a large number of big firms have been influenced by the plan forecasts, one should accordingly conclude that "from this cause alone the influence has been spread outward through small and medium firms serving as customers or suppliers of the large enterprises."[333]

Planning as Industrial Policy

Proposition 2

At the beginning of planning in France, in the absence of private savings, much of the task of financing the ambitious investment program, was thrown on the state budget. During the lifetime of the First Plan, thanks to the Marshall aid which was channeled to industrial investments in France, public funds accounted for 45% of total investment expenditure carried out in accordance with the objectives

[333] See J.J. Carre *et al., French Economic Growth, op. cit.*, p. 470.

of the plan. (See my Table 4 in the last section.) After the ending of Marshall aid, the proportion of new investments financed by public funds suddenly dropped to about a third of all investments and stabilized around 25 percent of productive investments from the second plan onwards. (See Figure 3 in the last section.) As to the French state's ability to raise a surplus from civil society in the form of taxes, note that the share of public expenditures in the GNP was very high even compared to western standards. (It was around 40-50% of the GNP as can be seen from *Figure 1* below. In 1966 for instance tax revenue amounted to 44.5% of national income, the highest percentage in the world for a developed country.)[334] In addition, the share of capital expenditures to total state expenditures was also substantial in France. To phrase it differently, the share of the so called legitimacy expenditures in the state budget was lower in France than in other western economies. Moreover, although after the ending of Marshall aid, the ratio of capital expenditures to total state expenditures declined, this ratio still hovered around 30 percent from the Second Plan onwards, a remarkable figure compared to other national standards in the advanced capitalist systems. (See *Figure 2* below.) In short, what I called the first dimension of the state's relative economic autonomy, or the state's 'generative' capacity to garner substantial revenue from society, was high in France. In addition, the French state -- at least until the mid-60's -- could afford to postpone the issue of using the surplus it appropriated from society towards redistributive welfare expenditures in the form of transfer payments and public provision of social services. Naturally, as a combined outcome of all of these factors, the state's economic autonomy in France manifested itself in terms of high investment rates (public and private investments combined), steadily rising after the introduction of planning and stabilizing around a fourth of the GNP from the mid-60's onward. (See my Table 3 of the introductory chapter.)

[334] See J. Sheahan, *An Introduction to the French Economy, op. cit.*, p. 91.

Share of Public Expenditures in the GNP
(in constant francs)

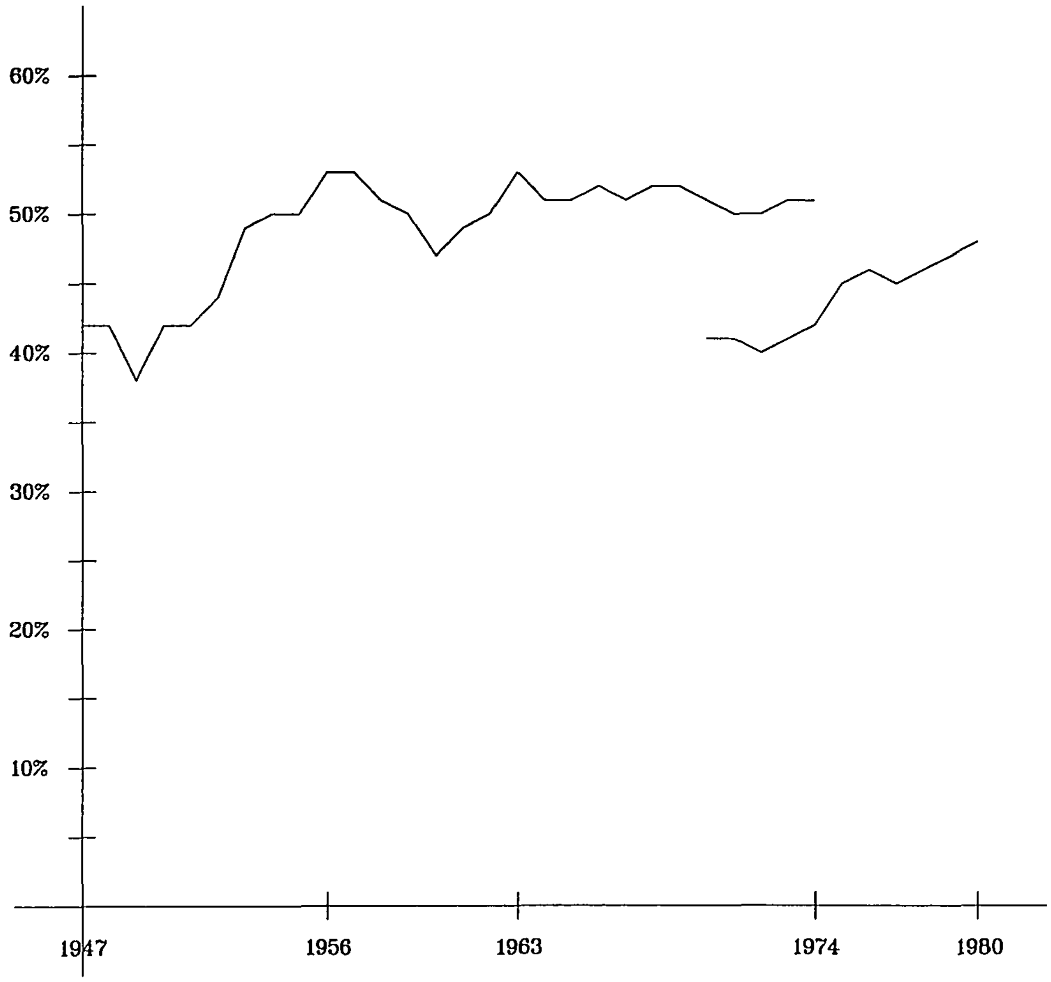

Figure 1
Public Expenditures = the state expenditures + local government expenditures + social security
Source: H. Rousso (ed.), *De Monnet A Masse*, Editions du Centre National de la Recherche Scientifique, Paris, 1986.

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Share of Investments in Public Expenditures

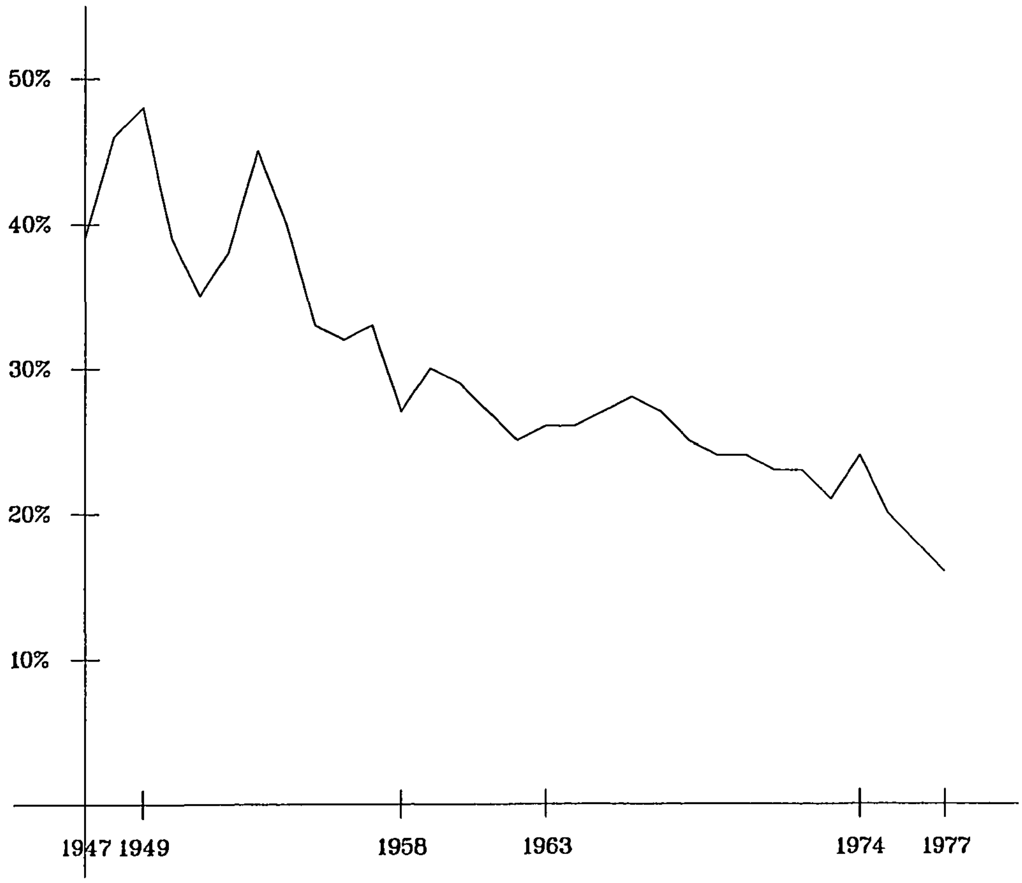

Figure 2
Investments = civilian + military
Source: H. Rousso (ed.), *De Monnet A Masse*, Editions du Centre National de la Recherche Scientifique, Paris, 1986.

Legally speaking, the existence of the plan as a text by no means guarantees the financing of public investments inscribed in the quinquennial plans. In France, as elsewhere in the capitalist world, government budgets are prepared on an annual basis by the budget department of the Finance Ministry and becomes a law following the parliament's approbation. In due process, many government departments and lobbies representing interest groups jockey for funds from the budget, and no legally binding criteria exists in France ensuring the evaluation of claims on budgetary funds on the basis of the criteria laid down in the plan (as we will see in the following section, such a criterion was instituted from the mid-70's onward). Furthermore, even if one assumes that the budget department of the Finance

Ministry is willing to share its power over the allocation of state expenditures among competing claims with planners, certain technical difficulties remain. That is to say, since budgets operate on an annual principle, as opposed to many sectoral investments inscribed in the plan which necessitate longer-term commitments, effective coordination between the short-term budgets and the middle-term planned investment programs often becomes a thorny issue, and especially this may be so when the urgency of inflationary pressures force the Finance Ministry to hold down investment expenditures. Moreover, even if this were not the case, the problem of translating the sectoral production targets outlined in the plan in terms of physical quantities such as volumes, tons or kilowatt-hours, to the budgetary language, whose sole unit consists of a nominal quantity (i.e. money), cannot be easily resolved without jeopardizing the successful implementation of planned investment expenditures.

Yet, despite the existence of all these legal and technical obstacles, there exists a consensus among observers of French planning, who otherwise disagree on planning's efficacy in France. That is to say, in the literature, planners' positive role in maintaining a high share of capital expenditures in the budget is pointed out time and time again as a constant feature of French politics.[335] We can empirically substantiate these claims by looking at Figure 2 above. Note that, not only the share of capital expenditures in the budget display a steady behavior, but more significantly we can see that *public investments remained substantially intact* even during recessionist periods characterized by budgetary austerity and stabilization measures (such as the years 1958-59, 1963-65). Thus, in contradistinction to many other capitalist countries which experienced a stop-go style Keynesian short-term economic management in the postwar period, the French state opted for a steady course maintaining its high ratio of capital expenditures *irrespective of* business cycles.[336] This sense of priorities, privileging industrial investments over other economic considerations, is concisely summarized by Giscard d'Estaing who is considered by many to be the most outspoken opponent of planning among the all-time French presidents:[337]

[335] See A. Shonfield, *Modern Capitalism, op. cit.*, J.J. Carre *et al.*, *French Economic Growth, op. cit.*, S.S. Cohen, *Modern Capitalist Planning: The French Model, op. cit.*, R.F. Kuisel, *Capitalism and the State in Modern France, op. cit.*, and P. Bauchet, *French Planning*, Seuil Publication, Paris, 1966 (in French).

[336] For national comparisons see the articles by P.A. Hall, "Patterns of Economic Policy: An Organizational Approach," S. Bornstein, *et al.* (eds.), *The State in Capitalist Europe*, Allen and Unwin, London, 1983 and J. Hayward, "National Aptitudes for Planning in Britain, France, and Italy,", *op. cit.*

[337] Planners' own testimony is documented in an epic style in F. Fourquet, *Les Comptes de la puissance: histoire*

"I consider that my mandate at the Ministry of Economy and Finance runs until 1976. My objective is, by that date, to bring France to an industrial level about equal to that of Germany and England. I would prefer to attain this objective without inflation. But if I have to choose, I would opt for industrial development and regard the fight against inflation as secondary."[338]

In the literature, the priority given to industrial investments in France over other forms of state expenditures is often explained as the outcome of a powerful lobby within the state encompassing the planning agency, the Ministry of Industry and the key department of the Finance Ministry: the Treasury.[339] It is therefore claimed that, in periods of credit squeeze when the government is obliged to reduce its own expenditure, the plan acts as a brake on cuts in vital public investments as planners and their allies spur the government not to cut loans to the basic sectors. There is no doubt that such a trio consisted of powerful expansionist pressure group within the state and became instrumental in guaranteeing that even during the periods of deflation, the budget policy remained fixed resolutely on long-term growth objectives. What is mentioned less in the literature is that, without the three interconnected legal-financial tools such an expansionist lobby would have been less successful in its defense of 'industrial' interests.[340] Specifically, *first,* planners' influence on the budget was made possible through their representation in the interministerial committees which met each year and gave its final shape to the state budget. Hence, from the very beginning of planning in 1946, a technocratic element was always present in the economic decision making process, within the French state and alongside the elected politicians. *Second,* perhaps more significantly, planners could rely on what was called the *loi-programme* (programming laws), a legal device introduced in 1954 which was intended to allow the planners to draw on public funds to secure the continuation of infrastructural public investments independently of annual budget, and "regardless of whatever short-term decisions on the employment of public funds were made by the majority in parliament."[341] And *finally,* through their joint control of a specific, non-budgeted capital fund, the FDES, the Treasury and the CGP officials could easily bypass

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du plan et de la comptabilite nationale, Editions Enores, Paris, 1981.

338 E.N. Suleiman, *Elites in French Society, op. cit.*, p. 262.

339 See J. and A-M. Hackett, *Economic Planning in France*, Allen and Unwin, London, 1963; see also conclusions by E. Lisle in *From Monnet to Masse*, paper presented in the colloquium organized by the IHTP and under the direction of H. Rousso, June 24-25, 1983, CNRS, Paris, 1986 (in French).

340 A. Shonfield and S.S. Cohen provide notable exceptions to this claim.

341 A. Shonfield, *Modern Capitalism, op. cit.*, p. 130.

the parliament and provide public finance for investment projects deemed to be in the interest of industrial development. (This Fund for Economic and Social Development which was founded in 1955 substituted for the FME which had principally drawn on the Marshall aid and which was the major instrument in the realization of the First Plan's targets -- see chapter 3.) On the average it was the public enterprises, principally in the energy and transportation fields, whose investments were programmed in the plan in physical quantities that benefited from the FDES credits.[342] The role of the CGP officials who were directly represented on the management board of FDES was therefore noteworthy in determining the size of investments by public enterprises in the basic sectors (transportation, electricity and coal), which then determined the extent to which the rest of the economy could develop.

Proposition 3

The actual process of planning goes further than calculating appropriate production targets for each industry necessary for the realization of overall macro-targets. That is to say, the CGP assigns one staff member for each 'industry' to keep in constant contact with the top firms in this industry, and thus a steady dialogue can be maintained between planners and private businessmen, not only during the preparation but also throughout the course of implementation of the plan. As Shonfield aptly summarizes, this official in the CGP, "tends to see his relationship to 'his' industry ... as part industrial consultant, part banker, part plain bully. His job is to maintain constant pressure on an industry, by any tactical means that happens to be available, to keep it moving in some desired direction."[343]

The official in the planning agency can afford to be 'part banker, part plain bully', given that the state controlled investment banks issuing medium and long-term loans turn first to the CGP for its opinion on the conformity of the loans with the plan's objectives, before granting any credit to private business. In addition, new issue of bonds and stocks for both private and public companies requires the permission of the Treasury, and planning officials are consulted before such a permit is given and also before deciding whether or not the issue of new shares by companies is to qualify for dividend tax

[342] The year 1962 may be seen as a turning point in that after this year the private sector increasingly benefited from the FDES loans at the expense of the public enterprises. See C. Andrieu, "The Financing of Investments Between 1947 and 1974," H. Rousso (directed), *From Monnet a Masse, op. cit.*, pp. 45-47 and annex 3 (in French).

[343] A. Shonfield, *Modern Capitalism, op. cit.*, p. 137.

relief.[344] (For a list of a comprehensive package of incentives that may be brought together in the promotion of a single investment project by planners, see the genesis chapter.)

Yet planning's role in the determination of the investment behavior of businessmen goes beyond the influence suggested by a mere summation of incentives. That is to say, when the planning community is understood as comprised by an expansionist lobby within the state encompassing the CGP, the Ministry of Industry and the Treasury, the extent of what I earlier called the 'allocational effectiveness' or the second dimension of relative economic autonomy of the state can be judged fairly easily.[345] And the most striking institutional aspect of state interventionism in France which is "unheard of in other Western European countries,"[346] concerns the special suitability of the financial system to the pursuit of an expansionist industrial policy. In fact, the degree and scope of selective influence that the state exercises over access to banking credits and the price at which these credits are available is remarkable.[347]

More specifically, the planning community's ability to affect the allocation of industrial investment in a selective fashion stems from a series of institutionalized controls regarding both 'macro' and 'micro' level interventions in the capital markets. On the 'macro' level, the major vehicle of control regulating the sectoral flow of funds to industry consists of a system called the *Encadrement de Credit* (EC) which concerns the credits distributed by the deposit-taking institutions or the Commercial Banks. These banks, which directly collect savings from households, control approximately 50 percent of total lending in France to industrial and commercial activities and directly to consumers (see *Table 2* below). Yet, through the *encadrement* system, the planning community (or more specifically the Treasury in this instance) can manipulate both the quantity and the inter-sectoral composition of the distribution of credit granted by the banking sector. The EC system consists of a ceiling established by the Treasury for each deposit-taking institution to regulate the maximum amount of credit that can be lent to the

344 *Ibid.*, p. 170.

345 The articles by E. Chadeau, H. Rousso, C. Andrieu and J.P. Courtheorix in H. Rousso (ed.), *From Monnet to Masse, op. cit.*, are particularly illuminating concerning the conflicts within the French administration.

346 See J. Zysman, *Governments, Markets, and Growth*, Cornell University Press, Ithaca, New York, 1983, p. 51.

347 See *ibid.*, pp. 99-171 for valuable insight into the workings of the French financial system. Another good source is S.S. Cohen, J. Galbraith, J. Zysman, "Rehabbing the labyrinth: the financial system and industrial policy in France,", in S.S. Cohen and P.A. Gourevitch (eds.), *France in the Troubled World Economy*, Butterworth Scientific, London, 1982.

private sector. Then, the intersectoral flow of credit to industry can be manipulated by the Treasury as *exemptions* are created from EC limits for certain categories of lending. That is to say, when the state, in accordance with planning priorities, exempts certain industrial intermediate and investment goods sectors geared to exports from *encadrement* rules, commercial banks' loans to these industries do not count towards the fulfillment of their respective credit quotas. Therefore, exemptions from the EC system favor the concentration of credit in the areas selected in accordance with the state's industrial strategy.

Table 2
Shares of loans and other claims on the non-financial sector in France, end 1975

	French francs (in billions)	Percent of total shares	Growth factor 1965-1975
Central bank (4.1%)			
1. Bank of France	56.6	4.1	1.7
Deposit taking institutions (48.3%)			
2. National banks	243.4	17.5	4.5
3. Other deposit banks	157.6	11.3	4.5
4. Investment banks	26.0	1.9	4.5
5. Popular banks	34.9	2.5	5.6
6. Agricultural credit banks	177.5	12.8	6.2
7. Mutual credit banks	18.3	1.3	n.a.
8. National savings bank	-	-	-
9. Ordinary savings banks	13.9	1.0	n.a.
10. Postal Giro	-	-	-
Long-term credit institutions (32.9%)			
11. Long-term credit banks	8.9	0.6	
12. Foreign Trade Bank	12.0	0.9	10.3
13. Credit National	25.6	1.8	3.8
14. Credit Foncier	52.7	3.8	2.7
15. Caisse des Depots et Consignations	222.0	15.0	4.2
16. Social Housing Loans Fund	74.2	5.3	n.a.
17. Other special credit institutions	11.5	0.8	n.a.
18. Public Treasury (and FDES)	51.0	3.7	1.2
Investing institutions (9.3%)			
19. Insurance companies	97.9	7.1	5.1
20. Mutual funds (SICAV's)	25.0	2.8	22.1
21. Common investment funds	6.0	0.4	n.a.
Other financial institutions (5.4%)			
22. Cooperative credit institutions	14.4	1.0	4.5
23. Finance companies	53.4	3.9	7.5
24. Regional development corporations	7.1	0.5	n.a.
	1389.9	100.0	4.2

Source: J. Zysman, *Governments, Markets, and Growth,* Cornell University Press, Ithaca and London, 1983.

The 'micro' level counterpart to the EC system consists of the direct state control of the flow of funds to industry via the planning community's discretionary power over the loans issued by the non-bank financial intermediaries in France, called the special financial intermediaries (SFI), which are long-term credit institutions. Strictly speaking, the SFI's are not banks since they can not collect deposits from the households. In fact, until 1966, the deposit-taking institutions in France could not make medium and long-term loans, and funds collected by them were lent to the SFI's which in turn decided on the final use of these capital funds under the strict guidance of the Treasury and CGP officials. Although after the partial de-regulation of the financial markets in 1966, the commercial banks were allowed to grant longer-term industrial loans and to buy shares in the companies,[348] the SFI's remained the key instrument of preferential (subsidized) credit distribution. In fact, even after the de-regulation of the financial institutions, the SFI's still control a third of total loans, as they still receive a substantial part of the commercial banks deposits, or directly raise capital from the money markets, or rely on loans from the Treasury. In addition, the SFI's rarely finance trade and service activities and concentrate their portfolio in industry, including loans to the construction sector *(credit Foncier)*, to the 'industries of the future' *(credit National)*, and to the declining heavy industrial sectors if the planning community decides to bail them out (see Table 2 above). More significantly, of all the credits bearing favorable terms for the recipient (approximately 40% of credits are subsidized in France), the share of the SFI's is 68%, as opposed to a mere 32% provided by the banks.[349] Furthermore, if one takes the 1969-83 period as a criterion after the de-regulation of the capital markets, it is remarkable to see the congruence between the aims of industrial policy inscribed in the plans emphasizing the need for promoting exports in capital intensive sectors and the actual distribution of subsidized loans. In fact, 81% of all credits loaned out by the SFI's to the high tech industrial equipment sector, and 67% of credits to exports, enjoyed interest on their loans a few points below the prevailing market rates.[350] Hence, the flow of long term credits can be manipulated by the planning community in a selective fashion, either in the promotion of new industries or in the management of crisis situations in declining heavy industries.

In short, through the leverage provided by the financial system, the industrial policy of the state could penetrate deep into the industrial fabric, affecting not only industrial sectors but also individual firms. Typically, in other western economies where resource allocation is left to the markets, the non-bank financial intermediaries such as the insurance companies or pension funds enjoy independence from the state in their lending decisions and constitute the major external source of finance for

[348] But in return, the *encadrement de credit* system, described above, was instituted.

[349] See R. Penaud and F. Gaudichet, *Selectivity of Credit Financing, Monetary Policy,* Economica, Paris, 1975, p. 36 (in French).

[350] *Ibid.*, p. 76.

enterprises when industrial firms issue bonds or stocks to be sold in the markets.[351] In contrast, the state administrators enjoy discretionary power over the allocation of resources in France as the activities of both the SFI's and the deposit-taking institutions are regulated at macro (EC system) and micro (preferential credits by the SFI's) levels. Needless to add the specificity of the French political economy and the institutionalization and functioning of its allocational apparatuses was a product of the postwar reforms -- discussed in the last section -- which redefined the relations of the state to the business class, in general, and to its advanced fractions, in particular. Otherwise, the SFI's in France existed from the time of Napoleon de Bonaparte onwards but were never used as selective instruments to influence the allocation of industrial resources. Hence, my own analysis of state interventionism should be seen as separate from that of the institutional school (see section 2 of the second chapter). In fact, unlike the institutional school, I am claiming that *unless the political balance of forces is transformed, a mere import of 'institutions' from France may not lead to a replica of the French experience.* (In the next chapter on Turkey I will further substantiate this argument.)

Proposition 4

The picture of an omnipotent state described in the last section did not take into account the existence of certain political constraints on state interventionism in France, stemming from the nature of its political economy and manifesting themselves in the economic realm in terms of 'supply' and 'demand' problems limiting the implementation of industrial policy. To start with the supply side, which somehow poses a lesser obstacle to the state as far as its allocational effectiveness is concerned, two features of the French economy facilitate planners' leverage over corporate decision making. That is to say, when planners negotiate with economic actors the conditions and direction of industrial expansion and reinvestment of profits, planners' main weapon on the supply side consists of their discretionary control over the flow of funds to industry. Businessmen in their turn can afford not to cooperate with planners to the extent that they can generate necessary funds for new investments from internal sources or from external sources which are not under planners' control. Yet, as has been said

[351] For an excellent comparison of Sweden and France, see J. Pontusson, "Comparative Political Economy of Advanced Capitalist States: Sweden and France," *Kapitalistate*, 1983, pp. 43-73.

before, self-financing as a percentage of total investment has always been very low in France throughout the planned period compared to other western nations.[352] Although many factors may account for this feature of French economy, the predominant factor resides in the availability of high profit opportunities in the politically controlled markets (created via planning incentives) which may have induced businessmen to borrow heavily under advantageous terms from the capital markets. As to the second feature of the economy strengthening planners' hand vis-a-vis businessmen, it should again be emphasized that the French system of finance is credit based; that is a strong non-bank capital market has historically not been present in France, and therefore most external financing of French companies cannot be arranged through their direct sale of securities to the public. *(Table 3* below proves that the French securities market is small by international standards.) And to the extent that French companies do issue bonds and stocks, the planning community's approval is a necessary prerequisite for obtaining permission from the Treasury to issue new securities.

Table 3
Domestic securities as a proportion of Gross Domestic Product, 1975
(percent)

Country	Bonds[a]	Equities[b]
France	16	11
West Germany	30	13
Japan	41	29
United States	57	45
United Kingdom	43	41

a. Nominal value of bonds outstanding.

b. Market value of listed equities.

Source: J. Zysman, *Governments, Markets, and Growth,* Cornell University Press, Ithaca and London, 1983.

In short, as long as business is dependent on the state-controlled financial markets for a substantial share of investment finance, "and approval of a proposed investment project by the Planning Commission is an important determinant of the allocation of public investment credits, business would be compelled to cooperate with the plan."[353] And, the state in its turn, can either finance private invest-

[352] See S.S. Cohen, *Modern Capitalist Planning: The French Model, op. cit.*, pp. 22-23 for the self-financing rations between 1947-59.

[353] *Ibid.*, p. 23.

ments directly from its budget, or via its control of certain non-budgeted discretionary capital funds such as the FDES; or it can finance private investments indirectly via the Treasury's leverage over both the non-bank financial intermediaries, the SFI's, and the deposit-taking institutions. As to the particular weight of each of these direct investments between 1947 and 1974, *Figure 3* below should provide an answer.

Sources of Investment Finance: 1947-1974

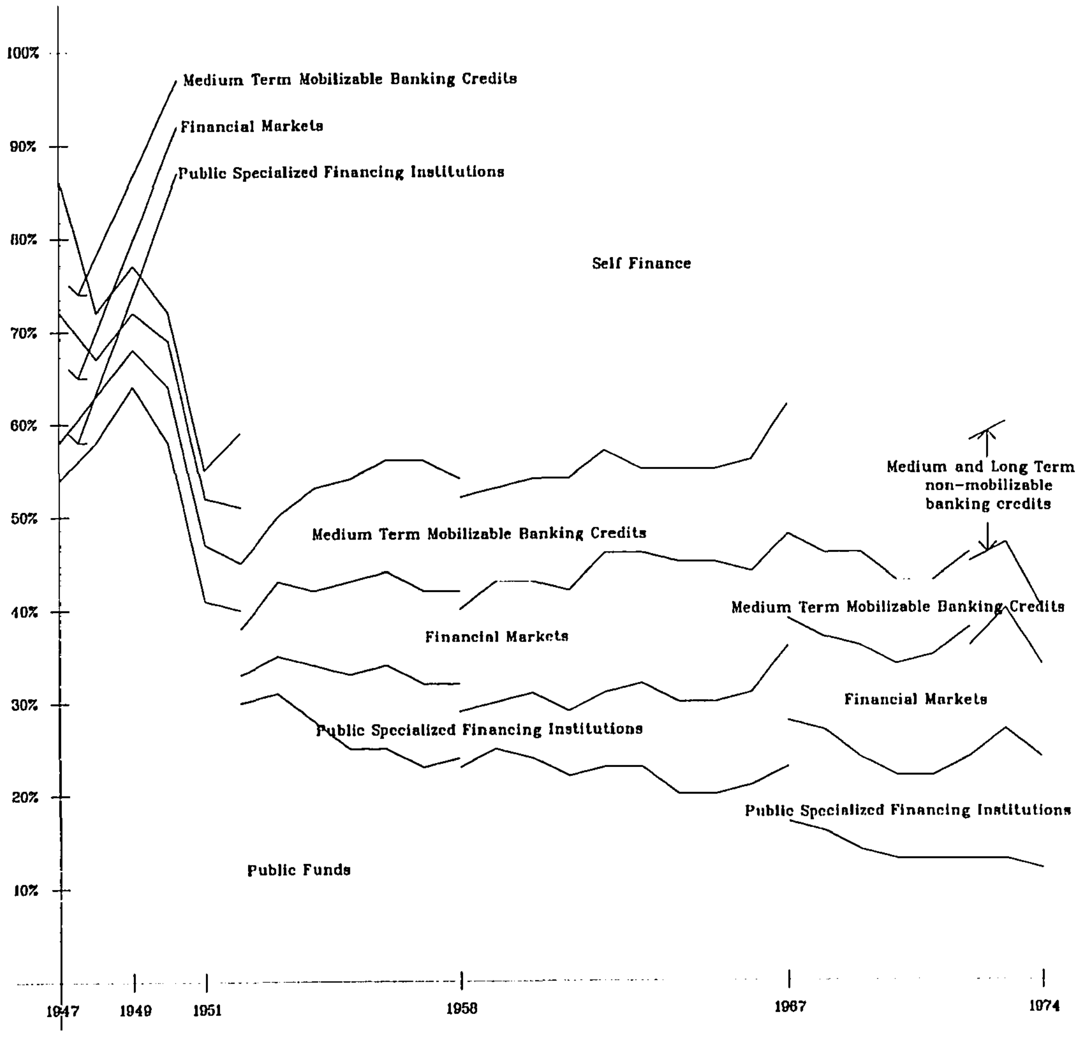

Figure 3

Source: H. Rousso (ed.), *De Monnet A Masse,* Editions du Centre National de la Recherche Scientifique, Paris, 1986.

In interpreting the figure above, two things should be emphasized. First, the year 1951 (when the Marshall aid ended) can be seen as a turning point in that the direct finance of the investments by the government from the budget and the FME (which from 1955 onwards was called the FDES) abruptly declined by about 20 percentage points in one year compared to 1950. From this date onwards, the financial sector as a whole (both the banks and the SFI's) became the predominant source of capital for new investments. Second, the year 1967 symbolizes another turning point in that the business sector became able to self-finance 55-60% of its investments from its own internally generated resources between 1967-74. Thus the bargaining power of planners may have been negatively affected from this development. (But the mid-70's and early 80's not covered in Figure 3 witnessed, one more time, a decline in self-finance.)

Figure 3 may be revealing in its display of the French state's allocational autonomy which is seen by economists as an anomaly for advanced nations, with the notable exception of Japan; but another crucial aspect of the industrial policy in France that can not be captured in a global figure should be emphasized. That is to say, this figure does not differentiate the self-financing rates among individual industrial sectors. The auto industry, for example, is known as to have had substantial autonomy from the government, thanks to its cash-rich internal structure which reduced the need for external finance. Therefore, Renault for example, although a public company, could afford resistance to the planning community's direct interventionism in its investment choices as long as it did not need external sources to launch new projects.[354] The allocational effectiveness of the state therefore crosscuts between the private and public sectors and primarily depends on the degree of self-finance by individual industries. The extent of individual industries' autonomy, however, should not be exaggerated. The French auto industry, for example, needed state assistance in the 1974 merger of Citroen and Peugeot as the latter could not by itself afford to buy out the former. As to the state owned Renault, the Japanese entry into the European market has started to eat away from its profits in the 1970's and thus rendered this company more dependent on the central core of the French state, the planning community. The same logic can also be reversed to claim that some industries which are dependent on the state for external finance

[354] See S.S. Cohen, J. Galbraith, J. Zysman, "Rehabbing the labyrinth: the financial system and the industrial policy in France," *op. cit.*, p. 19.

may gradually strengthen their internal cash position and achieve relative freedom from planners' interference. In short, on the supply side, planners' capacity in influencing company strategies should be seen as a cyclical phenomenon. With regard to individual sectors, it may rise or decline throughout the course of capitalist development. The remarkable feature of the French political economy is not that planners never faced any setbacks vis-a-vis individual sectors, but the fact that the overall 'allocational effectiveness' of the state remained substantially high throughout the planned period.

The incentives provided by planners to businessmen all operate on the supply side and they all serve to promote expansion in the desired fields. These incentives can be counted upon to render an investment project desirable from the vantage point of profit calculus, but they cannot prevent a firm from expanding beyond the targets of the plan and thus facing the problem of overproduction or underconsumption. It is in fact argued that the overproduction problem is an endemic feature of the capitalist systems since the search of profits by all firms leads to the reduction of profit for each, and then unemployment of labor ensues because firms try to recover their profit margin by cutting from labor costs.[355] In a free market system full employment is therefore not attainable unless the state intervenes by using its own budgetary expenditures as a counter-cyclical fiscal device in order to maintain full employment, thus preventing stagnation due to shortfalls in consumption when corporate profits are low (Keynesianism). Naturally, the plan's incentives by themselves cannot be relied upon to accomplish the task of providing outlets for the goods produced by industry. They should be complemented by action on the demand side to solve the problem of underconsumption. Theoretically speaking the redistribution of income via welfare expenditures is a solution to the problem of underconsumption, but steady increases in transfer payments and social services carry the risk of lessening the dependence of workers on capitalists. This is so because when 'social wage' (transfer payments and the provision of social services) assumes an increasing importance for the reproduction of labor power, the wage paid by the employer loses its relative importance.[356] At any rate the political balance of forces in France after the onset of the Cold War when the Communist Party was excluded from the governing coalitions would not allow

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[355] See M. Burawoy and J. Lukacs, "Mythologies of Work: A Comparison of Firms in State Socialism and Advanced Capitalism," *American Sociological Review*, Vol. 50, December 1985.

[356] See S. Bowles and H. Gintis, "The Crisis of Liberal-Democratic Capitalism: The Case of the U.S.," *Politics and Society*, Vol 11, No. 1, 1982, pp. 51-93.

for such radical re-distributive reforms even if a 'technical' solution to the problem of underconsumption were feasible. From the standpoint of French planners, this political balance favoring the political right manifested itself in terms of fiscal constraints on state expenditures aimed at redistributing income in favor of the workers who made up the bulk of the consumers. In the meantime, many keen observers of French planning remarked that the short-term monetary and fiscal policy of the state was not coordinated with the later plans' stated objectives of promoting investments in social infrastructure; and moreover, the regressive structure of the tax system penalized the consumers and redistributed income in favor of the high income groups.[357] As a result of all these factors, France remained as one of the few countries in the west with a highly skewed income distribution, at least until the mid-60's when a belated welfarism to catch up with the other western European countries was put into motion.[358]

In the absence of Scandinavian style welfarism, the action on the demand side to solve the issue of overproduction took the form of the stimulation of demand on a selective and sectoral basis via public procurement in France. Thus French industrial policy has been most successful in realizing its aims of sustained increases in an industry's rate of investment and competitiveness in cases where the state could promote an industrial sector through its purchases of goods and services. In practice, this meant that, by the common verdict of many specialists, France became one of the top two or three nations in the high tech aerospace and nuclear sectors, i.e. industries for which the state was the main consumer. It was less successful in those sectors producing consumer goods and general industrial equipment for the public at large.[359] In industries such as consumer electronics, on the other hand, which sold to both private and public customers, the result judged from the standpoint of the aims of industrial policy -- i.e. sustained increases in production and international competitivity -- was a mixed blessing. It should

[357] For the lack of coordination between the short and long-term economic policy see S.S. Cohen, *Modern Capitalist Planning: The French Model, op. cit.* For the structure of taxation in France, see P. Coffey, *The Social Economy of France*, The MacMillan Press Ltd., London, 1973, Ch. 6.

[358] See P. Coffey, *ibid.* and J. Sheahan, *An Introduction to the French Economy*, Charles E. Merrill Publishing Company, Ohio, 1969, pp. 89-92.

[359] See the articles by C. Stoffaes in W.J. Adams and C. Stoffaes (eds.), *French Industrial Policy, op. cit.* In military aircraft for instance, the French military purchases account for 40 percent of total sales: S.S. Cohen, "Informed Bewilderment: French economic strategy and the crisis," in S.S. Cohen and P.A. Gourevitch (eds.), *France in the Troubled World Economy, op. cit.*, p. 32.

be added that, in the centralized high tech aerospace and nuclear sectors, the state's leverage over the companies, stemming from its ability to control the market for these products, enabled the state managers to prevent the entry of new firms into these product markets. Therefore it became possible to maintain high profits in these politically controlled markets and the problem of unemployment which may often be the result of excessive competition did not emerge.[360]

The Evolution of Planning

Major Claims

The last section discussed the issue of the overall efficacy of planning and provided some indirect indicators of causality to judge it in the absence of direct experimentation techniques. Now the time factor will be taken into account to argue that the relative economic autonomy of the state in France manifested itself in the shaping of class relations by affecting both the composition of the power bloc and the nature of hegemony within it. Hence I will discuss the evolution of planning from the standpoint of a change in the nature of hegemony in the power bloc as planners designed and implemented their industrial strategy laid out in the plans. Retrospectively evaluating the development of planning in France, we can see that the *degree* of influence exerted by the planning community on industries and companies, and the *means* of this selective influence employed, have varied both by industrial sector and over time. Accordingly I will distinguish three phases in the evolution of planning. During the first phase which extends from the very beginning until the entry into the EEC, it will be argued that planners were successful in altering the balance of forces between industrial sectors via 'vertical' subsidies, and consequently heavy industrial sectors were promoted as a whole without a concomitant change in the scale of production units. In the second phase, on the other hand, the competitiveness in export markets became the main goal of industrial policy and planners used their discretionary power via both horizontal and vertical subsidies in such a way as to create a dynamic monopoly capital concentrated in export oriented high tech sectors. In the meantime, small and middle sized production units have come

[360] As for instance a careful study of the contemporary Brazilian state demonstrates, when the state lacks the capacity to control entry into the selected capital goods sectors, then excessive competition may emerge, and despite the use of certain tax and credit incentives granted by planners, the selected industries may lack the capacity to sustain profitability, and hence the state may run the risk of losing its credentials in the eyes of private investors. P. Evans makes this argument in his illuminating article on the Brazilian state: "Reinventing the Bourgeoisie: State Entrepreneurship and Class Formation in Dependent Capitalist Development," in M. Burawoy and T. Skocpol (eds.), *Marxist Inquiries*, *op. cit.*

to serve as sub-contractors to a modern monopolistic sector. I should add that the second phase of planning did not last beyond the mid-70's, when, for a combination of internal and external factors, economic growth in France, as in other western economies, came to a standstill. I will discuss the response of the French planning community to this 'crisis' situation in my last section.

Reconstruction Phase

As has been discussed in the last section (see chapter 3), the most distinguishing feature of the First (Monnet) Plan in France was its emphasis on sectoral selectivity because the rebuilding of basic industry ahead of other sectors was seen as the most urgent challenge facing the planning community. Accordingly, the plan assigned physical production and investment targets for six heavy industries (coal, electrical power, iron and steel, cement, transportation and agricultural machinery) and it was believed that an increase in the output of other sectors depended on the general level of productivity in these "key" commanding heights of the economy. In five years, most of the First Plan's targets were achieved. With the Second (1953-57) and Third (1958-61) Plans the French industrial policy expanded its scope to cover beyond the basic industries. For the Second Plan, for instance, the CGP formulated targets for seventeen sectors, and mandatory physical output targets to be reached by 1957 were assigned to heavy industrial sectors such as coal, electricity, gas, oil, steel and chemicals; whereas machine tools and mechanical and electrical equipment were given indicative targets. Up through the early 1960's, therefore, the plan was seen as a vital instrument for promoting the rapid growth of the heavy industrial core of the economy. Therefore in this period of reconstruction after the destruction of the war, the basic task of planners was to decide where capital should be directed to eliminate bottlenecks in the supply of intermediate and investment goods so as not to thwart economic recovery elsewhere.

In short planning until the early 60's was supply-side oriented and limited in scope. As to its implementation, the control exercised by the planning community (CGP and the Treasury) over the capital markets was the best weapon in seeing the plan through to completion. In 1958 for example the planners fixed the sources of investment expenditure in the 'priority' sectors as follows: 49 percent was to come from self-financing, 24 percent directly from public funds, 9 percent from the sale of securities and 18 percent from banks and other specialized financial intermediaries.[361] Naturally, in return for their leverage over the supply of capital funds to industry, staff members of the CGP -- who were each in charge of one industry -- pressurized top firms in 'their' areas to buy the latest machinery and adopt modern production techniques in their plants. But apart from this, planning hardly reached down to the level of individual firms. This was so because when planners lost the enthusiastic support given by labor after the withdrawal of CGT from the planning process following the expulsion of the Communist Party from the governing coalition in 1947 (yet other trade union federations remained), small business launched a not altogether unsuccessful attack to keep the impact of planning at an aggregate and sectoral level. That is to say, in some key industrial sectors such as steel, trade associations representing both big and small capital mediated between planners and individual firms in order to prevent the demise of the small firms. Planners' success in bypassing the trade associations in order to negotiate informally or in the context of modernization commissions, the conditions of industrial expansion and reinvestment of profits with the representatives of individual firms depended on the degree of concentration in a given industry; it was possible in sectors dominated by a few giant firms, but in less concentrated competitive markets it was the trade associations which assumed responsibility for overseeing the breaking down of the industry's plan into investment and production programs for individual firms.[362]

The macroeconomic policy of the state during the reconstruction phase of industrial policy fitted handsomely with the overarching objective of retaining a high level of capital investments in the selected basic sectors. On the 'fiscal' front, the departure of the CGT from the modernization commissions helped the French state to delay responsibility for the provision of social welfare and services to the less favored strata of the population. Consequently an average of 25 to 30 percent of the budget during the 1947-58 period was directed towards capital formation in terms of investment and capital expenditures, a sharply increased proportion of the budget compared to a mere 5 percent in 1938.[363] The resources for state revenues, on the other hand, principally derived from taxes levied

[361] These figures are given by the IBRD study entitled *The Economy of France, 1959*, p. 14. They are entirely consistent with my Figure 3.

[362] For a comprehensive discussion see S.S. Cohen, *Modern Capitalist Planning: The French Model, op. cit.*, pp. 67-76.

[363] See R.F. Kuisel, *Capitalism and the State in Modern France, op. cit.*, p. 262, and IBRD, *The Economy of France, 1959, op. cit.*, pp. 11-15.

indiscriminately on consumers. (Progressive income tax accounted for only a third of total tax revenues.) Thus the costs of development were borne out by the lower income groups, without imposing any constriction on the consumption of the upper reaches of the bourgeoisie.[364] Yet, when tax income fell short of meeting the state expenditures, the state did not hesitate to resort to an expansionist 'monetary policy', letting the money supply grow rapidly in order to adequately capitalize the public companies undertaking infrastructural investments. Naturally, the impact of expansionary fiscal and monetary policies was highly inflationary. On the 'foreign trade' front, when confronted with the problem of inflation in France which was often higher than its trading partners, the state -- in contradistinction to Keynesian theory which advocated counter-cyclical measures to correct the trade balance -- consistently opted against the correction of the trade balance at the price of slowing down economic growth by tightening the supply of credit to business and reducing its own expenditures. Instead, the state either lowered the exchange rate of the Franc, (four substantial devaluations in ten years) or when devaluations proved insufficient to eliminate the trade deficit, the decision makers maintained severe restrictions on imports via quotas and high import tariffs. Planners, in their turn had at their disposal a number of trade policy instruments including quotas, import tariffs, and export subsidies. These resources were used as bargaining chips by planners in their negotiations with business to keep the general level of imports especially low in raw materials and intermediate goods for the dual purpose of protecting the domestic manufacturers in these industries and saving 'foreign exchange' for the purchase of advanced capital equipment as well.[365]

When we judge during the first three plans, the overall effectiveness of planning which designed both the macroeconomic and the industrial policies from the standpoint of the transformation it produced on the industrial structure of the economy, two observations are in order. *First,* the selective approach of planning to the promotion of heavy industrial sectors found concrete expression in produc-

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[364] See P. Coffey, *The Social Economy of France, op. cit,* Ch. 6 and J. Sheahan, *An Introduction to the French Economy, op. cit.,* Ch. 7.

[365] See B. Balassa, "Selective versus General Economic Policy in Postwar France" in W.J. Adams and C. Stoffaes (eds.), *French Industrial Policy, op. cit.,* pp. 97-102. He gives the following example: in particular industries *arbitrage* (bargaining) was used to determine the role of imports in market supply, with the planners serving as arbitrators. For example, when the cotton-yarn and garment industries disagreed about how much of the latter's requirements of gain should be met through imports, the planners for cotton-yarn intervened and made the decision (p. 97).

ing intended results on the industrial front: extreme sectoral divergence in growth rates and productivities attest to this claim (see *Table 4*).

Table 4
Increases in Production and in Output per
Man-Hour in French Manufacturing Industries, 1954-59

	Production index in 1959 (1954 = 100)[a]	Index of output per man-hour in 1959 (1954 = 100)[b]
Durable goods		
Primary metals	147	134
Steel	147	n.a.
Aluminum	148	n.a.
Fabricated metal products, other machinery and vehicles	130	127
Nonelectrical machinery	143	115
Machine tools	128	118
Agricultural machinery	195	128
Electrical equipment	173	146
Railroad equipment	89	116
Automobiles, cycles and equipment	171	154
Furniture and wood products[c]	139	139
Nondurable goods		
Textile mill products	109	122
Cotton textiles	100	145
Apparel[c]	102	107
Leather and products	98	103
Paper and products	147	137
Printing and publishing	150	137
Chemicals	193	181
Rubber products	140	130
Food processing[c]	115	94
"All industry," including power and mining but excluding industries designed by note[c]	142	132

a. The weight base of the production index used here is 1949.

b. Man-hours here refer to wage-earners, corresponding more nearly to American data for production workers than to "all employees."

c. Industries so designated are not included in the regular French index of industrial production because data on their output are particularly doubtful. Production indices are calculated for them by the INSEE on an annual basis only.

Source: J. Sheahan, *Promotion and Control of Industry in Postwar France,* Harvard Univ. Press, Cambridge, Massachusetts, 1963.

The implications of the picture suggested by the table above and regarding the new configuration of relations in the power bloc are unmistakable. In fact note that in the six year period crosscutting between the Second and Third Plans, the output of 'selected' intermediate and investment goods sectors nearly doubled, while that of consumer industries such as clothing, leather, and textile mill products hardly changed at all. Another interesting observation we can derive from the table above is to see that in France productivity gains moved along similar paths as those of output gains in all sectors but agricultural machinery.[366]

The same picture drawn by Table 4 was also reflected in the striking changes in the internal composition of manufactured exports that took place after the onset of planning, and the result is summarized in Table 5.

Table 5

Exports Outside Franc Zone: Manufactured Goods				
	1928	1955	1957	1958
Textile yarns	4	4.4	4.0	3.5
Textile fabrics	17	3.8	3.2	3.2
Clothing	4	1.7	1.8	1.8
Chemicals	5	7.4	8.5	8.7
Steel	7	18.0	17.7	17.5
Metal goods	3	1.7	1.8	2.0
Machinery	3.5	8.0	9.0	10.0
Motor vehicles	2.5	4.0	6.0	8.6
Leather and products	4.0	1.2	1.3	1.3
Other	26.0	12.8	14.2	16.0
TOTAL	76.0	63.0	67.5	72.6
Semi-manufacturers	28	35	34.5	33.4
Finished manufacturers	48	28	33	39.2
Equipment	7	13.0	15	17.2
Consumer goods	41	15.0	18	22.0

Source: International Bank for Reconstruction and Development, Report No. EA-98.

I should add that, this table was based on cash earnings as its basic unit to calculate the relative importance of the various exports. But the results are confirmed in a study of the French economy in 1959 by a group of economists when it was found that: "In terms of volume it is probable that textiles and leather goods are now (i.e. 1959 -- V.M.) less than half of 1929, while steel, machinery, motor

366 As mentioned in the last section 'tractor manufacture' was the sole sector where the achievement lagged behind the First Plan's physical output targets, reaching only 63% of what has been intended. Hence it remained as a 'supply bottleneck' sector *despite* the purposeful flow of funds and investment subsidies to this industry. This sector was also characterized by a low degree of concentration and therefore the preponderance of small firms made it impossible for planners to negotiate the conditions of industrial expansion and reinvestment of profits directly with the 'key' firms. Therefore, as I suggested earlier, limited success in this industry may be the result of its market structure.

vehicles and chemicals taken as a whole are probably nearly three times as large as in 1929."[367] Nevertheless, given that the French economy was in 1958 much less extroverted than other European economies, as can be measured by taking the ratio of foreign trade to total value added,[368] one should not conclude that the export oriented fraction of heavy industry was hegemonic in the 1950's, in France. But there was no contradiction either between the economic interests of the export and internal market oriented fraction of capital, because, it was the *same* heavy industrial sectors which benefited from supply incentives and exported what was not consumed in the internal market. In other words planners until 1958 did not intend that French manufacturers should capture foreign markets; on the contrary their main objective of eliminating "supply bottlenecks" rested on the premise that they operated in a *relatively closed economic system*, whereby exports were seen as a residual category and not as an instrument of economic growth.

This main orientation of French economic policy based on import substitution in the capital goods sectors brings me to by *second* observation concerning the retrospective evaluation of the effectiveness of planning in this period when judged by its impacts upon the configuration of the power bloc. That is to say, although a significant transformation in resource allocation was ensured, the promotion of the internal market oriented heavy industry to a position of hegemony in the power bloc was not accompanied by a concomitant change in the scale of production units. The dimensions of French production units in the heavy industrial sectors therefore remained small when compared with those in other advanced countries.[369] Small capital, in other words, could exist side by side with larger production units in heavy industry. Naturally the costs of production were higher in those sectors such as steel, where due to the predominance of small scale production units, the sector as a whole could not benefit from economies of scale in production, research, and marketing.[370] As a result, although larger firms with lower costs of production obtained higher profit margins than the small ones (since prices of intermediate goods were often fixed by the trade association to help small producers survive), big producers

[367] See IBRD, *The Economy of France*, *op. cit.*, p. 18, (paragraph 85).

[368] See B. Balassa, "The French Economy Under the Fifth Republic, 1958-1978" in S. Hoffman *et al.* (eds.), *The Fifth Republic at Twenty*, *op. cit.*, Table 1, p. 223.

[369] See R.F. Kuisel, *Capitalism and the State: Modern France*, *op. cit.*, p. 267.

[370] See J. Sheahan, *Promotion and Control of Industry in Postwar France*, Harvard University Press, Cambridge, Massachusetts, 1963, Ch. 5 on steel.

could not satisfy their desire to expand via buying out the small ones or rendering them totally dependent.

Mergers and Extroversion

The entry of France into the European Economic Community (EEC) was a politically motivated decision and coincided with the return to power of General de Gaulle in 1958 who believed that France's political influence might increase through membership of the Community. Membership in the Common Market did have some unmistakable implications in the conduct of economic policy, especially in the 'foreign trade' sphere of macroeconomic policy. The EEC system in fact "put a very heavy premium on the maintenance of fixed exchange rates between the members of the group. That was because a dozen delicate and laboriously negotiated agreements, particularly in the field of agriculture, would be turned topsy-turvy by any shift in the value of an individual currency."[371] For decision makers in the past, given the relatively closed economic system, running expansionary fiscal and monetary policies in the pursuit of economic modernization was feasible under the assumption that the foreign trade deficit that would possible result from these policies -- due to higher inflation in France than its trading partners -- could be eliminated via lowering the exchange rate of the Franc or restricting imports. But now the opening of the economy to outside competition did alter the basic parameters of macroeconomic policy. That is to say, henceforth it would be extremely difficult for France to maintain a high level of capital investment without any regard to its short-term inflationary effects. In other words France could no longer resort to devaluations of the currency as it had done several times in the past as the major macroeconomic vehicle to pursue long-range growth objectives. Neither could it impose a set of import restrictions designed to help the balance of payments since the new treaty among the EEC partners virtually eliminated high import tariffs and quotas. Planners, therefore, lost their freedom to offer the bait of quotas and import tariffs against foreign competition as part of their bargaining with internal market oriented business firms. In addition, a more open economy meant that it would have been more difficult for planners to ensure the physical coherence of inputs and outputs in each industry, since in the absence of foreign trade controls planners could not force industrialists to buy

[371] A. Shonfield, *Modern Capitalism, op. cit.*, p. 133.

'inputs' manufactured in France, nor could they impose on them any obligation to sell their 'outputs' to French consumers. The plan therefore changed its emphasis to macroeconomic growth objectives and away from detailed sectoral forecasts and physical production and investment targets.

The arguments above concerning the new economic constraints imposed on planners in France after the entry into the EEC have been shared by many scholars of French planning. Yet these scholars derive different conclusions from these premises. On the one hand, the liberal (neoclassical) economists argue that as France subscribed to the liberalization code of the EEC and opened its economy to outside competition, state interventions throughout the whole industrial fabric happily ended and the plan became a purely 'indicative' tool, and its effectiveness was reduced to forecasts (see Proposition 1).[372] Many other students of the French economy, on the other hand, believe in the continuity of interventionism, albeit with a subtle shift in the definition of economic modernization which remained as the overarching goal, and they derive the effectiveness of planning from its impact on resource allocation.[373]

I am certainly of the opinion that the neo-liberal school is mistaken when it equates trade liberalization with the ending of interventionism. But to argue the opposite, i.e. the continuity in the industrial policy, is too facile and not entirely satisfactory if one does not proceed to show how both the *degree* and the *means* of influence exerted by planners on economic actors underwent a radical transformation after the entry into the EEC and accordingly the existing concepts of planning changed throughout the 1960's. My objection to the liberal school's arguments, therefore go beyond that of the 'institutionalists' who rightly criticize the liberal scholars. More specifically, I will argue that the planning community in France orchestrated with great skill both the demise of small capital and the elevation of the dynamic export oriented monopoly capital concentrated in high tech industries to a position of hegemony in the power bloc. To this end, an oligopolistic sector was virtually created by planners as they forced big firms to merge with each other.[374] The *key novelty* in the phase of industrial policy

[372] Bela Balassa can be named as the most outspoken prominent of the 'liberal' approach with its emphasis on 'discontinuity'.

[373] S.S. Cohen, J. Zysman, A. Shonfield and J.K. Galbraith can be named as the notable representatives of this 'continuity' argument.

[374] It has been asserted by many scholars of French planning that the CGP officials did not carry out by themselves the execution of mergers, and the real power rested in the Treasury. Since I treat the planning community as a whole, made up of all the organizations belonging to the 'interventionist' core of the state, an analysis of the intra-elite conflict

after the entry in the EEC was that, in opposition to the 1950's, when planners could only alter the inter-sectoral balance of forces without any concomitant change in the intra-sectoral power relations, during the 1960's planning could penetrate deep down to the level of individual firms in all sectors and influence the terms of relations between big and small capital. Consequently small-sized firms became subcontractors to an oligopolistic sector which was specialized in high tech areas such as aerospace and nuclear industries and was moving towards multinationalization. And perhaps ironically, contrary to what liberal scholars argued, the new externally induced macro-economic constraints did not hinder but *facilitated* the tasks ahead: promoting mergers in each sector and orienting the top firms toward exports.

One of the most astounding features of French planning has always been its sincerity with which it made the 'project' of the state managers concerning the future allocation of resources known to the public.[375] Nonetheless the Fifth Plan (1966-70) was a landmark in itself given that it spelled out the intention to destroy the whole middle strata (traditional 'petty bourgeoisie') of the population in great detail and in unambiguous terms. The overall design of the plan's text was shaped by the concern that because the remaining intra-EEC tariff barriers were eliminated in 1965, the business sector could no longer be sheltered from foreign competition. It was also claimed that the splendidly high level of capital investment, maintained continuously since 1946, had endowed France with a modern productive capacity, but had discouraged the cost-effective use of capital because resources were directed to sectors that produced for domestic, rather than for foreign markets. Although the overarching goal of planning remained 'economic modernization' (i.e. the rapid growth of the industrial core of the economy), it was

remains outside the scope of my work. Second, the utility of capital concentration from the vantage point of cost efficiency is not discussed either. In fact my research is mainly concerned with the role of planners in shaping class relations and *not* with their appraisal as economic theoreticians. Suffice it to say that in economic theory the correlation between size and efficiency is far from obvious, and the debate is still going on, trying to specify the appropriate economies of scale in different product markets. (For a classic study, see Joe Bain, "Economies of Scale, Concentration and the Condition of Entry in Twenty Manufacturing Industries," *American Economic Review*, Vol. 44, 1954.) In French planners' thinking, on the other hand, size has always been equated with efficiency, innovation and modernization. Planners' unshakable faith in the 'iron law of oligarchy' is explained by scholars such as A. Shonfield and S. Cohen on the grounds that oligopolistic markets -- where about 80 percent of the production comes from the top two or three firms -- make planning much easier in such sectors. Then trade associations can more easily be bypassed and planners can negotiate directly with a small number of businesses "that matter" (Shonfield). For a convincing argument along these lines, see S.S. Cohen, *Modern Capitalist Planning*, *op. cit.*, Ch. 6 (Big Business and the plan).

[375] According to P.A. Hall, this quality of the French planning was transformed by the Seventh Plan, which, above all, was a government document trying to save face and skew difficult questions: P.A. Hall, "Economic Planning and the State: The Evolution of Economic Challenge and Political Response in France," in M. Zeitlin (ed.), *Political Power and Social Theory: A Research Annual*, Vol. 3, JAI Press Inc., Greenwich, Connecticut, 1982.

feared that with the opening of the economy, France could not even hold on to her domestic market, let alone capture international markets. Hence France did not have any choice, but it was:

> "bound to win the wager we have staked on the competitive strength of our industries. The first target set for French industry therefore is to reinforce its competitive position at European and worldwide levels, which means that it must be at the same time innovating, productive, exporting and profitable."[376]

After explaining the need to shift the goal of planning from increased production to enhanced competitiveness, the plan raised the question of "along what lines must French industry change itself to reach this target (of competitiveness)?" The gist of the answer to this question lied in the notion that only large firms could survive and be competitive against the multinationals in international markets. In operational terms, the plan proposed two new lines of action to render France an extroverted economy, and competitive in high technology areas. The first of these was the idea that instead of seeking the old objective of input-output coherence by developing *all* of the capital goods sectors simultaneously, France should selectively develop a few industries in the high technology growth fields such as aerospace and nuclear energy where future world markets were expected to be located. In fact from the Fifth Plan onwards, this notion to concentrate the capital under planners' control and into a small number of enormous projects designed to establish a French presence in the high tech growth fields was echoed in all plans.[377] That is to say, a new sectoral orientation in favor of skill intensive areas such as aerospace and integrated circuits and away from the basic intermediate goods sectors (the ones that have been promoted by the First Monnet Plan) was enshrined in the text of the plans from the mid-60's onwards.

The second line of action recommended by the new industrial policy was based on the notion that, apart from the need for state action to promote new industries, interventionism should be oriented to individual firms rather than to entire industrial sectors. This was so because individual firms could be made competitive in the international markets if sectors could not. The state should therefore use its power on a wide scale to encourage, it not force, big firms to merge with each other. The new policy was therefore designed to create 'national champions', i.e. "heroic firms, groomed, privileged and

[376] See the Commissariat General du Plan, Fifth Plan (1966-1970), p. 40 (official translation).

[377] See P.A. Hall, "Economic Planning and the State: The Evolution of Economic Challenge and Political Response in France" in M. Zeitlin (ed.), *Political Power and Social Theory: A Research Annual, op. cit.*

trained to carry the colors of France in the battlefield of the new international economic order."[378]

Accordingly the Fifth Plan proposed:

> "To constitute or, where they already exist, to strengthen a small number of *international scale firms or groups* capable of standing up to the foreign groups in the main spheres of competition ... in most major sectors of industry (aluminum, iron and steel, engineering, electrical engineering, electronics, motor cars, aircraft, chemicals, pharmaceutical products, etc.) the number of such groups should be very limited, often restricted to one or two," ... adding that "it is normally to be expected that medium-sized or even small enterprises will develop more easily around these big groups, *specialized* in quality production or complementary activities, for example under subcontracts. *It is one of the major targets of the plan to encourage and accelerate this movement.*"[379]

If we judge the effectiveness of the plan during the 1960's from the transformations it produced on the industrial structure of the economy, the results were spectacular. In fact, the value of the assets of companies absorbed by other companies rose from an annual average of 85 million Francs during the 1950's to 1 billion Francs in 1965 and 5 billion Francs in 1970.[380] Moreover, the restructuring of the manufacturing industry through concentration resulted in increases in firm size. Between the 1962 and 1970 industrial censuses, the largest firms with more than 1000 workers increased their share among firms employing more than 10 workers by about one-fifth, while the number of firms employing more than 10 workers declined.[381] Concentration occurred in all industries, particularly those high tech investment goods and consumer durable sectors (automobile) singled out by the Fifth Plan as priority areas. In the meantime, the economic dynamism of the 1960's was reflected in the growth rate as France became the fastest growning country in the EEC when its rate of investment increased from 22 percent to 28 percent over the first decade following the entry in the Common Market. As to the plight of small capital, while the "industrial structure underwent greater transformation in ten years than during the preceding half century,"[382] it too underwent a mutation because industrial concentration was accompanied by the development of subcontracting relationships between small and medium-size firms on the one hand, and small and large firms on the other. In other words, as Bela Balassa neatly sums

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[378] *Ibid.*, p. 183.

[379] See the CGP, *op. cit.*, pp. 40-41 (emphasis added).

[380] In fact in each of the years 1966-69, the value of the merger operations was double or more the sum of the values in the entire period 1950-1960: S. Berger, "Lame Ducks and National Champions: Industrial Policy in the Fifth Republic" in S. Hoffman *et al.* (eds.), *The Fifth Republic at Twenty*, *op. cit.*, p. 295.

[381] See Bernard Guibert *et al.*, "The industrial mutation of France," *Les Collections de d'INSEE*, Serie E, Vol 1, No. 31-32, November 1975, p. 132 (in French).

[382] *Ibid.*, Vol. 2, pp. 207-8.

up, "small and medium-size firms responded to foreign competition by disappearing, merging, or specializing and modernizing."[383]

Statistics may not capture the true dimensions of change in the structural relationship between small scale capital and the dynamic (export-oriented) oligopolistic sector, since, measured in terms of number of people employed, all we can see is that between 1966 and 1970 small firms employing less than 50 people remain unchanged in sheer numbers.[384] What changed instead was the economic role of small business. That is to say, in the past, even during the early years of planning before 1958, small firms had existed alongside the large ones and they had produced the same range of products in each sector that modern firms produced. Although the costs of production were often higher in the small and more labor-intensive production units, these firms were kept afloat via cartelization agreements which prevented price wars and guaranteed a share in the market for small companies. It was the trade associations, in less concentrated sectors, which mediated between small and big firms to ensure protection to all, and the trade unions supported such cartel arrangements because they guaranteed stable employment for workers. Planners, in their turn, consistently attempted to bypass the trade associations and negotiate directly with the representatives of big firms concerning their production and investment targets, but success in this endeavor depended on the political clout of the trade association involved, more than anything else. The label 'statist' attached to planners by their opponents until 1958 can be explained in this context. That is to say, when planners could not 'free the markets' in a given sector characterized by cartel arrangements in order to maximize production and minimize costs, they would instead try to 'bypass the markets' by channeling the capital under their control to nationalized firms and into a small number of enormous productive projects. After the entry in the Common Market, on the other hand, planners could bring undue pressure on big private firms which did *not* want to antagonize their trade association via seeking to expand their share of the market. That is to say, when big firms decided not to lower their prices, so as not to drive the small ones out of business, planners could easily bring them back into line by speeding up import liberalization in this particular product market

383 See Bela Balassa, "The French Economy Under the Fifth Republic 1958-1978" in S. Hoffman *et al.* (ed.), *The Fifth Republic at Twenty, op. cit.*, p. 211.

384 See S. Berger and M.J. Piore, *Dualism and Discontinuity in Industrial Societies*, Cambridge University Press, Cambridge, 1980, Table 30, p. 97.

and by flooding the market with products cheaper than the ones produced by the recalcitrant companies. The same threat was also used to convince medium and large firms to merge with each other. Thus, in many ways, entry into the EEC was a blessing for planners since their leverage over corporate decisions was increased overall and not decreased as claimed by the 'liberal' economists.

Consequently, it should not be seen as a surprise that in less than ten years, following the decision to join the European Community, the small and less-efficient production units have come to serve as suppliers to big industrial firms via subcontracting arrangements. These arrangements also meant that, from the mid-60's onward, the economic viability of small business would depend on its ability to adjust the size of its workforce to short-term fluctuations in demand, not only in the internal market but also abroad. In fact, in the meantime, and in line with planners' objective, France was becoming an extroverted economy in the 60's with unprecedented speed. The dimensions of this change can be appreciated by taking the ratio of foreign trade to value added in the production of traded goods; in 1958 this ratio was 12 percent for French exports and 15 percent for imports, by 1973 these quantities were 31 and 33 percent respectively.[385] Needless to say, the overall social impact of all of these developments described above was that, not only small capital, albeit not destroyed, was relegated to an indisputably subsidiary position in the power bloc during the 1960's, but the working class too lost its full employment guarantee when the internal market oriented economic policy based on import substitution in heavy industrial sectors ended. That is to say, the modern oligopolistic sector could adjust more easily to an export oriented growth strategy than others by shifting its burden of economic risk and uncertainty that derived from fluctuations in demand in the world markets onto the small firms by subcontracting them in 'boom' periods and letting them lay off workers in 'bust' periods. Finally, it should be added that, this type of subcontracting in France ruled out mutual dependence between the modern and small business sectors which would have been the case if subcontracting was primarily based on complementarity via specialization in a different range of inputs necessary to manufacture a final output. In the United States electronics or automobile industries, for instance, subcontracting is based on specialization, hence mutual dependency prevails.[386] Subcontracting in France, on the other

[385] See Bela Balassa, "The French Economy Under the Fifth Republic, 1958-1978" in S. Hoffman *et al.* (ed.), *The Fifth Republic at Twenty*, *op. cit.*, Table 1 on p. 223.

hand, was primarily -- though not exclusively -- of the *conjunctural* type described above whereby both small capital and labor were at the mercy of the processes beyond their control, if not beyond their understanding, given that many trade unions had not ceased participating in the planning commissions after the Communists had left.

The means of influence exerted by the state on capital to achieve the new goals of planning in the post-EEC era also underwent transformations to enable planners to reach deep down to the level of individual firms and alter both intra and inter-sectoral balances. To this end, on the industrial policy front, both 'supply' and 'demand' side actions were taken. On the supply side, the old practice of affecting the resource allocation in a selective fashion and in line with the priorities of different plans which chose some high tech sectors as key areas for future interventionism, continued. As can be seen from Figure 3, the self-finance ratio in the business sector had slightly improved in the 60's, but business still depended on external sources of finance -- which all were under direct or indirect control of the planning community -- for about 50% of its total investment expenditure. There were two new developments, however, the first relating to the supply and the second to the demand constraints impinging on capital in its search to undertake investments and realize profits, respectively. Concerning the issue of supply or the finance of new investments, in the past planners had relied on vertical subsidies that were given to *all* companies in a selected industry. The aim was to promote certain sectors over others in line with resource allocation priorities, and granting various subsidies in the form of cheap credits, tax exemptions, grants, etc., was an effective way of rendering new projects profitable from the vantage point of business. But since such subsidies were open to all firms in a given area, only the inter-industry balance in the industrial structure could be affected, and therefore vertical subsidies (unintentionally) sanctioned and consolidated the preexisting structural relationship between big and small firms in a given sector. But from the mid-60's onward, planners started to rely increasingly on horizontal subsidies which were only open to some companies that met a given set of criteria and independent of their sectoral location. Hence the new emphasis oriented to individual firms rather than to entire sectors was not only in line with the new planning principle that individual firms could be made competi-

[386] See S. Berger and M.J. Peore, *Dualism And Discontinuity in Industrial Societies, op. cit.*, Ch. 4.

tive if sectors could not, it was also an effective way of bypassing trade associations in negotiatings with capital.[387] Therefore the distribution of horizontal subsidies increased the leverage of planners over business and became a means of promoting mergers and exports. That is to say, in practice, the 'horizontal' criteria were defined in a less precise way than 'vertical' criteria, and every externally financed project was scrutinized for conformity with plan targets, and if passing this test planners were to see that sufficient tax and credit subsidies would be made available to individual companies. *Table 6,* below, neatly sums up the 'new' supply side orientation of the industrial policy for the 1970's and proves that horizontal subsidies gradually became the main instrument of industrial policy.

[387] See B. Jobert, "The Ministry of Industry and the Coherence of the Industrial Policy," *Revue Francaise de Science Politique*, Vol. 23, No. 2, April 1973 and MacLennan *et al.*, *Economic Planning and Policies in Britain, France, and Germany*, Praeger, London, 1968.

Table 6
Industrial Subsidies, by Type, 1970-79
Millions of current francs unless otherwise specified

Subsidies	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979
Sector-specific	2446	3357	3676	3495	4444	5270	5982	5502	4666	6915
Aerospace	1131	1668	1865	1507	1992	2294	2170	1774	1893	1257
Shipbuilding	309	465	610	626	784	1124	1071	964	1042	1563
Electronics and information processing	0	283	223	215	329	701	1228	741	444	335
Steel	494	534	370	530	760	570	1260	1637	515	3246
Agriculture and food	142	142	110	121	153	186	178	174	192	204
Capital grants	370	265	498	426	395	75	212	580	310	
Subsidies not tied to specific sectors	1245	1473	1565	2252	2937	3224	5038	5627	5068	8021
Regional subsidies	424	346	299	453	435	256	213	447	452	1364
R&D subsidies	116	128	150	154	179	417	507	421	567	530
Industrial policy subsidies[a]	0	0	72	107	109	148	141	106	124	203
Interest subsidies[b]	129	189	170	240	283	401	525	637	717	907
Insurance of exporters against cost inflation	164	459	550	584	650	1155	2100	1661	1035	1660
Loans to exporters	402	302	293	654	1217	775	1471	2310	2064	3255
Miscellaneous	10	49	31	62	64	72	81	45	109	102
All subsidies listed above	3691	4830	5241	5750	7381	8494	11020	11129	9734	14936
Subsidies as a percentage of value added	1.9	2.1	2.0	1.9	2.2	2.2	2.5	2.3	1.8	2.4
Subsidies as a percentage of gross fixed capital formation	10.0	12.2	12.2	12.3	13.9	16.1	17.3	16.4	13.5	19.1

a. Credits de politique industrielle.

b. Bonifications.

Source: W.J. Adams and C. Stoffaes (eds.), *French Industrial Policy*, The Brookings Institution, Washington D.C., 1986.

The increasing weight of subsidies to 'exports' as the major category within the horizontal incentives category merits special attention. Such generous incentives to exports, in fact, helped to create an export-oriented monopolistic sector as the hegemonic fraction of the ruling class alliance. In comparative terms, total export subsidies cost the French state, say in 1981 for which the data is available, six times as much as U.K., twice as much as Germany and the U.S. and even fifty percent more than Japan.[388] (The table above does not include the category of the insurance of loans to exporters and their

[388] See B. Bobe, *Public Assistance to Industries and Trade Policy in France*, World Bank Staff Working Papers, No. 570, 1983, Table 15 on p. 33.

foreign customers that cost 1.6 billion Francs to the state in 1979.)[389] But more significantly, France, unlike Turkey (as we will see in the next chapter) did not grant its export subsidies to exporting merchants but to companies producing for external markets; and, moreover, incentives were accorded to industrialists not in the final stage of sales, but in the early stage of investment. Consequently, it was a fraction of manufacturing capital that was promoted to leadership in industry and not a merchant class. Needless to add, the export oriented dynamic monopoly capital which became the hegemonic fraction during the 1960's, (see my Figure 3 in the genesis section) received more than solely export subsidies; a larger share of other horizontal and sector-specific subsidies displayed in Table 6 above were also absorbed by the oligopolistic sector (see *Table 7* below). In short, the granting of subsidies not tied to specific sectors was a smart device which enabled planners to forge direct and invisible links between themselves and the advanced fraction of capital. These links were invisible because they were concentrated "out of the public eye (i.e. the context of modernization commissions -- V.M.) in the rehabbed labyrinth of the financial system."[390] Consequently, an economy firmly anchored to small business and technological backwardness was transformed into a modern economy with large-scale, competitive companies, exporting capital intensive consumer (basically cars) and producer (aerospace and electronic products) durables to the rest of the world, and buying consumer goods from abroad[391] (i.e. just the opposite of what has been the case prior to the onset of planning).

[389] See H. Aujac, "An Introduction to French Industrial Policy," in W.J. Adams and C. Stoffaes (eds.), *French Industrial Policy, op. cit.*, Table 1.3 on p. 28.

[390] See S.S. Cohen, J. Galbraith and J. Zysman, "Rehabbing the labyrinth: the financial system and industrial policy in France," in S.S. Cohen and P.A. Gourevitch (eds.), *France in the Troubled World Economy, op. cit.*, p. 49.

[391] See B. Bobe, *Public Assistance to Industries and Trade Policy in France, op. cit.*, Tables 1 to 4 on pp. 3-7.

Table 7
Concentration of Industrial Subsidies among Recipient Companies, 1976

Type of subsidy	Share of this type of subsidy in all listed subsidies	Nine largest beneficiaries: 3 large public enterprises	1 large mixed enterprise[a]	5 large private enterprises	Total	All other bene-ficiaries	All bene-ficiaries
Industries of the future	39	45	18	17	80	20	100
Mature industries	22	59	0	11	70	30	100
Industrial reorganization	11	0	0	1	1	99	100
Regional subsidies	6	0	0	4	4	96	100
Export subsidies	22	2	0	41	43	57	100
All of the above	100	31	7	18	56	44	100

a. A minority of the voting stock of this company is controlled by government.

Source: W.J. Adams and C. Stoffaes, *French Industrial Policy*, The Brookings Institution, Washington, D.C., 1986.

The second development in the implementation of the plan which strengthened the hand of planners vis-a-vis both private and public economic actors took place on the demand side and was associated with the new industrial policy. That is to say, aside from the leverage exercised on the capital markets by manipulating who had access to finance and the price at which credits were available, the state also guaranteed outlets for the outputs of certain companies (especially in armaments and nuclear energy) via public procurement. Naturally, military Keynesianism, i.e., the stimulation of investments on a sectoral basis through the government purchases of goods and services produced by the defense industry, is a well known practice all over the capitalist world, with the notable exception of Japan.[392] In this regard, what was different in France was that the key firms in those industries which were heavily dependent on government contracts were to be the object of fully coherent 'plans professionals' *(contrats fiscaux, de stabilite,* and *de programme)* committing them to certain kinds of industrial behavior along the lines proposed by planners, in return for massive state aid and exemptions from some regulations. In practice, the state used its leverage over the companies by virtually forcing them to merge with each other. In the computer industry, for instance, which has been a priority area from the Fifth Plan onward, the state launched in 1966 a project known as the Plan Calcul.[393] The objective

392 See L.J. Griffin *et al.*, "Monopoly Capital, Organized Labor, and Military Expenditures in the United States, 1949-1976" in M. Burawoy and T. Skocpol (eds.), *Marxist Inquiries*, *op. cit.*

393 The following discussion is based on two sources: J. Zysman, *Political Strategies for Industrial Order: State,*

of this 'sectoral plan' was to render France independent in the design and manufacture of scientific calculators and this decision was triggered by the USA's refusal to sell France main frame computers, and by the acquisition of Bull, the leading French computer manufacturer by the American General Electric as well. In response, the French planning community was mobilized (under the leadership of the then head of the CGP, Monsieur Ortoli), and in order to reestablish a French presence in the industry after the acquisition of the ailing Bull, it decided to create a new enterprise (CII) that would be owned partly by the state and partly by the three private enterprises in the field (CGE, CSF, and Schneider). The decision to back a merger among the three companies was taken in a few months by the interventionist 'core' of the French state, and a fourth private company in the field was left out of the picture to be a potential subcontractor on the grounds that it lacked commercial and managerial means to develop much beyond its one existing product. Such a decision was in fact fatal to the company left out of the picture because the designers of the Plan Calcul had decided that: "State aid will be concentrated on the chosen company -- that is to say, the one that appears in the best position, taking into account the principles and objectives of the plan. *We do not have the means to disperse our efforts by sprinkling help over a whole group of firms...*"[394] And in line what has been promised, the state supported the new company (CII) by promising to contribute 650 million francs in support of research and development during the initial 1966-1971 period of the Plan Calcul. In addition to such grants, the government contracted the CII to purchase its computers, and, even more important, it declared the possibility that "makers who refuse to go along with *le plan calcul* might find the state unwilling to buy their other products."[395] In short, the state was not only using public procurement as a leverage to force its resource allocation priorities on the markets, but it was also -- unlike other capitalist countries -- inscribing its will in the so called 'plans professionals' so as to render its action coherent with the objectives of the plan.[396]

Market, and Industry in France, University of California Press, Berkeley, 1977 and J.H. McArthur and Bruce R. Scott, *Industrial Planning in France, op. cit.*, pp. 359-69.

394 J.H. McArthur and Bruce R. Scott, *ibid.*, p. 367 (emphasis added).

395 *Ibid.*, p. 369.

396 In 1975 CII was merged with Bull, which by then had been purchased from General Electric by Honeywell. The resulting firm was called CII-Honeywell Bull. CII-HB which has been nationalized in 1981 is now the largest European computer company.

Steel is another example of the same pattern whereby the state officials bypassed the market and altered the balance of forces in a single industry by creating a duopoly surrounded by a swarm of sub-contractors. Remember that steel was one of the six sectors selected by the First Plan for special promotion, and its ownership was in private hands. In fact, until the early 1960's, planners had coordinated the investments of the producers and had financed these investments through subsidized loans from non-budgeted funds such as the FDES. In the meantime planners had not obliged steel mills to merge with each other; such decisions were simply encouraged and joint projects aided, but not forced on the producers. The about turn in the relations between the planners and the steel industrialists came in the mid-60's when the latter found itself in a debt-ridden situation (self-finance in steel was even lower than the fifty percent national average) and asked for state aid by using the steel modernization commission of the Fifth Plan as a forum to voice its demands. Negotiations between the planners and the CSSF (the trade association representing the industry) took almost a year and culminated in a signing of the 'plan professional' for steel in July 1966. This contract specified in great detail what each party would do to end the industry's problem after entry in the Common Market. In its turn, the government agreed to provide interest subsidies and other forms of preferential access to savings, amounting to 10 billion Francs which was required for expansion and modernization between 1966 and 1970. In addition, as both client and supplier of services (transport) and raw materials (domestic coking coal and coke) to the industry, the government promised to subsidize the industry's inputs and to buy a portion of its output. In return, the producers agreed to modernize their plants, rationalize their production, and merge their operations. In practice this meant that the industry would regroup the companies operating in basic steel into two geographic ensembles, USINOR and SACILOR, centered respectively in the North and Lorrain. The specialty steel makers, on the other hand, would also regroup "into one or possibly two combinations, in this case centered in the Centre-Midi; this regrouping was to be accomplished by 1971."[397] Finally, the steel industry accepted to bear the costs of compensations or retraining of labor in expectation of the substantial layoffs, which would result during the restructuration phase (1966-1971) of the industry, whereby "marginal productive capacity was to be

[397] J. McArthur *et al.*, *Industrial Planning in France*, *op. cit.*, p. 374

closed down."[398] Note that although it was the trade association, CSSF, which mediated during the negotiations, this did not prevent planners from penetrating deep down to the level of individual firms and influence the terms of relations between big and small capital. This was so because planners could resort to the threat of the specter of cheaper steel imports from abroad to convince businessmen to transform their traditional management and ownership patterns preventing economies of scale in steel. In the meantime, once the 'environment' changed, CSSF ceased to act as the agent of all firms, mediating between the big and the small in order to protect the small firms from the ravages of open competition. Instead, it became a rationalizing and modernizing agent, embodying the principles of the new political economy in its operations (i.e. the *Economie Concertee* characterized by the forging of structural links between the state and the advanced fraction of capital).[399]

While attempting to overhaul the whole industrial fabric, the state managers also subordinated macroeconomic management to the pursuit of their goals in industrial policy, as these goals of international competitivity and concentration of capital have been inscribed in the Fifth Plan. That is to say, in areas where the supply and demand incentives did not suffice to influence corporate decisions to merge, macroeconomic policy came to the rescue. The principle 'fiscal' instruments for encouraging concentration in those industries which were not heavily dependent on government contracts were tax exemptions for the capital gains of firms in the case of mergers, tax relief for those who invested or engaged in joint research and development, and medium and long-term credits for purposes of mergers. In other words, the state attempted to alter the *environment* in which business management takes its decisions by offering special fiscal exemptions from normal regulations to those who engaged in industrial concentration. In a likewise fashion, the process through which small firms became pawns to an oligopolistic sector in the selected key industries was also skillfully orchestrated by the planning community via taxation and price control measures which rendered it virtually impossible for small-sized and less efficient firms to stay on their own feet.[400] Naturally, unlike the pursuit of industrial policy,

[398] *Ibid.*

[399] For an excellent discussion of the 'steel crisis' in France which erupted in the mid-70's, see J. Hayward, *The State and the Market Economy*, The Harvester Press, Sussex, Great Britain, 1986, Ch. 5.

[400] For the price control measures which discriminated against marginal firms, see A. Shonfield, *Modern Capitalism*, *op. cit.*, p. 48-50. For the similar effects of the Value Added Tax which has been put in effect in 1954, see J. Sheahan, *An Introduction to the French Economy*, *op. cit.*, pp. 87-91.

say in computers, where the government officials admitted to have bypassed the markets to create a 'national champion' firm, they did not believe that their macro-economic interventionism was an attempt to suppress the market. On the contrary they claimed to have endeavored to amplify and channel market forces to do their work of selecting efficient, and only efficient, companies for survival. "I remember the undisguised glee of a member of the Commissariat du Plan in Paris who was describing the success of a plan to change the structure of an industry in which there was a proliferation of small backward firms: they were being killed off -- *'un vrai holocaste!'*, he said," reported Andrew Shonfield, the keen observer of French planning from across the channel.[401]

I do not want to repeat the prosaic saying that 'one does not judge a man from his words but from his acts', but as I hinted at earlier, the intellectual integrity of planners in France and the consistency between their theory and practice has always been planners' soft spot (see the next section on the decline of CGP), although such a quality makes the researcher less cynical about human motives. Perhaps without planners' interventionism the international market pressures would have made it difficult for marginal producers to survive, but this is a debatable claim. What is even more questionable is the neo-classical economists' claim that it was the liberalization of foreign trade which was responsible for the structural overhaul of the French economy, and I hope to have demonstrated that an 'open economy' after the entry in the EEC and 'planning' did not rule each other out. On the contrary, planners strengthened their hand vis-a-vis businessmen after 1958 because they were successful at employing the forces of competition as the instruments of their new industrial policy. Therefore, unlike the general belief shared by both the 'liberal' and institutional scholars, it is not that industrial policy does not work when market forces are strong and changing rapidly, but on the very contrary. Planners, in fact, have been instrumental in France in managing simultaneously large-scale destruction and the construction of the export-oriented fraction of monopoly capital as the hegemonic group in the power bloc not despite, but through the market forces. Judging their effectiveness from their intended goals of modernization and efficiency, they certainly were successful as the main protagonists and designers of an outward oriented growth model which gave priority to investments in the capital goods sector. The

[401] A. Shonfield, *ibid.*, p. 148.

problem was that managing large-scale destruction was "tricky stuff politically," because "development also means destruction, sometimes creative, sometimes wanton, often cruel and costly; it all depends on where you sit."[402] And this is the very context in which I will locate the question of the 'decline' of planning in France (and Turkey), in my next section.

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[402] S.S. Cohen, *Twenty Years of Gaullism: The Economy*, Working Paper No. 308, August 1979, p. 3.

6. TURKEY

Major Claims

At the purely indicative level the effectiveness of Turkish planning is even more limited than French planning. In fact, the Turkish plans which were supposed to be binding for the public sector and indicative to the private industry are no more than long documents compiling crude calculations relating to desired levels of investments in different sectors.

They do not contain any macroeconomic framework to test the consistency and feasibility of the growth objectives laid out in the plan and to devise possible trade-offs among them should external parameters change.[403] Aside from the inadequacy of analytical techniques used in the plan, the lack of effective civilian participation in planning stands as a primary factor limiting the possible positive effects of the sectoral demand forecasts on individual firms. No survey material exists in Turkey to measure the influence of the plan's forecasts on firms' production and investment decisions, but the sole study analyzing the quality of Turkish planning as a generalized market study, using econometric techniques, concluded that the overall forecasting performance of the plans left a great deal to be desired.[404]

On the 'coercive' level, however, the Turkish planners are endowed with some tools to affect both the composition of the power bloc, and the nature of hegemony within it, albeit with tools different than French planners in the absence of discretionary control over the flow of capital funds to industry. Naturally, the lack of leverage over the quantity of total credits and the price at which it is available to investors limits the allocational effectiveness of planners. For the public sector, on the other hand, the plan is supposed to be binding and to this end it is through annual programs that the plans are implemented. These programs have the task of specifying the policy measures required for implementing the yearly portions of the five-year plan's quantified growth objectives, and moreover,

[403] See F. Yagci, "Macro Planning in Turkey: A Critical Evaluation" in *Two Decades of Planned Development in Turkey*, METU Studies in Development, Special Issue, Ankara, 1981.

[404] E. Uygar, "Impact, Orientation and Predictions of the Plans," *ibid.*, pp. 437-473 (in Turkish). This author computed the effectiveness of planning from the forecasting end on the basis of a rational expectation model simulating the decision making of businessmen and then comparing both these expectations and the plan's projections with the actual outcomes to decide whether or not planners can do better than businessmen. But when planners are devoid of levers necessary to alter business behavior, the use of such a methodology comparing projections with outcomes reveals very little in terms of planning's efficiency. For a similar approach to French planning which informed E. Uygar's model, see S. Estrin and P. Holmes, "The Performance of French Planning 1952-1978," *Economics of Planning*, Vol. 16, No. 1, 1980.

they are drawn up in conjunction with the government budget to oblige the government to implement the public sector investment policy laid out in the plan. Yet, in practical terms, the legally binding character of the Turkish plan remains either inoperative or functions not to benefit the state but the private sector, due to the nature of the political economy, i.e. structured links between the state and social groups established at the very beginning of the planned period in the early 1960's, which Turkish planners who decided to remain in the SPO after the resignation of the first planners had to take for granted. My first two propositions below intend to capture the basic mechanisms through which public sector planning functioned both to sustain private profitability in the industrial sector, while also distributing welfare to popular groups. These propositions are therefore intended as workable hypotheses that need to be illustrated.

The Propositions 3 and 4, on the other hand, concern the effectiveness of Turkish planning in shaping the nature of hegemony in the private sector by providing some indicators of effectiveness such as generous tax rebates, and the preferential allocation of scarce and overvalued foreign exchange. It is argued that although planning was supposed to be indicative for the public sector, it amounted to more than that and benefited the manufacturing bourgeoisie via various subsidy schemes to an unprecedented degree in Turkish history. Yet the resulting 'hegemony' of the oligopolistic consumer goods manufacturers was not conducive to further development in the sense that, given their profit calculus, it was perfectly rational for the industrialists in Turkey to use their economic power to choke off further industrialization, rather than promoting the deepening of the industrial profile. Hence the very principle which propelled Turkish planning after the resignation of early planners, i.e. the idea of promoting international competitivity in the capital goods industries by fostering the accumulation of capital in private hands via various incentives at the expense of detracting from public resources, was both untenable and self-defeating as an industrial strategy.[405]

Proposition 1: The effectiveness of Turkish planners in relying on the state budgetary sources to finance industrial investments in the capital goods sectors is paradoxically limited by the direct

[405] See K. Bulutoglu, "Financing Turkey's Development Plan" in S. Ilkin and E. Inanc (eds.), *Planning in Turkey*, METU, Faculty of Administrative Sciences, Publication No. 9, Ankara, 1967. This very valuable collection of essays by many planners is appropriately dedicated "to frustrated planners all over the world."

involvement of the Turkish state in production via the SEE's. That is to say, the SEE's can not generate their own resources needed for investments because they serve as a conduit of transfer to the industrial bourgeoisie by supplying many of the raw and semi-finished materials utilized by private enterprise at prices below their production costs. Thus, in the absence of greater state appropriation of surplus from society in the form of taxes proportional to the subsidies granted to the private sector, an increasing proportion of the public budget is channeled towards bailing out unprofitable public enterprises. Consequently the state budget can not become an instrument used by planners to foster capital accumulation via new productive investments in the capital goods sectors.

Proposition 2: Aside from the provision of low price inputs to the private sector, the SEE's also serve a multiplicity of 'legitimacy' objectives, ranging from regional employment creation to buying rural producers' raw materials for prices higher than market prices. Thus, grass root social pressures are constantly brought to bear on planners via politicians, and planners are forced to approve of new public projects in labor intensive fields. Then, given the fiscal constraints, investment resources of the state are spread too thin and therefore it normally takes 10 to 15 years more than the estimated time to complete public investments in Turkey. As a result, the 'project' choices of the new plans in capital intensive investment goods sectors from the Second Plan of 1968-1972 onwards became too limited in the sense that the public projects that were underway and supposed to be completed several years before were absorbing the available resources for new productive investments.

Proposition 3: Although Turkish planning assigns investment targets to be reached during the lifetime of the plan for the private sector, the 'autonomy' of the financial fraction of capital in Turkey effectively bars Turkish planners from forcing their resource allocation priorities on the economy without straining budgetary resources. That is to say, in the absence of control over the banking system, planners distribute incentives to private investors in the form of various tax reductions at the expense of detracting from the resources of the state, thus undercutting the political basis of their own autonomy. Nonetheless, to the extent that planners distributed incentives to investors, they strongly favored the manufacturing industry as a whole over service (trade), energy, and agriculture, but -- unlike French planners -- they did not discriminate between different branches of industry.

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Proposition 4: Aside from the preferential allocation of tax rebates, the principle means with which planners bypassed the markets and affected the allocation of resources consisted of 'foreign trade' controls regarding the determination of tariff levels to protect the domestic industry, and the administrative allocation of preferential foreign exchange quotas. Consequently, planners were instrumental in maintaining high profit rates in the manufacturing industry since scarce foreign exchange resources were channeled to industrialists at subsidized rates due to the overvaluation of the Turkish lira vis-a-vis foreign currencies. Thus, in addition to subsidies provided via cheap SEE inputs, 'rents' procured through trade protectionism became another major mechanism of transfer away from the state sector and primarily benefiting the internal market oriented manufacturers of consumer goods. Consequently, although this fraction of the industrial bourgeoisie was strengthened economically vis-a-vis others, it remained dependent on the world markets for the import of (cheap) capital goods.

Planning as Industrial Policy: Public Sector Planning

Proposition 1

Earlier I indicated that the capacity of the Turkish state to appropriate a surplus from society in the form of taxes -- that I called the first dimension of relative economic autonomy -- was quite limited. Throughout the 1960's and 1970's the tax ratio to GNP hovered around 16 to 18 percent, below the average of 20 percent for a sample of twenty middle income countries, and much below the 40 to 45 percent average for France.[406] Consequently the increase in the savings rate which provide the basis for productive investments fell below planners' expectations (see my Table 5 in the introduction) as the upper income groups in the country remained virtually untaxed as evidenced by the regressive structure of income taxation.[407]

Because the Turkish state's tax revenues has not been commensurate with the rising public expenditures during the planned period, the difference between expenditures and tax revenue which hovered

[406] See *Turkey: Industrialization and Trade Strategy*, published by the World Bank, Washington D.C., 1982, p. 174.

[407] The share of direct taxes in total tax revenues increased from 37.2% in 1970 to 62.1% in 1980, with a corresponding decline in the contribution of indirect taxes. See the World Bank, *ibid.*, p. 176. Yet direct taxes were extracted in a regressive way. That is to say, fixed income groups such as salaried state employees and wage earners, paid the bill as their share in the total direct income tax amounted to 60% by 1977, while the agricultural sector whose share in the GDP amounted to 22.7% in 1980 remained virtually untaxed.

around 6 percent of GNP on average during the planned period -- in France, on the other hand, public sector deficits averaged 1-2 percent of GNP[408] -- has been met either by recourse to short-term advances from the Central Bank, or by recourse to external borrowing. Naturally both forms of finance do have their limits, since the first one, or the creation of money in excess of the growth rate, results in high inflation, and the second form of finance or foreign borrowing, results in high foreign debts and leads to insolvency.[409] Yet since the public sector is directly involved in production in Turkey, theoretically speaking, it might have been possible to finance public investment expenditures out of the earnings of the state economic enterprises (SEE's). In fact, the share of the public sector in fixed investment in manufacturing which had accounted for about 40 percent of total fixed investment in the 1950's, increased to 50-60 percent during the lifetime of the first four plans (1963-1982).[410] Furthermore, many of the SEE's which had been initiated during the etatist period of the 1930's (see chapter 4) had concentrated their investments in the intermediate goods sectors such as steel, iron, paper, petrochemicals and artificial fibers, as well as in mining and textiles. Thus, had these state enterprises been productive and profitable it would have been possible to rely on them as the 'commanding heights of the economy', ensuring the deepening of the industrial profile and injecting productivity increases into the rest. This is exactly what had happened in France, when, the First Monnet Plan had purposefully injected capital to increase the productive potential of the key heavy industrial sectors of the economy, on which the increase in all other forms of industrial output was believed to have depended (see chapter 3). In Turkey, in direct contrast to France and in the absence of sufficient capital funds to finance public investments, the production units in the public sector remained very small compared with the prevailing scales in the world markets, and therefore diseconomies of scale resulted in low productivity and high production costs.[411] And, furthermore, as we will shortly see, because the SEE's functioned to

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[408] See P. Hall, "Patterns of Economic Policy: An Organizational Approach," *op. cit.*, p. 30. In Turkey, the difference between government expenditures and tax revenues increased from 2.3% of GNP to an average of 5.5% of GNP between 1963 and 1972, although the ratio of tax revenues to GNP, displayed a modest increase from 14.9% of the GNP in 1963-67 to 17.2% in 1968-72. See *Turkey: Prospects and Problems of an Expanding Economy*, World Bank, Washington D.C., 1973, p. 69.

[409] Debt service ratios, defined as the ratio of interest payments and amortization to merchandise exports, can be taken as an index of insolvency. This ratio was 15% in 1975, but reached the alarming 30% level in 1980. See N. Gianaris, *Greece and Turkey*, Praeger, New York, 1988.

[410] See *Turkey: Industrialization and Trade Strategy*, World Bank, *op. cit.*, Ch. 6.

[411] *Ibid.*, pp. 37-8.

subsidize the private sector, they were bound to operate in the red and therefore could never help to increase national savings by becoming solvent institutions, let alone serve as the 'commanding heights of the economy'.[412]

For the Turkish planners, who, like the French planners desired to use the state budget as an instrument to foster industrial accumulation and renewed growth, the macroeconomic consequences of the SEE's deficits were frustrating. That is to say, as a result of their operating deficits the SEE's were forced to either borrow from the Central Bank which resulted in increased inflation and upped the costs of the ongoing public projects; or they were bailed out by the state at the expense of the curtailment of new productive investments so as to meet the SEE's deficits from funds allocated for new investments in the budget. In either case, the state's allocative effectiveness in the public sector, i.e. its ability to use its own revenues towards capital formation via the concentration of its resources in the capital and investment goods sectors, suffered. The table below should give the reader an opinion about the allocative effectiveness of the Turkish state by displaying the ratio of investment to total state expenditures throughout the 1970's. (The table is admittedly only a partial indicator of allocative effectiveness since it only provides us with aggregate categories and remains silent on the actual distribution of 'investment expenditures' category among alternative projects. Further details will be given while illustrating Proposition 2 in the coming pages.)

[412] This expression is used by A. Shonfield to describe the nationalized core of the French economy. See his *Modern Capitalism, op. cit.*, p. 126.

Table 8
Central Government Expenditures
(amounts in billions of TL)

	1972	1973	1974	1975	1976	1977	1978
Total Central Govt. Expenditures	52.5	64.9	79.5	11.6	156.5	239.8	346.0
Current Expenditures	24.2	28.7	40.0	65.4	86.8	98.1	149.2
Investment Expenditures	8.8	11.6	17.5	21.8	33.5	49.9	71.2
Transfer Expenditures	19.5	24.6	22.1	28.6	36.2	91.8	125.6
Annual Rates of Growth (%)							
Total Expenditures	10.8	23.6	22.6	45.5	35.1	53.2	44.3
Current Expenditures	9.0	18.6	39.4	63.5	32.7	13.0	52.1
Investment Expenditures	11.4	31.5	50.9	24.9	53.7	49.0	42.7
Transfer Expenditures	12.7	26.2	-10.2	29.4	26.9	53.6	37.1
Percentage Distribution							
Current Expenditures	46.1	44.2	50.3	56.5	55.4	40.9	43.1
Investment Expenditures	16.8	17.8	21.9	18.8	21.4	20.8	20.6
Transfer Expenditures	37.1	37.9	27.7	24.7	23.1	38.3	36.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
As Percent of GNP							
Total Expenditures	21.8	20.9	18.6	21.6	23.4	27.5	28.2
Current Expenditures	10.0	9.3	9.4	12.2	13.0	11.2	12.1
Investment Expenditures	3.7	3.7	4.1	4.1	5.0	5.7	5.8
Transfer Expenditures	8.1	7.9	5.2	5.3	5.4	10.5	10.2

Source: *Turkey: Policies and Prospects for Growth,* The World Bank, 1979.

In the table above, one can notice that, for each of the years covered, the transfer expenditures outweighed the investment expenditures. Strictly speaking, the term 'transfer' refers to any form of payment by the state which is not intended as a compensation for any service offered (which comprise current expenditures), or for any good produced (which comprise investment expenditures). It is therefore a category which denotes a 'welfare' form of expenditure, which is called 'legitimacy' expenditure in the political science literature.[413] One can compare Table 8 above with Figures 1 and 2 on France and see that the ratio of investment to total state expenditures is higher in France than Turkey. However, one should not conclude that 'legitimacy' expenditures understood as the redistribution of income by the state to benefit the wage and salary earning groups is higher in Turkey than France. In fact, although the 'social wage', i.e. state expenditures designed to supplement the collective consumption of the working class and the petty bourgeoisie is said to be higher in Turkey than in comparable 'middle

[413] This term is coined by J. O'Connor. See J. O'Connor, *The Fiscal Crisis of the State*, St. Martin's Press, New York, 1973.

income' countries,[414] we do not possess sufficient information to make a direct comparison with France. What we know, on the other hand, is that in Turkey the category 'transfer expenditures' is comprised of three more elements besides the 'social wage' per se: debt-service payments, agricultural subsidies and capital transfers to the SEE's to meet their operating deficits. The urban popular groups obviously do not benefit from these payments, as the debt-service payments detract from the national wealth, and the other two benefit farmers and industrialists, respectively. A closer look at the composition of the 'transfer expenditure' category of the budget reveals that throughout the years, the subsidy policy of the government both for basic agricultural products (for which the government is the main buyer and sets prices above the market levels), and for meeting the losses of the SEE's has become more and more costly for the budget. During the years 1977 to 1980 for example, the SEE's losses accounted for between 33 to 38 percent of the total transfer expenditures, or about 15 percent of total expenditures, thus eating away from both the welfare transfers to urban and rural popular groups, and from new capital investments.[415]

The chronic deficits of the SEE's in Turkey and the regular state interventionism to rescue them, irrespective of the political party in government, may evoke the image of the Pythos (sieve) of Danaides in ancient mythology, that is, "the curse of the daughters of Danaus to pour water forever into a vessel full of holes."[416] But the curse brought upon the Turkish state is of a different order than that of the 'daughters of Danaus'; that is to say, the private industrial sector in Turkey can hardly survive without the SEE's. Its enhancement is closely dependent upon the existence of the state's direct involvement in production via the SEE's that will never compete with the private sector, and instead supply many of the raw and semi-finished materials at less than what they would have cost, had they been produced by a profit maximizing enterprise. With the possible exception of textiles,[417] the SEE's

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[414] See *Turkey: Policies and Prospects for Growth*, published by the World Bank, Washington D.C., 1979, Ch. 6.

[415] See *Turkey: Industrialization and Trade Strategy*, World Bank, *op. cit.* (The ratios of the SEE's losses to total transfer expenditures are calculated by the author on the basis of information in tables 3.14 and 3.15.)

[416] N. Gianaris, *Greece and Turkey*, *op. cit.*, p. 56.

[417] There are very few SEE's in Turkey that venture in the consumer goods industries. But even then, the SEE's do not directly compete with private enterprise. In textiles for example, the state owned Sumerbank produces cheap, coarse cotton cloth and woollens for army uniforms, whereas private firms manufacture artificial and mixed fabrics in various patterns and colors to satisfy the upper echelons of consumer demand. See C. Keyder, *State and Class in Turkey*, Verso, London and New York, 1987, p. 171.

serve as a barely concealed channel of transfer to the privately owned consumer goods industries because most of the products of the SEE's consist of intermediate goods which are designed as subsidized inputs to private manufacturers. Given the share of investment in public industry which is about 50 percent of production, and the almost exclusive orientation of the public sector in the intermediate goods sectors, one can possible reverse the equation suggested by F. Block (see my second chapter on the theory of F. Block) claiming that those industrialists in Turkey who manage consumer industries -- regardless of their own political ideology -- are dependent on the maintenance of some reasonable level of economic performance in the public enterprise sector. Arguably, this structured link between the state and the industrial bourgeoisie can explain the reluctance of the 'liberal' governments in Turkey to dismantle or privatize the SEE's, despite their promises to the contrary given to 'international organizations', in return for the loan guarantees. In practice, however, the Turkish industrialists were not too keen on buying the SEE's, and during the reign of the pro-business political parties throughout the planned period, the SEE's expanded their presence in absolute terms to the chagrin of foreign capital which remained on the periphery of the state-local business network.[418]

The table below displays the extent of the direct state subsidies to the local private manufacturers who were able to buy their inputs below production costs. Note that the government, that sets up prices, priced only two items above the costs, and one of them (newspaper paper) does not even concern the manufacturing industry.

[418] Direct investments by foreign manufacturing firms remained very limited in Turkey, never exceeding 50 million dollars per year. See C. Keyder, *ibid.*, pp. 181-2. This suggests that Turkish capitalists were not too keen on inviting foreign capital as long as they could form joint ventures or purchase licenses and technology. At any rate, whatever the reasons for the relative absence of foreign capital, Turkish ISI differed from the pattern of the triple alliance between the state, local capital and MNC's whereby foreign firms controlled a good chunk of the domestic market. See P. Evans, "Reinventing the Bourgeoisie: State Entrepreneurship and Class Formation in Dependent Capitalist Development," in M. Burawoy and T. Skocpol (eds.), *Marxist Inquiries*, *op. cit.*, pp. 210-47.

Table 9
The Prices and Costs of Various Commodities Produced by the SEE's
1976 TL/TON

Commodities	Manufacturing SEE	Cost	Price	Difference
Cement	Cimento	419	415	-4
Fertilizer (nitrogen)	Azot	1922	1822	-100
Fertilizer (phosphorus)	Azot	3165	2400	-765
Aluminum	Etibank	31933	16392	-14541
Copper	Etibank	35899	31488	-4411
Lignite	TKI	556	126	-430
Black coal	TKI	1053	227	-726
Coke coal	TKI	1328	435	-893
Paper (first quality)	SEKA	9987	9944	-43
Paper (second quality)	SEKA	8807	6854	-1953
Newspaper paper	SEKA	5437	5446	+9
Paper	SEKA	4904	4726	-178
PVC	PETKIM	14031	12411	-1620
Sudkostik	PETKIM	2682	6989	-4297
Plastic	PETKIM	18004	18651	+647

Source: K. Saybasili, *Devletin Ekonomiye Mudahalesi, (1963-1985)*, Birey ve Toplum Yayinlari, Ankara, 1986.

It may however be argued that not all losses of the SEE's are due to price controls. Overmanning, which is a form of 'welfarism', also contributes to the deficits. It is true that the employment in the SEE's is politically controlled and the supervising ministries who want to distribute patronage to their clients often exert pressure on the SEE managers to hire excess labor, and this practice results in the low, even negative, marginal productivity of labor in these enterprises.[419] Yet price subsidies to private consumer goods manufacturers seem to be the *primary reason* for the SEE's deficits and this claim is substantiated below (Table 10).

[419] See *Turkey: Industrialization and Trade Strategy*, World Bank, *op. cit.*, Ch. 6 (parts A and B). For a general discussion of clientelism in Turkey, see R. Bianchi, *Interest Groups and Political Development in Turkey*, Princeton University Press, Princeton, New Jersey, 1984.

Table 10
Gross Profit (loss) and Financing Requirements of State Manufacturing Enterprises, 1979
(TL million)

Corporation	Gross Profit[a]	Duty Losses[b]	Depreciation	Fixed Investment	Total Financial Requirement[c]
MKEK	-327	-	141	-1083	-1269
Sumerbank	1862	70	253	-2708	-593
Turkish Cement	-979	360	144	-776	-1611
Turkish Iron and Steel	1654	-	721	-13,854	-11,479
SEKA	-4600	3096	591	-8755	-12,764
PETKIM	3935	-	879	-13,553	-8739
Fertilizer (AZOT)	-1480	830	152	-1666	-2994
Turkish Sugar	-7845	8339	314	-3002	-10,533
Total	-7780	12,695	3195	-45,397	-49,982
Total for all SEE's	-66,832	69,962	16,271	-128,002	-178,563

a. The gross profit excludes the liability of government to pay duty losses, which is normally included in state enterprise profits. A positive sign means a profit and *vice versa*.

b. Duty losses represent the liability of government to pay offsetting subsidies for price controls in effect in 1979. Thus profits without price controls are obtained by summing actual profits and duty losses.

c. Excludes financing of stocks.

Source: *Turkey: Industrialization and Trade Strategy*, The World Bank, Washington, D.C., 1981.

Note that the second column (duty losses) of the table reflects the effects of the price controls that existed in 1979 (the beginning of the Fourth Plan) on the concerned enterprises. Price controls do explain a great deal of the losses of the SEE's. It can also be seen from the table that no enterprise in the state sector was self-financing, except Sumerbank (the state-owned textiles company which was one of the very few SEE's that subsidized consumers instead of manufacturers). In global terms, the SEE's required 178 billion TL by the state in a given year to finance their investments as well as their deficits. For the year 1979 this finance requirement amounted to more than a third of the total revenues of the state from taxation which were about 507 billion TL.[420] Similar consequences can be obtained for years other than 1979. They inarguably indicate that contrary to what was written in the first four plans (1963-1983), the state budget could not be relied upon by planners to foster capital accumulation via new productive investments by the state in the capital goods sectors.

[420] See *Turkey: Industrialization and Trade Strategy*, World Bank, *op. cit.*, p. 152 (Table 3.14).

Proposition 2

In the chapter on France, I have argued that French planners have been able to affect the allocation of industrial investment in a *selective* fashion in both private and public sectors. Selectivity has never been a salient feature of Turkish planning. This was particularly true for state investments over which planners supposedly exercised 'veto' power, as it was inscribed in the law that planners would scrutinize the proposed SEE investments from the vantage point of consistency with the goals of the plan and no investment could take place if planners refused to issue the green signal. Still, planners could not shape everything in the public sphere since many of the SEE's have been inherited from the past, as the state's involvement in production dated back to the early years of the one party 'republican' regime, which I called the 'etatist' period (see chapter 4). But then in the absence of a sizable private sector, the SEE's had functioned as the 'commanding heights of the economy', in a way reminiscent of the early planned period in France. Given the political balance of power in the 1960's and 1970's, the SEE's could no more function as independent and profit maximizing units and compete with the industrialists. This was one of the many bitter political lessons that the early planners in Turkey had learned and had led to their resignations, and afterwards the SEE's served as a conduit of transfer to the private sector throughout the planned period (Proposition 1). But aside from this, I also hinted that the SEE's serve a multiplicity of popular welfare distribution objectives, ranging from employment creation to subsidizing primary producers via buying their raw materials at prices higher than the prevailing market rates, and now I will elaborate on this 'legitimacy' function of the SEE's. Obviously welfare distribution and help to the unemployed can take many, both socially and macroeconomically, more beneficial forms (such as the public provision of social services and pensions as found in the advanced capitalist countries), other than relying on the SEE's by governments for erratic welfare distribution and clientelistic favoritism in order to get local political support. It may, on the other hand, be true that the subsidies paid by the SEE's to primary producers, and the prevailing overmanning practices in these enterprises increase the income of the popular groups and therefore they help to nurture a domestic market by boosting internal demand for consumer goods and facilitating the absorption of the output of the local manufacturers. In a way, therefore, welfare redistribution via the SEE's is seen as a form of

Keynesianism and some Marxist scholars credit the state with a bird's eye view in Turkey for having broadened the internal market and thus having contributed to industrialization.[421] (The scholars with a liberal bent, on the other hand, hold the state enterprises responsible for most economic ills. These views will be criticized later in this chapter.) Empirically speaking, such arguments are at best suspect for two reasons. First, the extent to which rural producers provide a market for the goods produced in the consumer durables sector is unknown in Turkey,[422] and therefore any argument on 'broadening' is subject of speculation. Second, the fact that under political pressure, the SEE's supply jobs of zero and even negative marginal productivity to the unemployed and thus contribute negatively to economic growth by locking (human) resources in low value added fields is not taken into account at all.[423]

At any rate, all scholars agree that welfare distribution via the SEE's was a logical, albeit partial and distorted response in Turkey on the part of governments to grass root demands for economic and social justice, and the nature of the political process in Turkey was conducive to such schemes. More specifically the Turkish political system is a form of a 'populistic' regime that S. Huntington calls poorly institutionalized in the sense that the political apparatuses lack the necessary autonomy to restrict and moderate the impact of popular groups who aspire to gain entry into politics (see section 1 of the second chapter for a review of Huntington's theory). In the case of Turkey it was the multiparty regime which provided the channels of entry to the masses and the rural bias built into the electoral system rendered politicians especially responsive to demands arising from the countryside. Consequently, unlike western countries of which France provides a good example, a direct relationship existed in Turkey between the rulers and the ruled, unmediated by various 'democratic' mechanisms which in western countries serve to "slow down the entry of new groups into politics or, through a process of political socialization, impel changes in the attitudes and behavior of the most politically active members of the new group."[424] Thus, paradoxically, the lack of French style separation between the

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421 Such a view informs the theoretical perspective of C. Keyder. See his *State and Class in Turkey, op. cit.*

422 See S. Pamuk, "Import Substitution, Foreign Exchange Bottlenecks and Turkey: 1947-1979" in C. Keyder, S. Pamuk and K. Boratav (eds.), *The Development of the Crisis and the Problem of Alternatives for Turkey*, Kaynak editions, Ankara, 1984, pp. 36-69 (in Turkish).

423 This contrasts with the process of economic development in France which was characterized by improved efficiency in the use of productive factors, throughout the planned period. See J. Sheahan, *An Introduction to the French Economy, op. cit.*

424 S. Huntington, *Political Order in Changing Societies, op. cit.*, p. 21.

interventionist and protectionist state apparatuses in Turkey rendered the political system more permissive to grass root demands than the so called 'democratic' systems, where the petty bourgeois or small producer groups were held at bay during the process of rapid economic change.[425]

In operational terms, the easy access of government members to their constituencies, representing regional units mostly from rural areas means that elected politicians -- who have the upper hand over planners in the context of the High Planning Council, the supreme organ of planning -- are expected to find jobs for the unskilled and provide price subsidies for small producers. Consequently politicians who come under great pressure by their constituencies, try to remove these pressures from themselves by exerting political pressure on planners to sanction new sub-optimum scale public investments and not to reduce or cut subsidies to the deficitary SEE's providing employment to their constituencies. In the context of French planning I argued that they were able to fend off small producers and petty bourgeois groups from participation and choose their own 'social partners'. Just the opposite situation characterizes the functioning of the Turkish SPO where planners are always *overloaded* by erratic and tedious demands emanating from the political realm.[426]

The macroeconomic consequences of the 'populistic' process described above is naturally negative regarding sustained economic development, since, the legal 'veto' power of the planners on some SEE projects amounts to nothing when politicians end up upbidding their economic promises, such as each promising a cigarette factory in his region.[427] Consequently, planners in Turkey could not prevent the inclusion of several irrational SEE projects in the budget in the sense that these projects were included in the yearly programs without first preparing a feasibility report and seeking finance.

[425] See S.S. Cohen, *Twenty Years of Gaullism: The Economy, op. cit.*, p. 3. He writes: "in a way, Gaullist economic policy was a counterpart of the famous *'je vous ai compris ...'* speech. De Gaulle certainly understood them. He also, in their terms of the moment, wiped them out."

[426] In this context the testimony of an ex-SPO undersecretary is very revealing. I quote him from my *interview*, winter 1987, Ankara: "I was afraid to step in my office every day knowing that I would be surrounded by people visitingiting from the city X, asking permission to build a new road or dam or to repair the radiator system of a certain high school They were constantly sent to me by the Prime Minister and other ministers and I had no choice but to refer them to my departmental heads. Politicians who sent them would later call, to make sure yearly programs would be responsive to their demands. I wished they had instead asked me what the external deficit by the end of the year would be or what the alternative ways of financing major and ongoing infrastructural projects were. There was no way that we as planners would not trip over our own feet because we could not run so fast as to keep up with politicians' promises and ad hoc impositions on us, with no regard for the plan's overall equilibrium and consistency."

[427] The evidence in this part is suggestive rather than definitive in the absence of published work, or rather the unavailability of the High Planning Council meetings' records to the public. Hence I based by judgements mostly on the open-ended interviews I conducted in Turkey, in 1987.

Moreover, many of these projects conflicted with each other instead of being complementary to each other. In other words, many sub-optimum scale plants were built to manufacture the same product to please several regions, instead of formulating an integrated technology policy and seeking complementarity among a limited number of optimum size plants specializing in different yet complementary segments of the market.[428] As a result misallocation of resources ensued as the investment capital of the state was spread too thin to please everybody. An observable index attests to this. That is to say, a critical indicator of the effectiveness of planning, relating to planners' control over investment projects is given by the duration of projects, called the 'gestation' period. When the state managers are devoid of a selective capacity and are obliged to divide their limited resources among mutually exclusive investment projects, the result is such that it takes an average of 10 to 15 years *in addition* to the estimated period to complete major public investment projects in Turkey. The table below attests to this claim by showing the average gestation period and the cost to the economy of the delays in major infrastructural projects. Note that not all of the investment projects undertaken by the state are included, and therefore the total cost of the delays to the economy should have been higher. But even then we arrive at an astonishing figure of 4374 billion TL by adding up the extra costs to the budget borne out due to delays in the completion of major infrastructural projects that were underway by the state (including both the SEE's investments and investments undertaken by local governments). The total cost of the delays in these projects was purported to be 10,000 billion TL, i.e. about one third of the total value of these 8133 projects and 45 percent *more* than the total revenues of the state in 1986.[429]

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[428] Published works on the technology policy of the state in Turkey are nonexistent, perhaps mirroring the lack of a coherent policy. For a notable exception see, K.S. Gill, *The Perspectives for Machine Building Industries*, Studies Relating to the Long-term Industrialization Perspective of the Turkish Economy, 1968-1982, No. 1, Ankara, SPO, 1969.

[429] See *Milliyet* Newspaper, December 2, 1986. It also takes in Turkey longer to install manufacturing plants than international norms. For instance, while in Greece a 20,000 ton capacity petrochemical plant was built in 2 years, it took the Turkish state 5 years to install a plant of similar size, in Yarimca, Turkey.

Table 11

The Title of the Project	Date of Beginning	Newly Planned Date of Finishing	Delay (years)	Cost of Delay (million TL)
Ataturk dam - Urfa tunnel	1975	1994	11	673
Arifiye - Sincan railroad	1975	1994	13	472
Aliaga Petroleum plant	1971	1989	6	398
Afsin - Elbistan generator	1972	1987	7	363
Karadaya dam	1971	1989	13	306
Transit highway	1981	1990	3	233
Kemerkoy thermal generator	1984	1989	2	200
Yenikoy thermal generator	1978	1989	3	170
Afsin - Elbistan Lignites	1973	1987	7	165
Ankara drinking water	1966	1991	19	164
Orta Anadolu oil refinery	1970	1986	6	155
Soma thermal generator	1977	1988	6	148
Kargai thermal generator	1974	1988	10	141
GAP irrigation project	1977	1995	11	136
Cayirhan thermal generator	1974	1988	11	135
Petlas tire plant	1974	1987	9	125
Altinkaya dam	1975	1988	4	112
Agricultural Research and Implementation	1981	1989	5	107
Seyitomar thermal generator	1979	1988	5	97
Orhaneli thermal generator	1979	1988	5	74

Source: Milliyet Newspaper, December 2, 1986.

Undeniably, the direct effect of the long delays in the completion of state investment projects on planning was that planners' hands were tied when it came to affect the allocation of resources in the state sector. That is to say, the 'choices' of the new plans from the Second Plan onwards became too limited because the public projects that were underway and supposed to be completed several years before were absorbing the available resources for new productive investments. The Third (1973-1977) and the Fourth (1979-1983) Plans in Turkey, both put verbal priority on deepening and proposed several capital and investment goods investments,[430] under the leadership of the state. Yet even a cursory examination of these plans suffices to dissipate such a rosy picture. The Fourth Plan, for example, calculated the total cost incurred by the delays of the ongoing state investment inherited by the plan at approximately 1.3 trillion TL at current prices. The same plan also declared that it could count on 1.6 trillion TL that should have been allocated to new investments during the five year lifetime of the plan,

[430] By the notion of 'investment goods' I am referring to machines that make consumer or intermediate goods, whereas 'capital goods' refers to machines that make other machines.

and this money was necessary to allow the country to proceed from the easy stage of consumer goods substitution to that of intermediate, investment and capital goods (i.e. deepening). No indication was given, however, as to how to guarantee 'deepening' in the view that planners knew the fact that more than eighty percent of the resources (1.3 trillion TL / 1.6 trillion TL) would be absorbed by the ongoing projects.[431] In short, it should be concluded that both the Third and Fourth plans in the 1970's were stillborn.

A close inspection of the actual allocation of state investment expenditures corroborates my judgement above. It was said that the ratio of investment to total state expenditures was low in Turkey (see Table 8 above). Naturally both major and infrastructural projects such as roads, dams, hospitals and manufacturing investments in all industries are included in the category 'investment expenditures' of the budget. Given that the Third and the Fourth Plans put emphasis on deepening at the expense of other forms of investments, one can judge the degree of planning's effectiveness in selectively shaping the allocation of resources in the state sector by analyzing the actual distribution of state investments. Such an analysis covering the years 1973-1981 reveals two unmistakable facts. *Firstly,* the ratio of industrial investments to total investments varied between 23 and 31 percent in Turkey, thus the state's ability to affect capital formation in industry was limited. *Secondly,* in total contrast to the 'rhetoric', the share of capital and investment goods investments to total industrial investments varied between 6 and 18 percent between 1973 and 1981.[432] (It declined radically afterwards as we will see in the next section.) Thus, an absolute majority of the state's industrial investments, around 55 percent, was concentrated in the intermediate goods sector, those branches of the economy that were hardly at the forefront of modern technology and where worldwide profit margins were low. Undoubtedly, such arrangements benefited the private manufacturers of consumer durables, who obtained their semi-finished or raw material inputs from the SEE's (Proposition 1), and imported their capital good inputs (Proposition 4), both at subsidized rates. In the meantime, although planners correctly identified the fact that the absence of a capital goods industry was the major bottleneck inhibiting further industrialization in Tur-

[431] See *Fourth Five-year Development Plan 1979-1983*, Prime Ministry, State Planning Organization, Ankara, 1979.
[432] See O. Turel, "Public Investments in Engineering Industries in the 70's: Some Observations and Comments," in *Two Decades of Planned Development in Turkey, op. cit.*, esp. pp. 581-6 (in Turkish).

key, there was nothing they could do to translate their ideas into practice.

Planning as Industrial Policy: Private Sector Planning

Proposition 3

We have seen that the real capacity of Turkish planning to affect resource allocation in the public sector was quite limited, despite the pretense of planners to the contrary. For the private investments, on the other hand, the plan is not legally binding, but as I will shortly claim its effects are more noteworthy. This is not to say that planners determine the sectoral allocation of investment in the private sector. In fact, although the plan assigns investment targets to be reached by private investors, the actual results often deviate from the planned objectives. Furthermore, the deviation from the physical targets is systematic in the sense that production targets of the Turkish plans were surpassed for light consumer industries such as food, drink, tobacco, paper, plastic, textiles and leather. But they were not reached in the intermediate and capital goods industries, reflecting the preference of private investors for traditional industries protected from international competition and characterized by low initial outlays. Needless to add, because the manufacturing industry remains essentially deprived of an investment goods sector, it is dependent on the world markets for the import of capital inputs, and therefore (because the imports are paid for in dollars), the availability of foreign exchange becomes the *sine qua non* of maintaining the internal level of production.

Despite their failure to convince industrialists to invest in desired fields, Turkish planners have been instrumental in shaping the nature of class relations in their society by affecting the nature of hegemony in the power bloc. Yet, both the means (i.e. incentives) via which a fraction of capital was elevated to a position of hegemony, and the nature of the favored fraction of capital, has been different in Turkey than France. That is to say, unlike France, Turkish planners could not primarily rely on the selective control of the flow of funds to industry to determine who produces what and how. Instead, they derived their instrumental autonomy from their discretionary authority over the allocation of tax rebates and scarce foreign exchange (Proposition 4) to business groups who vied with each other to wrest special privileges from planners. Furthermore, unlike French planners who intervened selectively in the economy so as to create a dynamic monopoly capital concentrated in skill and capital intensive investment goods sectors oriented to exports, Turkish planners favored the manufacturing industry as a whole over non-industrial sectors, but they could not afford to be selective as to which branch of industry to grant favors.

To start with the former issue, the first observation in order is that although the Turkish planners controlled neither the quantity of industrial credits, nor the price at which they were available, the industrial sector in Turkey, not unlike France, was very vulnerable to state interventionism. In fact, the Turkish companies did have very low self-finance as evidenced by high debt-equity ratios, even compared to other middle income countries.[433] Moreover, since in Turkey, like France, the stock markets have been underdeveloped, industrial capital did not have any option but to depend on bank credits as the principle external source of financing new investments.[434]

Yet the potential leverage that could be wielded by planners over the industrial sector was thwarted as a consequence of both the structure of the financial system in Turkey, and the independence of the financial fraction of capital. In the case of France, I had argued that the capacity of planners to affect the allocation of industrial investment in a selective fashion had stemmed from a series of institutional controls regarding both macro (the existence of state controlled long-term credit institutions) and micro (the existence of the *encadrement de credit* system) level interventions in the capital markets (see Proposition 3 on France). Turkish planners did not have either of these levers. On paper, the structure of the Turkish financial system was not dissimilar to the French system as it consisted of both deposit banks and specialized development banks, aside from the Central Bank. But even a glimpse at the table below and a comparison with Table 2 on France depicting the structure of the French financial system proves that the share in the total assets of the financial system in Turkey of the investment and development banks that were supposed to provide long-term finance for industry, was much more limited than their French counterparts. Furthermore, as it can be seen from Table 12 below, the already

[433] Between 1965 and 1971, self-finance in Turkey is said to have been around 60 percent of total investments. See *Turkey: Prospects and Problems of an Expanding Economy*, World Bank, *op. cit.*, p. 87. I have not come across any study indicating self-finance ratios during the 1970's, but suggestive evidence from interviews indicated that it declined to less than 50 percent and major projects in consumer durables were financed almost entirely via subsidized credits, the holding placing no more than 15-20% of the capital in advance.

[434] In fact, the issue of securities amounted to only 3 to 4 hundred million TL in the 1970's as most of the larger companies were closely held by family groups. See *Turkey: Industrialization and Trade Strategy*, World Bank, *op. cit.*, pp. 142-3.

modest share of the long-term credit institutions in financing the economy dwindled in size in a period of less than five years, thus leaving the industrial sector with no choice other than resorting to short-term credits from the deposit money banks. The decline of the relative position of investment and development banks has been due to the constraints these banks faced in mobilizing financial resources. That is to say, although a great deal of hope was placed by planners on these institutions which were supposed to provide subsidized long-term credits to the productive sector, unlike their French counterparts they could neither receive the deposits of the commercial deposit taking banks, nor could they issue bonds to raise their own funds. Correspondingly, they have been dependent essentially on foreign loans, and Central Bank credits. Central Bank assets, in their turn, that comprised approximately a third of the capital resources in Turkey, have been strained to finance the deficits of the SEE's and the costly agricultural price support policy of the state for major agricultural products. Thus, approximately two thirds of the Central Bank credits were absorbed by the state for nonproductive uses, and of the destination of the remaining third, the inconclusive data suggests that the merchants who marketed cash crops together with importers were the main beneficiaries.[435]

[435] See T. Artun, *Banking in Turkey*, Tekin Editions, Istanbul 1979 (in Turkish) and Y. Kepenek, *Turkish Economy*, Savas editions, Ankara, 1979, Ch. VII (in Turkish).

Table 12
The Turkish Banking System
(end of the year figures)

	1975			1980			June 1981		
	Number	Total Assets[a]		Number	Total Assets[a]		Number	Total Assets[a]	
	of Banks	Billion TL	% of Total	of Banks	Billion TL	% of Total	of Banks	Billion TL	% of Total
Central Bank	1	122.4	29.2	1	1,387.6	43.7	1	1,627.2	40.5
Deposit Money Banks	38	242.0	57.7	38	1588.2	50.0	40	2,173.2	54.1
Public	10	125.9	30.0	10	790.5	24.9	11	1034.7	25.8
Private	28	116.1	27.7	28	803.0	25.1	29	1138.5	28.3
National	23	107.6	25.6	24	756.2	23.8	33	1060.8	26.4
Foreign	5	8.5	2.0	4	46.8	1.5	6	77.7	1.9
Investment and Development Banks	4	55.2	13.1	5	200.1	6.3	5	215.9	5.4
Public	2	48.8	11.6	2	146.8	4.6	2	145.7	3.6
Private	2	6.4	1.5	3	53.3	1.7	3	70.2	1.7
TOTAL	43	419.6	100.0	44	3175.9	100.0	46	4016.3	100.0

a. Consolidated for inter-deposit money bank transactions and for inter-investment and development bank transactions.
Source: *Turkey: Industrialization and Trade Strategy*, The World Bank, Washington, D.C., 1981.

In short, industrialists in Turkey principally relied on the resources of commercial banks, given the meager funds of the investment banks and the absorption of the Central Bank resources by the state and service sector. The commercial banks, in their turn, who enjoyed operational autonomy in their credit making decisions, loaned to finance short-term transactions in speculative fields, rather than taking risks to finance productive projects in capital goods sectors which, at the very outset, required huge outlays. The results are shown in Table 14 below, and the evidence regarding the allocation of credits in Turkey throughout the first two decades of the planned economy prove that the industrial sector has received less than fair treatment, despite the priority given by planners to industry over the service and agriculture sectors. In fact, while the contribution of industry to the GDP hovered around 20 percent during the lifetime of the first three plans (1963 to 1977),[436] the share of industrial to total credit never exceeded 6 percent. The agricultural sector, on the other hand, received a fair treatment in the sense

[436] See *Planned Development in Turkey and the State Planning Organization*, Prime Ministry, State Planning Organization, Ankara, July 1986, p. 28.

that its allotment of banking credits was in line with its contribution to national wealth. It was then the 'service' sector that was favored by the banking system since its share in the allocation of total credits to the economy surpassed its contribution to the GDP. Yet, it should be added that it was not solely merchants who benefited from commercial credits. In fact, the producers in consumer goods industries often competed with the merchants to receive short-term commercial credits in order to build their own marketing network all over the country.[437] Consequently, as opposed to western countries where the process of capitalist development sharpened the conflict of interest between the commercial and industrial fractions of capital, in Turkey the opposite happened. That is to say, these two sets of interests coexisted peacefully as the large holding companies which came into existence throughout the planned period were composed of vertically linked production and commercial firms, the latter specializing in the marketing of (consumer goods) products of the former and importing the necessary capital goods inputs. Consequently, the commerce-industry cleavage inherent in the process of capitalist development was alleviated, but in return, although the manufacturing capital gradually built its hegemony in Turkey -- see my Figure 7 of the genesis section -- the outcome resembled the Janus-like two-headed creature of ancient mythology. Nonetheless, it should be denied that as the interests rates were kept negative[438] the distribution of bank credits has become a major source of conflict during the planned years around which one could detect the crystallization of conflicts within the power bloc (see the table below).

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[437] Y. Kepenek, *Turkish Economy, op. cit.*, Ch. VII.

[438] For the inflation, nominal interests rates, and real interest rates in Turkey, see N. Gianaris, *Greece and Turkey, op. cit.*, Ch. 7.

Table 13
The Distribution of Banking Credits to the Private Sector: 1962-1978
(Million TL)

years	Agriculture	% of total[a]	Industry	% of total[a]	Artisans and Shopkeepers	% of total[a]	Real Estate	% of total[a]	Others (commerce)	% of total[a]	Total
1962	1953	22	334	4	183	2	1131	13	5310	59	8911
1963	2408	23	385	4	202	2	1294	13	5872	58	10161
1964	2991	26	485	4	247	2	1528	13	6232	55	11482
1965	3206	24	593	4	312	2	1658	12	7792	58	13561
1966	4531	26	817	5	427	2	1768	10	10074	57	17617
1967	5551	27	1043	5	585	3	1851	9	11554	56	20591
1968	7115	29	1248	5	777	3	1901	8	13863	55	24904
1969	8554	28	1498	5	971	3	2030	7	17132	57	30185
1970	9030	27	2132	6	1108	3	2342	7	19184	57	33796
1971	8867	23	2389	6	1267	3	2517.	7	23560	61	38600
1972	9778	20	2788	6	1538	3	2714	5	34051	66	50869
1973	14267	21	3763	6	1972	3	3075	4	44110	68	67187
1974	24798	28	4253	5	2533	3	3391	4	51459	60	86524
1975	33249	27	5232	4	3940	3	3792	3	77687	63	123900
1976	37423	23	6385	4	6293	4	4464	3	110065	66	164630
1977	46623	22	8499	4	9516	5	5446	3	139831	66	209915
1978	49372	18	13197	5	13707	5	6961	3	183846	69	267083

a. calculated by Vedat Milor.

Source: Y. Kepenek, *Turkiye Ekonomisi*, Savas Yayinlari, Ankara, 1983.

The evidence suggested by the table above reveals to us some of the dimensions of conflict among the major constituents of the power bloc. In other words because, not unlike France, the interests rates were kept artificially low and real rates were negative, the allocation of bank credits emerged in Turkey as an important distributive domain around which different fractions of capital clashed with each other to maximize their own allotment. The results, as seen from the table above, give credence to industrialists' complaints voiced by their spokesmen that a key strategic resource was made available to commerce and construction while the manufacturing sector was starved of funds. But the existence of the SPO compensated for the complaints since in practice planners functioned as the Trojan horse of the manufacturing capital in the state. That is to say, planners did have in their control the allocation of another 'strategic resource' called incentives, i.e. the authority to grant tax rebates, and to a lesser extent subsidized credits. (These preferential credits were made possible in 1972 by using the rediscount facilities of the Central Bank to provide medium and long term credits to industry.)[439]

[439] For a discussion of the medium-term Central Bank credits, see T. Artun, *Banking in Turkey, op. cit.*, pp. 84-88.

Planners actually began to allocate these incentives in 1967, and the results are given in Table 14 below, demonstrating that the manufacturing sector was accorded utmost priority at the expense of others.

Table 14
Total Investments that Benefited from Incentives
(million TL)

	Agriculture		Mining		Manufacturing		Other (commerce)		
year	amount	% of Total	amount	% of Total	amount	% of Total	amount	% of Total	Total
1968	21	1.5	8	0.5	1410	97.5	5	0.5	1444
1969	38	1	14	0.5	3919	98	17	0.5	3988
1970	11	0.2	11	0.2	4371	91	433	8.5	4826
1971	53	1.5	135	35.5	2221	58	197	5	3870
1972	284	2	38	0.2	13191	89	1309	9	14882
1973	113	5	525	2	27951	92	1655	5.5	30244
1974	1242	5	297	0.1	26951	90	1517	5	30007
1975	1695	5	454	1	28032	81	4253	13	34439
1976	736	1	1964	3	53014	80	10318	16	66032
1977	1048	0.5	2442	1	190365	68.5	83103	30	276958
1978	2189	1.5	10374	8	119144	86	6440	4.5	138147
1979	2218	2.5	2011	2.5	80079	92	2368	3	86676
1980	27553	13	3697	2	161595	78	14181	7	207026
Overall		4		2.5		79.5		14	

Source: Calculated from various yearly programs published by the SPO.[440]

In interpreting the table above from the vantage point of planning's effectiveness in strengthening manufacturing capital vis-a-vis other fractions of the dominant classes, three sets of comments are in order. *First,* tax reductions were truly effective in rendering the projects that benefited from these incentives more profitable than would have been the case otherwise. It was in fact calculated that without these incentives new investments would have cost 76.5% more to the beneficiaries when they invested in developed regions and 108.6% more when they invested in the less developed regions of the country.[441] Thus the impact of the incentives in shaping the allocation of resources is undeniable.

Secondly, to the extent that planners enjoyed instrumental autonomy in deciding the sectoral destination of incentives, they strongly favored the manufacturing industry as a whole over others, but they

[440] I am deeply indebted to Halil Toros for sharing his data with me.

[441] I. Uludag, "Investment Incentives from the Vantage Point of Industrialization Strategies," paper submitted to the symposium organized jointly by the SPO and Marmara University and published by the Center for the Study of Middle Eastern and Islamic Countries, Publication No. 4, Istanbul, March 1986, pp. 245-300 (in Turkish).

did not discriminate among different branches of industry. The manufacturing sector received four fifths of all incentives, i.e. about fourfold compared to its contribution to the GNP, while the share of 'agriculture' and 'service' amounted only to a fraction of their contribution to national wealth. Thus a conscious effort was underway to alter the power balance among different fractions of the dominant classes, but this effort -- unlike France -- did not extend to influencing sectoral balances in 'industry', in a selective way. That is to say, a close look at the distribution of incentives within the manufacturing sector reveals that, in contrast to the claims of planning texts that put emphasis on the deepening of ISI, investment goods industries were not favored at all. The bulk of incentives in manufacturing were equally divided between consumer and intermediate goods with approximately 35 percent of the total for each; whereas capital goods fell behind with 30 percent.[442] In short, unlike the French industrial policy, the Turkish one was not *selective* at all, i.e. it could not alter the prevailing market conditions to encourage development in certain designated investment goods branches of industry.

Finally, while distributing lucrative incentives to the private sector that virtually granted one dollar to the investor for each dollar spent by him, the state undercut its already vulnerable economic autonomy since generous tax exemptions significantly reduced from the state's own revenues. Yet had the increase realized in the private investors' income through tax relief been directed toward productive investments, the decrease in public investments, due to the diminution in tax revenues, would not have led to a diminution in total capital formation. But since in Turkey private companies used their incentives less to increase plant and equipment than toward speculative purposes, incentives to the private investors and the resulting increase in their profit rate paradoxically did not induce the entrepreneurs to invest more but to do the opposite. In fact, a follow up of the incentives distributed by the SPO indicates a stunning result in the sense that only 17.9 percent of the projects (in all sectors) that benefited from the grants were realized. (The realization rate was highest in the consumer goods with 31 percent where profit expectations ran very high.)[443] This means that, roughly four out of five projects never got underway or never finished, indicating a very costly way for the state to channel savings into invest-

[442] *Ibid.*, p. 281.
[443] *Ibid.*

ments.

Proposition 4

So far I discussed two basic levers -- i.e SEE's inputs and tax rebates -- under planners control that served as a channel of transfer to the manufacturing industry and away from the state sector. The third lever via which planners played a key role in shaping the nature of hegemony in the power bloc was the control exercised by them over a number of policy instruments in foreign trade. That is to say the Turkish state had at its disposal a number of instruments including import licensing, import quotas, and restricted access to foreign exchange, in addition to tariffs. The actual implementation of these policy tools and the allocation of scarce foreign exchange resources required planners' stamp of approval who then used their discretionary power to promote and protect the domestic manufacturers of consumer goods. Needless to say, the allocation of foreign currency and the determination of tariff levels emerged as the third distributive domain, other than bank credits and tax reductions, around which major lines of political and economic conflicts in the power bloc crystallized. Hence after discussing the nature and functioning of the foreign trade regime in this chapter, and in the light of our previous analysis of bank credits and planning incentives, we will be able to visualize the winners and losers of the planned industrialization policy in society. Therefore the power bloc formation pictured in Figure 7 of the last section and specifying the structured links among social groups and between them and the state will be substantiated on the empirical plane.

On the most general plane, all of the Turkish plans stated that protection from external competition would be provided to domestic industry "in order to overcome the disadvantage of being an underdeveloped country trading with advanced countries."[444] But in practice, beyond this general statement of a correct principle, the actual policy measures adapted by planners showed heavy and exclusive reliance on import quotas as the principle instrument of protection and very little was done towards ensuring industrial competitivity and efficiency. Furthermore, contrary to the plans' emphasis on deepening, it was the industries at the consumption end of the market that were protected from external

[444] *First Five-year Development Plan 1963-1967*, Prime Ministry, State Planning Organization, Ankara, 1963, p. 470.

competition, more than, and sometimes at the expense of, intermediate and capital goods producers. Thus, not unlike the Latin American countries, and contrary to France which resorted to an ISI strategy to build and protect a heavy industrial sector during its first phase of the planned economy (see my section 3.2 on France, in this chapter), the Turkish brand of ISI accorded *selective* protection to consumer industries which naturally remained dependent of other economies for importing their technology.

The tariff discrimination against the capital and intermediate goods industries can be empirically demonstrated by calculating the effective tariff protection (ETP) coefficients for each industrial sector. The ETP is a more accurate indicator of 'protectionism' and its differential impact on industries, than the nominal tariff rates. In fact, the latter calculation -- the nominal tariff protection or NTP coefficient which is calculated as one plus the ad valorem tariff rate -- tells us about the absolute levels of tariff protection for each industry but does not take into account the relative position of industries vis-a-vis each other. That is to say, in evaluating the effects of the tariff rates on profits, individual industries will be concerned not only with tariffs accorded to the products they manufacture so as to prevent foreign competition, but also with the actual cost of their inputs. In other words, if imported inputs cost too much due to the high level of tariffs on imported capital goods, the subsidies given by the state to manufacturers will partly be taken back via high tariffs -- hence high costs -- on their imported inputs. The lower the tariff rate on imports used as inputs in manufacturing and the higher the protectionism given via high tariffs for its products, the better it is for an individual industry. The table below takes into account both of these variables and therefore gives a good idea about the effects of foreign trade policy on individual sectors. The results prove that the capital and intermediate goods industries have been discriminated against since the ETP coefficients are lower in these industries than consumer goods industries.[445] Hence, in the actual implementation of tariff policy, consumer goods industries have been protected and promoted, contrary to what was laid out in the plans, and these results stand in sharp contrast with France where the opposite had been the case during the initial phase of planning.

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[445] These results are also corroborated by another study. See U. Korum, *The income and Employment Effects of the Inter-Industry Structure*, Faculty of Political Science, Ankara, 1974 (in Turkish).

Table 15
Effective Tariff Protection in the Manufacturing Sector[a]
(by Aggregated I-O Sector)

1979 Output (TL million)	Effective Tariff Protection Coefficient	
	General Tariff	EEC Tariff
Food Processing	139,226.5	2.282
Beverages	13,604.4	2.078
Textiles & Clothing	149,838.6	2.0091
Leather & Fur Products	5,905.3	2.800
Paper & Paper Products	19,242.0	1.698
Chemicals	102,686.2	1.321
Rubber Products	18,220.8	1.388
Plastic Products	17,289.4	2.813
Glass & Glass Products	9,349.5	1.714
Cement	20,219.0	1.888
Iron & Steel	77,837.3	0.996
Non-ferrous Metals	24,497.0	1.304
Fabricated Metal Products	38,342.6	1.923
Non-electrical Machinery	37,442.8	1.469
Electrical Machinery	43,217.4	1.461
Transport Equipment	76,936.9	1.490
Weighted Average		1.749

a. The effective tariff protection coefficient is equal to one plus the effective tariff protection rate. In turn, the effective tariff protection rate is equal to

$$\frac{t_i - \sum_j a_{ji}\, t_j}{1 - \sum_j a_{ji}}$$

where

t_i = weighted average nominal tariff rate on tradeable output category i;

t_j = weighted average nominal tariff rate on tradeable input category j;

a_{ji} = technical coefficient expressing direct plus indirect use of tradeable input category j in the production of output category i.

Source: *Turkey: Industrialization and Trade Strategy*, The World Bank, Washington, D.C., 1981.

The second major instrument of trade policy was the preferential allocation of scarce and subsidized foreign exchange via bureaucratic mechanisms rather than the market. Given the meager level of exports (see Table 6 in the introduction), Turkey did not earn much needed foreign currency to import capital goods and despite the flow of foreign aid and remittances of the workers abroad, foreign exchange remained as a scarce resource in the sense that political authority had to solve the problem of "how to distribute 5 dollars among 50 applicants."[446] The fact that, with the possible exception of a few

[446] See Ayse Oncu, "Chambers of Industry in Turkey: An Inquiry into State-Industry Relations as a Distributive

years after the 1970 devaluation, the Turkish lira was overvalued until 1980 -- the black market rate exceeding double the official -- only exacerbated the chronic shortage of foreign exchange by rendering it a valuable asset. That is to say, when the "dollar was made available to lucky industrialists at the favored official rate, these were assured of collecting enormous rents once they converted the imported inputs into final commodities to be realized in the internal market."[447] All imports were subject to official approval without which foreign currency was not made available, and since the share of consumer goods in total imports was very low -- 10.3 percent, 9.5 percent, 3.7 percent, and 2.2 percent during the lifetime of the first four plans respectively[448] -- manufacturers of consumer durables competed among themselves for the entire supply of foreign exchange in order to import their investment and intermediate goods inputs at subsidized rates. Thus, on the one hand, a powerful protectionist lobby was formed comprised of both large as well as small scale industrialists, specializing in the production of domestic market oriented consumer goods, and commercial importers as well. All of these groups had a stake in the maintenance of an overvalued exchange rate that naturally hurt exporting industries, and the power of these protectionist groups grew vis-a-vis exporting interests over time almost by default, when the rate of export to import dwindled by half between 1962 and 1980.[449] But, on the other hand, the protectionist partners fought hard against each other to obtain foreign exchange to meet their own needs, given the scarcity of this resource. In the meantime various state agencies, including the Ministries of Finance, Commerce, Industry and the Central Bank, aside from the SPO, became the arenas within and among which struggles between the constituents of the power bloc were fought.[450] Unfortunately, the results of these struggles can not be quantified given that not a single record of the actual allocations of foreign exchange among the applicants is made available to the public. Yet if we use public statements as circumstantial evidence, it is interesting to see that throughout the 1960's large-scale industrialists unceasingly complained about the actual allocation of scarce dollars.[451] In fact,

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Domain" in E. Ozbudun and A. Ulusan (eds.), *The Political Economy of Income Distribution in Turkey*, Holmes and Meier Publisher Inc., New York and London, 1980, p. 468.

[447] C. Keyder, *State and Class in Turkey, op. cit.*, p. 172.

[448] *Planned Development in Turkey and the State Planning Organization, op. cit.*, p. 37

[449] *Ibid.*, p. 36.

[450] Unfortunately, unlike France, almost no written material exists on the inter and intra-state apparatus struggles in Turkey. This is a very fertile area that should be explored.

[451] See also A. Once, "Chambers of Industry in Turkey: An Inquiry into the State-Industry Relations as a Distributive Domain," in E. Orbudun and A. Ulusan (eds.), *The Political Economy of Income Distribution in Turkey, op. cit.*

in the 1960's the chambers of commerce and industry enjoyed some degree of control in the distribution of investment goods' import quotas for private sector investment. Because medium and small-scale enterprises, together with commercial interests, controlled the chambers, big industrialists producing consumer goods and organized in holding companies found the control by other interests of scarce resources unacceptable. But following the 1971 military coup, the privileges of the Chambers of Industry were abrogated and the allocation of foreign exchange quotas was centralized under the aegis of a single ministry.[452] Afterwards the complaints of the domestic market oriented holding companies about the distribution of foreign exchange receded substantially, to reemerge again in the late 1970's when the surge in imported oil prices swallowed almost all of the meager export earnings, leaving virtually nothing to be distributed among industrialists. But in the meantime exclusive access to foreign exchange quotas during the 1970's may have contributed to the growth of holdings and the resulting oligopolization of domestic market oriented consumer industries.[453]

Obviously the exporting groups who received less local currency than what would have been the case under a market rate were hurt from the maintenance of a highly overvalued exchange rate during the lifetime of the first four Turkish plans. Until the end of 1970, exports consisted mainly of agricultural products, and to a lesser degree, manufacturing goods such as textiles and processed foods.[454] The majority of the small enterprises in the manufacturing industry was concentrated in textiles which were not dependent on imported inputs and used labor intensive methods of production. To the extent that these enterprises were oriented to exports, they were penalized by the overvalued TL. Some textiles and food processing firms belonging to oligopolistic holdings, on the other hand, used capital intensive techniques and therefore they were heavily dependent on imported inputs. Hence their losses in export earnings were partly compensated by their cheap imports. At any rate the major holding groups had diversified their investments among domestic market and export oriented activities in consumer industries to hedge against a reversal of economic policy as happened in the early 1980's (see the next section on *deplanification)*. But the majority of the firms belonging to the same holding invested in

[452] *Ibid.*

[453] The extent of the monopolization in the Turkish economy is discussed in M. Sonmez, *The Crisis of the Turkish Economy*, 2 volumes, Bolge editions, Istanbul, 1980 (in Turkish).

[454] *Planned Development in Turkey and the State Planning Organization, op. cit.*, p. 37.

domestic market oriented industries. Thus, in balance, the anti-export bias of the trade regime was favorable to them. The main losers of the trade policy were then small farmers who produced exported cash crops -- agribusiness and big landowners were absent in the countryside -- and did not use imported inputs. But the state compensated for their losses induced by the trade regime via welfare distribution schemes by setting agricultural support prices above market levels (Proposition 2). Moreover the internal terms of trade worked in favor of agriculture,[455] and thus the agricultural sector in Turkey was not victimized through a surplus transfer mechanism to the benefit of industry. (Therefore in my Figure 7 depicting the power bloc in Turkey in the planned period, I characterized small farmers as a subordinate ally of the hegemonic domestic market oriented industry. It has also been suggested but not demonstrated that to the extent that high agricultural incomes contributed to the creation of markets for manufacturers, the natural inclination of capital to squeeze farmers in order to accumulate more, was thwarted. This may well be so, but such an economistic logic overlooks organizational factors such as 'peasant struggles' in explaining the location of peasants as a partner in the power bloc. The functional form of reasoning, on the other hand, attributes the survival of family holdings in agriculture and their coalition with manufacturers purely to the logic of ISI, unmediated by social struggles.)

I also indicated in my Figure 7 that small capital was a subordinate partner in the power bloc. This was so because the process of ISI in Turkey, unlike France, did not undermine the independence of small industry. In France, a conscious planned policy had led to undermine the basis of small production, and small and middle-sized production units had come to serve as subcontractors to a modern competitive sector. Thus small business had gone through a metamorphosis whereby labor-intensive and less efficient production units were either forced to transform themselves so as to become pawns to the modern sector or they were impelled to eclipse from existence as a result of state interventionism. In Turkey, on the other hand, despite the rapid growth of the oligopolistic manufacturing sector, a vast number of petty capitalists remained active and even prospered. Typically, small industry was located on the perimeter of the oligopolistic sector in the sense that it catered to local demands unfulfilled by the oligopolistic sector controlled by holdings. That is to say, there was a division of labor between big

[455] O. Varlier, *The Internal Terms of Trade in Turkey*, Ankara, 1968.

and small capital in the sense that while the former aimed at the middle income groups who would purchase consumer durables, the latter found its market in the shantytown and working class suburbs by providing low income groups with "a range of services ranging from transportation to bottled cooking gas."[456] In other words, small manufacturers thrived in the big cities and took advantage of the absence of public services and infrastructural facilities reaching the newcomers who were settled in the shantytowns upon their arrival from small towns. Small capital also derived its labor "from the semi-employed pool on the periphery of large cities"[457] and the average wage in small manufacturing companies employing 10 workers or less was around only 40 percent of the average wage in larger firms employing 100 or more workers.[458] In short, unlike France, small industry in Turkey was not made subordinate to big capital, let alone driven out of the market with the growth of the oligopolistic 'modern' sector. These two segments of capital competed with each other neither for markets nor for labor supplies since they both had their own distinctive sources of labor and markets, delineated from each other. Moreover the existence of the SEE's which provided cheap raw materials, and the availability of subsidized importing for capital inputs reduced pressures on the part of internal market oriented oligopolistic sectors to transform the nature of small capital to make sure that small firms serve as cheap input suppliers to them. Subcontracting existed but remained limited to textiles, electrical

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[456] C. Keyder, *State and Class in Turkey, op. cit.*, p. 163.

[457] C. Keyder, "The Political Economy of Turkish Democracy," *NLR*, No. 115, p. 29.

[458] Hence I claimed earlier in interpreting Figure 7 that there was a bifurcation in the working class due to the existence of segmented markets. That is to say, if we judge the real losers of ISI from its distributional consequences, nonunionized workers in the small business sector and the vast number of state employees whose real income declined throughout the 1960's and 1970's were the real losers. But such an argument does not take into account the possible productivity differentials in the small versus large-scale manufacturing sector. I have not come across any empirical study measuring labor productivities in the same industry, between large and small firms. The unionized workers employed in the protected oligopolistic sector whose number reached almost 4 million in 1977 as opposed to a mere 300,000 in 1963, the first year of the First Plan, were able to increase their real income throughout the planned period. But as I said earlier regarding the peasants, a functionalist view attributing economic gains by a subordinate group to the needs of capital to nurture a market for its products will simply be wrong, in view of the massive working class struggles which erupted in Turkey in the late 60's and 70's, and thus preceded the military coups of 1971 and 1981. Ample evidence suggests that wage gains have been set back after military coups and therefore attributing ruling conservative parties and the state with a bird's eye view striving to convince the individual capitalist of the benefits of collective bargaining and an increase in wage level falls short of explaining the working class gains throughout the late 1960's and 70's. At any rage, a World Bank study indicates that although real wages in Turkey rose by 16-18 percent during 1970-76, per worker output increased by 42 percent and average labor productivity increased by 28 percent. Hence wage changes during the 1970-76 period have lagged behind productivity changes. Thus to claim that the organized working class was a member of the ruling bloc in the planner period, as some Marxists do, is a very questionable claim indeed. Such an argument was first brought on the intellectual agenda by K. Boratav, "Populism in Turkey: 1962-1976," *Yapit*, No. 46, October-November 1983 (in Turkish). Eventually it led to a heated debate among Turkish Marxists. For a refutation of Boratav's evidence, see N. Karacan, "A note on Populism in Turkey in 1962-1976," *Yapit*, No. 47, December-January 1983-1984 (in Turkish).

machinery and fabricated metal product industries. Otherwise, in many of the consumer durables and nondurable industries small firms coexisted alongside the large ones and produced a similar range but lower quality products by using cheap labor and aiming at a different domestic market.[459] As we have seen, such arrangements were reminiscent of those in France in the interwar period when market integration and complementarity between small and big capital via subcontracting had not existed. And the call for reordering the structural relations between small and big enterprises was not to appear on the political agenda as long as foreign exchange was available and the economy expanded to offer growth opportunities to all fractions of the ruling protectionist bloc.

Underdevelopment: A Contingency or a Necessity?

Major Claims

My earlier discussion of the Turkish political economy in the planned period argued that ISI was based on the selective protection of the domestic manufacturing sector via various subsidy schemes orchestrated by planners that functioned to channel public resources in favor of big holding companies primarily concentrated in the consumer industries. Thus, because the Turkish manufacturing industry remained essentially deprived of an investment goods sector, it was dependent on the world markets for the import of capital goods, and therefore the availability of foreign exchange became the *sine qua non* of maintaining the internal level of production. Consequently, when the external sources of finance, i.e. principally foreign loans and worker's remittances, dried up in the late 1970's, the industrial structure receded (a minus 5.9% growth in 1980), and the country was virtually bankrupt since it was left with 23 billion dollars of external debt; thus its future was morgaged. Nonetheless Turkey's economic collapse in the late 1970's was not a usual and isolated case and it coincided with other cases in the South American continent where many countries pursuing similar ISI development strategies folded one after another. Consequently the insolvency of so many countries who owed billions of dollars to the western banks forced politicians and academicians in the core countries to ponder about short and long-term causes for the plight of many 'middle income' countries in the Third World. After all it was the same countries, such as Turkey, Brazil, Mexico, Argentina, who once were identified by western politicians

[459] See Y. Kepenek, *Turkish Economy, op. cit.*, pp. 268-78.

and academicians as ideal examples of modernization and economic development in the Third World, that should have provided a model to follow for the rest.[460] Hence once the model of ISI starting from the light industrial end, which was proposed in the first place by the international organizations to the Third World countries collapsed,[461] a vigorous search went underway to identify the culprits. More specifically, the 'liberal' economists came to put blame on the irrational economic policies pursued by the ISI countries and held 'the excess' of state interventionism responsible for the economic ills.[462] The mirror image of liberal economists in the social sciences, i.e. modernization theorists, on the other hand, looked for the longer-term reasons for economic collapse and evoked the memory of Weber and Schumpeter by asserting that the lack of entrepreneurs who could "identify themselves with general developmental aspirations of their society, be it even at the expense of some rationality in their every-day business operations"[463] was the major reason for underdevelopment. At any rate the panacea for the ills of economic backwardness was obvious to both liberal economists and modernization theorists: restrict the size of the state to 'unstrangle' the economy and let the burgeoning entrepreneurs live up to their innovative potential which is sure to surface once they are freed from the yoke of planners!

In the rest of this chapter I will challenge these views which are based on a certain Hegelian notion of dialectics whereby a particular agent in history -- the entrepreneurial class -- is supposed to have contained in itself the seeds of development which are bound to germinate as history unfolds. It is my basic objection to imputing developmental interests to any given class or class fraction that such a fragmented treatment of classes makes it impossible to consider the question of development since it forecloses any empirical analysis. Instead, one should take into account the nature of the political

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[460] In 1973 for instance, the World Bank was not critical at all of Turkey's economic performance. Compare the evaluation of ISI in Turkey in two different World Bank documents. *Turkey: Prospects and Problems of an Expanding Economy, op. cit.*, written in 1973 is quite sympathetic towards Turkish economic policy. *Turkey: Industrialization and Trade Strategy, op. cit.*, on the other hand, which was written in 1981, is deeply critical and scolds Turkey for having adopted an 'inward oriented' development policy, a term coined by Bela Balassa, a consultant to the World Bank.

[461] A Vice President of the World Bank, H. Chenery, visited Turkey in 1953 and wrote a report recommending an ISI policy in Turkey, giving priority to industry. See Y. Kucuk, "On the Development of the Planning Concept in Turkey," *Two Decades of Planned Development in Turkey, op. cit.*, pp. 79-113.

[462] See for example Bela Balassa, "The Policy Experience of Newly Industrializing Economies after 1973 and the Case of Turkey," paper presented at the Second Conference on *The Role of Exchange Rate Policy in Achieving the Outward Orientation of the Turkish Economy*, held in Istanbul in July 1-2.

[463] See F.H. Cardoso, "The Industrial Elite" in S.M. Lipset and A. Solari (eds.), *Elites in Latin America*, Oxford University Press, New York, 1967. Modernization theorists do not also discuss whether or not such entrepreneurs existed in the west, and if so, what were the social and historical circumstances which gave rise to their formation. Hence, modernization theorists adopt an ideal type of analysis, in which the situation in the periphery is compared to some unexamined model of 'entrepreneurship' in the center.

economy in a given country, i.e. the structured links among classes and class fractions and between them and the state before analyzing class positions, class projects, and class behavior. This is what I tried to do for France and I hope to have demonstrated that the entrepreneurial class was not necessarily an agent of development, and the process of modernization was closely orchestrated by the state managers who had based their relative autonomy on a certain type of power bloc constructed in the immediate postwar period. For Turkey, on the other hand, my analysis in the last section should have suggested that, to the extent that domestic market oriented manufacturing capital built its hegemony in the power bloc, its economic interest increasingly lied in choking off further industrialization rather than promoting it. Hence it seems misleading to pose the question of underdevelopment in terms of the 'irrationality' of economic policy as liberal economists do, when the ISI model pursued was supported by an extensive protectionist bloc composed of various class fractions.

So far I focused on the role of planners in shaping the nature of the power bloc and the consequent patterns of economic development in Turkey to imply that the particular type of industrialization orchestrated by the state has created its own obstacles to further development. This is not to deny that in less than a quarter of a century 'industry' became the leading sector in the economy. But this was like a Phyrric victory, achieved at the expense of creating an inefficient low productivity albeit high profits industrial system where a handful of holdings came to control the economy and parcelize the markets among themselves. Hence it appears that, contrary to what modernization theorists argue, the economic problems of Turkey are not due to the weakness of the industrial class, nor are they due to the existence of a dual society in which the traditional sector serves as a brake on development.[464] On the contrary, I have shown that the small manufacturing sector in Turkey was as much a product of the post-60's model of industrialization as big capital was said to have been. That is to say, the process of industrialization has led to an industrial structure whereby small capital could proliferate alongside the monopolistic sector, each profiting not only from various state subsidies but also from insufficient provision of public infrastructure and social expenditures of the state. Thus my examination of ISI in Turkey does not support the assertion that too much state interventionism has led to economic collapse. On the

[464] I share the argument made by I. Sunar on this count. See I. Sunar, *State and Society in the Politics of Turkey's Development*, Faculty of Political Science Publication, No. 377, Ankara, 1974, p. 121.

contrary, the achievement of a balanced and integrated industrial sector requires a different type of planning and government intervention not yet found in the peripheral countries which have imitated capitalist planning in the 'core' economies.

In the remaining pages, I will proceed first by further substantiating my claim that manufacturing capital, which gradually built its hegemony in Turkey, has now become part of the problem of under-development and not an answer to it. Secondly, I will discuss the so called 'technical' reasons (like the lack of savings, small size of the market and the unavailability of foreign exchange) which are said to have hindered deepening of the industrial profile in the middle income ISI countries. The example of France proves that these so called 'technical' obstacles can be overcome provided that the ISI starts from the heavy industrial end and rests on a particular form of power bloc which is very different than the ones in Turkey and many Latin American countries.

State Interventionism and Economic Development

In advanced capitalist countries the financial performance of the enterprises is correlated with their economic performance.[465] That is to say, assiming that the 'entry' to the market is not closed due to monopolistic structures, companies which obtain profit rates higher than the market averages are also economically more efficient firms than others. Total factor productivity differentials, i.e. the output per unit of capital and labor employed, can be considered as a direct indicator of economic efficiency in making comparisons among different industries or among firms in a given industry. It has also been asserted by both K. Marx and A. Smith and many of their followers that free functioning markets contain a destructively creative potential in the sense that they weed out both low productivity firms which can not obtain sufficient profits and low productivity 'industries' whose contribution to national wealth are lower than industrial averages, in favor of their more efficient adversaries. Thus both technical efficiency at the level of the firms, i.e maximizing output per unit of factor input, and allocational efficiency, i.e., the optimal use of resources at given techniques, are said to be maximized in a capitalist

[465] This is not to say that these two never deviate from each other. But then, the 'core' state attempts to regulate the industry especially when monopolistic situations create market imperfections. For a theoretical discussion see F.M. Scherer, *Industrial Market Structure and Economic Performance*, Rand McNally College Publishing Company, Chicago, 1980.

system, thanks to the functioning of the market.

We have seen that such an ideal model hardly fits the empirical reality while discussing the development of the French economy in this section. In fact, the state in France systematically intervened in the economy via 'indicative' planning in order to both mobilize economic resources which the market remained unable to do during the interwar period of 'laissez faire' capitalism, and allocate these resources among alternative investment projects in a way that would privilege production investments in capital goods sectors. But planning in France was by no means antithetical to the market. On the contrary, planners intervened in the economy in order to create the most rapid development of capitalism via selecting the efficient companies for survival at the micro level, and identifying the industries of the future that should have been developed by all means, at the macro level. In implementing such an industrial policy French planners at times suppressed the market when markets were too slow to respond to new growth opportunities, and at times -- especially after the entry in the EEC -- they employed the forces of market competition as instruments of their policy by endeavoring to amplify and channel the market towards desired industries. Had political power not been wielded upon investors to secure conditions for the concentration of resources in the potentially most dynamic sectors of the economy, an economy firmly anchored in agriculture, small business, and technological backwardness would not have been transformed into a modern economy with large-scale competitive companies, in less than a quarter of a century.[466] French economic growth was not solely the outcome of the market magic; it would not have been possible without successful interventionism, made possible by the construction of a certain power bloc which took its shape in the aftermath of the war (see my genesis section).

In Turkey, the political preconditions of interventionism which were conducive to breaking economic dependency did not exist. This is not to say that there was no room for maneuver for planners. And indeed there was. The crucial aspect of planners' institutional autonomy in Turkey was that they were instrumental in guaranteeing high profits for the (would be) oligopolies in consumer goods industries via providing them with the cheap SEE inputs (Proposition 1), investment incentives via tax reductions or alleviation measures (Proposition 3), and subsidized foreign exchange (Proposition

[466] See 'comments' by J. Zysman in W.J. Adams and C. Stoffaes (eds.), *French Industrial Policy, op. cit., p. 105.*

4). Hence from the standpoint of the industrialists, the key difference between Turkish and French interventionism was that the former allowed them to obtain high profits with inefficient scales of production and ineffective management, whereas the latter forced them to improve their economic efficiency if they wanted to survive. On the empirical plane, it is interesting to note that in Turkey total factor productivity in 9 major industries actually *declined* in the planned period, while only in 3 industries there was an improvement in output per unit input (see Table 16 below); and while factor productivity was low or stagnant, oligopolies were able to realize profit rates around 40 percent, certainly higher than western standards.[467]

Table 16
Ratio of Public to Private Output per unit of Input

Sector	1963			1976		
	Output per capital	Output per labor	Output per weighted inputs[a]	Output per capital	Output per labor	Output per weighted inputs[a]
Food	0.212	0.642	0.264	0.825	0.592	0.729
Beverages	3.509	1.577	2.762	3.030	1.876	2.525
Tobacco	1.709	0.684	1.221	0.842	0.923	0.857
Textiles, wearing apparel and footwear[b]	0.741	0.805	0.762	1.712	0.641	1.080
Wood and cork products	1.199	0.893	1.068	0.815	0.536	0.700
Paper and paper products	0.500	1.005	0.597	0.495	0.759	0.550
Chemicals	0.315	0.715	0.369	0.426	0.773	0.446
Nonmetallic minerals	0.978	1.550	1.129	0.812	0.909	0.848
Petroleum and coal	-	-	-	0.630	8.000	0.781
Basic metals	0.605	1.284	0.710	0.220	0.359	0.251
Metal products	0.218	0.818	0.300	0.122	0.733	0.182
Machinery	1.887	1.170	1.631	1.616	0.711	1.063
Electrical machinery	0.670	0.428	0.587	0.318	0.181	0.248
Transport equipment	0.372	0.227	0.313	0.394	0.205	0.313

a. Weights are factor shares in the private sector as of the years in question.

b. Because capital stock data were available jointly for textiles and wearing apparel and footwear, any separate estimation of efficiency were biased by the split used, and it was deemed preferable to aggregate the two sectors.

Source: *Turkey: Industrialization and Trade Strategy,* The World Bank, Washington, D.C., 1981.

Low factor productivities in Turkey were due to both 'objective' and 'subjective' reasons. Objectively, lower average factor productivity in Turkey than France[468] can be attributed to the stage of

[467] *See Y. Kucuk, Quo Vadimus*, Tehin Editions, Ankara, 1985, Table on p. 264 (in Turkish).

[468] The average productivity of labor which is calculated as the GDP/labor was solely 3300 dollars in Turkey in 1984 as opposed to 27,500 dollars as the average of the 10 EEC countries; that is about nine times that in Turkey. This

economic development since factor productivity is correlated with the size of capital stock, capital intensity of investments, and the degree of skills and know-how, and all of these variables favor advanced countries irrespective of the nature of the political and economic system involved. Yet, at a given level of capital intensity, labor productivity in Turkey was lower than world averages. In steel, for example, output per man-year in most industrialized countries would be at least 200 tons. Steel plans in Turkey matched their counterparts in Europe in terms of capital intensity, but output per man-year was below 100 tons.[469] Similar outcomes in other industries where labor productivity was low despite high capital intensity imply that there were 'subjective' factors involved, rooted in the nature of Turkish political economy, which were responsible for low economic efficiency. More specifically, the 'fault' lies in the style and nature of state interventionism described earlier, which was in turn supported by an extensive protectionist bloc. Hence subjective or 'voluntaristic' factors should be taken into account in explaining economic development which prompts me to argue that the state of underdevelopment should be characterized as a contingency rather than a necessity. In fact, in the case of Turkey, the excessive domestic market orientation of economic policy, combined with the availability of cheap inputs and guaranteed markets, made it unnecessary from the vantage point of family-owned oligopolies in consumer industries to worry about their productivity and international competitiveness. Hence international competitiveness was bound to remain weak not only because Turkey was less advanced than many of its competitors -- a circular logic -- but the internal market allowed for high profits, even if industrial scale, management and technology was not comparable to prevailing world standards.[470]

Compare the actual operation of planning in Turkey with the self-proclaimed goals of planners and you will see that the disparity is puzzling. That is to say, all the plans emphasized three main objectives: high rates of growth, deepening of the manufacturing industry and self-sufficiency defined as the attainment of an external trade balance and the ability to finance industrial investments without

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difference is due primarily to larger capital accumulation and the higher skills and know-how in the advanced western countries. See N. Gianaris, *Greece and Turkey, op. cit.*, pp. 54-55.

[469] *Turkey: Industrialization and Trade Strategy*, World Bank, *op. cit.*, p. 269. In explaining the lower output per man in Turkey this text concludes: "It is worth noting that, given the performance of Turkish workers in Germany, it is not any inherent lack of productivity in the work force that is at fault."

[470] In the consumer durable industries, the products manufactured in Turkey were two to three times more expensive than the world market averages: See Y. Kucuk, *Quo Vadimus, op. cit.*, Table on p. 267.

recourse to foreign aid. But the chosen means to promote these objectives, unlike France which adopted similar planning goals, allowed high profits to enterprises which were not competitive in international standards, and monopoly profits were guaranteed to the domestic industry not only during the nurturing period, but much longer than that. In the meantime strong interest groups with a direct stake in protectionism were created and industrial enterprises did not have any reason to seek export outlets when they could earn higher profits in internal markets. As a consequence the trade deficit steadily increased, and the dependence on foreign aid remained the only means to patch up the resource gap in the balance of payments.[471] In addition, capital and labor became tied up in speculative investments (real estate), or consumer industries which were dependent on imported inputs; thus chances for deepening the manufacturing industry by concentrating resources in capital and investment goods sectors became very slim. In short, in contrast to interventionism in France which channeled the market toward selecting efficient enterprises and industries for survival, Turkish style interventionism did the opposite; it created certain market forces which were not competitive, but powerful enough to prevent others from entering investment industries, albeit they would not (understandably) enter such arenas themselves.

The crucial aspect in the operation of planning in Turkey was the fact that it was conducive neither to liberating the markets, nor to bypassing them when markets did not live up to their 'creatively destructive' potential. Instead strong incentives distributed by planners that virtually granted one dollar to the investor for one spent by him, and various other subsidies, led to the concentration of capital, and thus an oligopolistic sector composed of large holding companies was created, each controlling a number of commercial and industrial firms, as well as commercial banks. More specifically, a total of 46 holdings divided among themselves the internal market for 22 commodities in consumer durable and nondurable industries, where total sales amounted to 6.2 trillion TL in 1985, i.e. 10 percent of the GNP in the same year, a considerable figure for a handful of firms which would have gone down the drain had an import liberalization been put into effect.[472] This economic oligopolization, however, was not

[471] See S. Pamuk, "Import Substitution, Foreign Exchange Bottleneck and Turkey: 1947-1979" in K. Boratav, C. Keyder, and S. Pamuk (eds.), *The Development of the Crisis and the Problem of Alternatives for Turkey, op. cit.*, Table 2 on p. 69.

[472] See *Cumhuriyet* Newspaper, December 5, 1985.

the end product of a period of dynamic growth in which growing market shares of the firms primarily reflected their competitive strength. Instead, Turkish style oligopolization was reminiscent of the experiences of several countries in Latin America pursuing similar ISI policies. In other words the concentration of capital was not conducive to self-sustaining growth since while industry was transformed into the leading sector of the economy, its dependency on imported capital inputs did not decrease but substantially increased, causing dismay among planners who supported the idea of 'market based' ISI on the grounds that the process of industrialization would reduce the overall import demand of the country. But given that the composition of industrial production was in constant flux, that is to say, as the leading sector of the manufacturing industry shifted from consumer durables, to consumer nondurables and automotives, the overall import demand increased exponentially. This was so because the empirical evidence shows that "whereas basic industrial consumer goods (clothing, furniture, footwear, etc.) have an import content of less than 5%, other goods (for example, electrical consumer durables) have an import content of about 30%."[473] Consequently, in the face of the limited exporting capacity of the economy, the availability of foreign exchange remained as a major constraint that limited the pace of industrialization of the country. In the meantime, the driving motto of planners, i.e. the deepening of the manufacturing industry was postponed indefinitely.

Major Bottlenecks Inhibiting Vertical Integration in Industry

Following the seminal article by A. Hirschman entitled "The Political Economy of ISI in Latin America,"[474] a rich literature developed in the area of development economics, focusing on the failures of the so called 'late late' industrializing countries in catching up with the early (England, Netherlands) and late (Germany, Italy, Russia, France) industrializers.[475] Although disagreeing on the relative merits of ISI in the developing countries, certain structural constraints common to many developing countries

[473] F.I. Nixson, "State Intervention, Economic Planning and Import Substituting Industrialization: The Experience of the Less Developed Countries" in *Two Decades of Planned Development in Turkey, op. cit.*, p. 67.

[474] See A.O. Hirschman, "The Political Economy of Import-Substituting Industrialization in Latin America," *Quarterly Journal of Economics*, Vol. 82, No. 1, 1968.

[475] The classical analysis of late industrialization belongs to A. Gerschenkron, *Economic Backwardness in Historical Perspective*, Harvard University Press, Cambridge, Mass., 1962. On the problems of late late industrialization or ISI in the Third World countries, see D. Colman and F. Nixson, *Economies of Change in Less Developed Countries*, Philip Allan, Oxford, 1978; and C.H. Kirkpatrick and F. Nixson, *The Industrialization of Less Developed Countries*, Manchester University Press, Manchester, 1982; and A.M. Choksi, "State Intervention in the Industrialization of Developing Countries: Selected Issues," *World Bank Staff Working Paper*, No. 341, Washington D.C., 1979.

are identified by development economists and these bottlenecks are said to have limited the deepening of industrial structure in the ISI countries. Namely, the 'availability of internal savings', 'market size' and 'foreign exchange' are identified as the main technical factors which constitute definite barriers to the formation of an integrated industrial structure in the developing economies. Below, I will claim that the actual operation and the constraining effects of these 'technical' obstacles can not be understood in a vacuum, independent of the nature of the ruling class coalition. In other words, these bottlenecks do not constitute rigid barriers to successful industrialization and they can be overcome, not because we issue a call to move beyond the easy phase of ISI because it is 'necessary' for accumulation to proceed, but if and only if the state managers acquire greater economic autonomy as a result of the break up of protectionist ruling blocs which is possible under precise historical circumstances. Otherwise, when the capacity of the state remains limited -- i.e. when what I called the two dimensions of relative economic autonomy are low -- the so called 'technical' factors are bound to operate at full force and become rigid barriers to accumulation, rather than simply constituting challenges ahead for planners which can be overcome via willful interventionism.

Take for instance the *first* serious bottleneck limiting the ability of ISI to proceed from easy phases towards the deepening stage, or the availability and extractability of internal savings that can be channeled to import substituting investments. In fact, in 1962, at the very outset of planning experience, the share of fixed capital investments in the GNP was a mere 13.7%,[476] and it was not possible to undertake investments in heavy industry without increasing internal savings substantially. Internal savings in their turn are made up of private savings and government savings, each principally composed of two items: voluntary savings and undistributed profits constituting the former, and taxation and SEE revenues constituting the latter. We have seen that (Propositions 1 and 2) there were definite limits to increasing taxation revenues stemming from the composition of the ruling class alliance, and that the SEE's were bound to operate in red given the nature of the structured links between the state and private manufacturers. Consequently, it was necessary to increase substantially the private savings for the country to enter the path of self-sustained industrialization. Yet planners did not have any control

[476] *Planned Development in Turkey and the State Planning Organization, op. cit.*, p. 24.

over the reinvestment of profits, and in the absence of such controls, the owners of industrial enterprise directed too large a fraction of their own savings towards real estate, speculation, commercial ventures, or buying banks. Hence the level of the voluntary savings was the only category of internal savings over which the state managers could wield some control via regulating interest rates in such a way that savings would be channeled towards banks, instead of, say real estate or gold. But the interest rates were kept negative in real terms, to please all fractions of the ruling class coalition (Proposition 3), who could borrow at subsidized rates. This situation naturally precluded the mobilization of private savings in state-owned banks which could have been used by the state to build up its own technological base in capital goods.

In addition, the very internal logic of ISI made the task of increasing voluntary savings rather difficult as the industrialization started in the consumption end, and the profitability of these industries necessitated the adoption of highly westernized patterns of consumption by a large strata of the population. Consequently, as ample evidence shows, households were increasingly tempted to allocate a good portion of their annual income for consumption rather than for savings as ISI proceeded.[477] Yet, while ISI proceeded towards higher stages, the necessity to save increased more than proportional to increases in the GNP per capita, because the maintenance of a given growth rate depended on the allocation of increasingly larger shares of total income to savings. This was so because since the growth rate depends on the ratio of gross fixed capital investments to the incremental capital-output ratio ($g = \frac{I}{k}$), the latter or ICOR, i.e. the denominator in the equation, tends to augment as large-scale investments in capital and intermediate goods are undertaken in the country. And actually as high-cost investments in the automobile industry and in the intermediate goods sectors went underway, the average ICOR's in the manufacturing sector reached 5.3 in 1973-79, as opposed to 2.9 between 1963-73.[478] This means that almost twice as much capital had to be used per unit of output in the 1970's in order to maintain the same growth rate of the 1960's. Yet since the capacity of the state to increase its own revenues was very limited and voluntary savings increased less than proportional to increases in disposable

[477] See the study by Y. Esmer *et al.*, *Household Income, Socio-Economy Priorities, Needs and Expenditures in Turkey*, 4 volumes, TUSIAD, Istanbul, 1986.

[478] See Turkey, *Industrialization and Trade Strategy*, World Bank, *op. cit.*, Table 1.5 on p. 45.

income, the modest annual growth in national savings fell below the planned targets (see Table 5 in the introduction), and as a result economic growth came to a standstill in the late 1970's. In short, what was desirable from the vantage point of economic development proved unattainable in the face of political obstacles towards increased internal savings.

Similar arguments can be made with regard to the other 'technical' constraints which are supposed to have constituted rigid barriers to development. Take the so called 'market size' constraint that is said to have limited the deepening of industrialization in the peripheral countries. It is true that heavy industrial investment projects require large-scale production for efficient operations, with costs substantially higher at the low output levels imposed by limitations of the domestic market. But does market size set such definite limits on the number of industries which a given country can set up? Not necessarily. In fact,

> "if one gives up the idea that minimum economic size and stage of production are closely correlated, the advantages of market size can become larger rather than smaller, for a large market permits the installation not only of an industry requiring that market, but *in its wake* of a host of other plants supplying that industry; the required market size of these plants may be much smaller, but they could not be established without the prior establishment of the industry requiring the larger market and which might therefore be called the 'bottleneck industry'."[479]

Hence it may be possible to climb what Hirschman calls "the forbidding portion (the bottleneck industry) of the mountain,"[480] provided that a radical redistribution of income takes place in a developing country, since we know that different income distributions will generate very different patterns of development.[481] Yet, in the strategy of market-based ISI, as implemented in Turkey and many other countries, the distribution of income, and the associated patterns of market demand, was taken as given or rather as a 'residue' by planners.[482] Consequently, the inequalities of income worsened during the planned period in favor of groups who placed their additional earnings toward speculative ventures instead of productive investments.[483] Under these circumstances the effective demand remained high for

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479 A.O. Hirschman, "The Political Economy of Import-Substituting Industrialization in Latin America," *op. cit.*, p. 169.

480 *Ibid.*

481 F.I. Nixson, "State Intervention, Economic Planning and Import Substituting Industrialization: The Experience of the Less Developed Countries" in *Two Decades of Planned Development in Turkey*, *op. cit.*, p. 65.

482 E. Gunce, "Past, Present and Future of Planning in Turkey" in *ibid.*, p. 127.

483 *Ibid.*

luxurious, often imported, consumer products sold to upper income groups, while overall demand was depressed for essential, mass consumption goods. Hence, already by the mid-1970's internal markets became saturated with many consumer durables produced by big holdings, forcing industrialists to produce at less than full capacity, ensuing in higher production costs and declining efficiency due to the existence of idle capacity in industry.[484] Yet, theoretically speaking, it was possible to overcome this crisis via a redistribution of income in favor of the wage earners whose wage did not keep pace with productivity increases during the 1970's,[485] but such a radical redistribution of income proved to be a politically unpalatable strategy. Clearly, rapid, sustained and broadly based economic development would have required very different distributional profiles and consumption and production structures, but then given the limited capacity of planners to implement radical French-style fiscal policies to transform these structures, the 'forbidding portion of the mountain' was bound to remain untraveled.

Liberal economists also claimed that the lack of vertical integration of national industrial structures was primarily caused by the so called 'foreign exchange constraint', limiting the chances to proceed with the substitution of imports. Such an argument is easily refuted via empirical evidence. In fact there were certain periods in Turkey when foreign exchange was abundant, but the industrial profile remained unaltered, and vice versa, i.e., some deepening was observed despite foreign exchange shortages during other times. During 1971-1974 for instance, following the devaluation of 1969, workers' (official) remittances to Turkey skyrocketed, rising "to more than one thousand dollars by 1972, and to almost two thousand dollars in 1973-74."[486] Remittances than amply covered the trade deficit in 1972 and 1973, before they declined from 1975 onwards due to the widening gap between the official and black market rates of the TL vis-a-vis other currencies. At any rate, between 1971 and 1974 there was a good chance for Turkey to start building up its own technological base in capital goods as the necessary foreign exchange to import sophisticated machinery was available. Yet paradoxically for a deterministic logic, what was beneficial to 'collective capital' did not happen, and on the contrary, import substitution was postponed even in consumer goods as industrialists preferred to import finished

[484] Y. Kucuk, *Quo Vadimus*, *op. cit.*, pp. 243-51.
[485] See *Turkey: Policies and Prospects for Growth*, World Bank, *op. cit.*, p. 145.
[486] C. Keyder, *State and Class in Turkey*, *op. cit.*, p. 185.

products from the west at subsidized exchange rates, rather than going through the manufacturing hurdle of assembling some components to transform them into a finished product.[487] Given the nature of the power bloc, had foreign exchange been abundant at all times, industrialization would have proceeded even less than it did, let alone ensue in the deepening of the industrial profile. In fact, the periods in Turkey when some vertical integration of the industrial structure occurred via the establishment of some industries producing intermediate products, were also characterized by a 'reasonable' degree of foreign exchange shortages, 'reasonable' in the sense that imports would be restricted to prevent luxurious imports and facile profits for industrialists, but not too restricted to the degree of making it impossible to import capital inputs used in manufacturing.[488] And the period of 1963-70 fit perfectly well such a characterization during which foreign exchange was neither abundant, nor unavailable. Not surprisingly, this was also the period of fastest growth, reasonable balance of payment deficits, and the establishment of backward linkages in the industrial structure as industrialization proceeded from the earlier stage of consumer nondurables toward consumer durables and some intermediate products.[489]

To sum up what has been said so far, my ongoing discussion suggests that the principle factors inhibiting successful industrialization in Third World countries are at times technical and political; one should not reduce one to another if excessive determinism or voluntarism is to be avoided. In the case of Turkey, I have shown that the type of industrialization in this country, which was typical of 'late late' industrializers, created its own obstacles to further deepening since the interest of the business community increasingly lied in choking off further industrialization rather than promoting it. Economic development can therefore not be understood in a void, independent of the nature of the power bloc and the type of hegemony within it. Given that the manufacturing bourgeoisie gradually built its hegemony in Turkey, I claimed that if the Turkish manufacturing bourgeoisie was unable to duplicate the example of 'early' and 'late industrializers'; this was not because it was shortsighted or irrational as some

[487] See S. Pamuk, "Import Substitution, Foreign Exchange Bottleneck and Turkey: 1947-1979" in K. Boratav, C. Keyder and S. Pamuk (eds.), *The Development of the Crisis and the Problem of Alternatives for Turkey*, *op. cit.*, p. 64.

[488] This is the gist of the argument in A.O. Hirschman, "The Political Economy of Import-Substituting Industrialization in Latin America," *op. cit.*

[489] See S. Pamuk, "Import Substitution, Foreign Exchange Bottleneck and Turkey: 1947-1979" in K. Boratav, C. Keyder and S. Pamuk (eds.), *The Development of the Crisis and the Problem of Alternatives for Turkey*, *op. cit.*, pp. 62-63.

modernization theorists assume, but simply because historical conditions for the generation and realization of profits were different. In fact tariff structures[490] and various incentives, both nominal and effective, favored the domestic production of consumer goods and effectively discriminated against the domestic production of intermediate and capital goods. Thus often the least essential imports were given the greatest incentives for domestic production and consequently what has been called the "premature widening"[491] of the productive structure (the production of high income durable consumer goods) took place, rather than the development of backward linkages towards intermediate and capital goods industries. And moreover, to the extent that the state was involved in investment goods projects, such projects were thwarted at the initial stage in the political arena by the representatives of manufacturing capital in consumer industries since industrialists did not want to become dependent on a single domestic supplier when they could "shop around the world"[492] and import their capital inputs at subsidized rates.[493] And to the extent that the SEE's proceeded to build plants in the investment goods industries, regional pressures transmitted via politicians did not allow planners to formulate a coherent program of industrialization (Proposition 2). That is to say, many sub-optimum scale plants were built to manufacture the same product, say truck or tractor engines, in order to please several regions at once. Consequently the investment capital of the state was spread too thin and an integrated technology policy -- such as French industrial policy -- seeking complementarity among a limited number of optimum scale plants specializing in different yet complementary segments of the market could not be formulated. In the meantime, while trying to implement such projects, which were supposed to be beneficial to 'collective capital', planners in Turkey hit against the same obstacles that the early planners who had resigned in 1963 had attempted to overcome, but to no avail. That is to say, there was no room within the Turkish state for a group of bureaucrats who aspired to articulate the developmental aspirations of

[490] In fact "the greater the difference between the level of protection accorded to the import-substituting industry and that applying to its imported inputs, the more will the profit margin of the industry depend *on preventing* domestic production of the inputs." A.O. Hirschman, "The Political Economy of Import Substituting Industrialization in Latin America," *op. cit.*, p. 18.

[491] See D. Felix, "Monetarists, Structuralists and Import-Substituting Industrialization: A Critical Appraisal" in W. Baer and I. Kerstenetzky (eds.), *Inflation and Growth in Latin America*, Richard D. Irwin Inc., Illinois, 1964.

[492] See A.O. Hirschman, "The Political Economy of Import Substituting Industrialization in Latin America," *op. cit.*, p. 4.

[493] On the deleterious economic consequences of cheap capital imports, see A. Aker, *Dependent Monopolization under the March 12 Regime*, Sander editions, Istanbul, 1975 (in Turkey).

an undefined strata in the population; yet they were very welcome to take refuge in the SPO and promote the interests of the manufacturing bourgeoisie vis-a-vis other fractions of capital in the power bloc.

Summary and Conclusions Concerning State Capacities in Turkey and France

In this section I called into question the notion of economic development as the result of free functioning markets in capitalist countries and raised the issues of the role of the state in the economy, in general, and the political determinants of economic policy, in particular. In fact, in both Turkey and France, market mechanisms were not the sole determinants of the economic and the related social outcomes in the economy, and the state was considered to play interactively with the market, a *decisive role* in the determination of these socioeconomic outcomes.

Yet, despite the existence of a common outlook to economic life and a general desire to intervene in the economy to promote and sustain a high rate of investment in selected capital goods industries, the capacity of the Turkish and French planners in implementing their ideas substantially differed, depending on the political limits to their interventionism primarily posed by the differing nature of the power blocs in their respective countries. Consequently, depending on the dissimilar political balance of forces in Turkey and France, both the general 'sources' available to planners to affect resource allocation, and the consequent patterns and direction of development varied in Turkey and France during the planned period. Accordingly, I distinguished state interventionism designed to 'generate' capital resources needed for development in the form of taxation, from the use of political power to bypass the markets in order to secure the concentration of capital in the desired industrial fields. Such a distinction between the two separate components of 'relative' state economic autonomy was grounded in the notion that separate -- though interrelated -- dynamics influenced them. That is to say, if the state's 'generative' capacity to garner its revenues was limited by the nature of alignments in the power bloc, its 'allocative' capacity to bypass the markets could be seen as correlated positively with the weakness of the financial fraction of capital. These two dimensions of the state economic autonomy, in their turn, determined the extent of planners' effectiveness in shaping the nature of class relations and the consequent patterns of economic development in their countries, provided that the effectiveness of planning was not gauged by measuring the realization of the plan's explicit targets, but by planners' influence on resource allocation. Hence this section discussed the evolution of planning in Turkey and France from the standpoint of planners' instrumental role in the construction (and destruction) of a hegemonic fraction of the dominant classes in the power bloc through the use of (differing) levers which Turkish and French planners were endowed with while implementing their plans.

Concerning the effectiveness of planning in France, it has been argued that thanks to the state control of the flow of credits to industry, French planners have been able to affect the allocation of industrial investment in a selective fashion. Turkish planners, in their turn, were bereft of similar means as private banks maintained their autonomy, and furthermore, unlike their French counterparts, Turkish planners could not dispose of discretionary funds which could have been used in a selective fashion. Instead, state interventionism in Turkey took the form of purposefully creating market imperfections in terms of underpricing the SEE's inputs and overpricing the TL vis-a-vis other currencies, and then channeling the protectionist 'rent', i.e. the difference between the market price and the actual price of scarce resources, to the accounts of the manufacturing bourgeoisie. Consequently, although manufacturing capital gradually built its hegemony in both Turkey and France, different interventionist styles and different links between the state and capital led to dissimilar results. That is to say, in France, it was the dynamic fraction of capital concentrated in skill and capital intensive investment goods sectors and oriented to exports that was elevated to a position of hegemony in the power bloc. In the meantime the small business sector went through a metamorphosis and labor intensive production units came to serve as suppliers to big industrial firms. In Turkey, on the other hand, it was the domestic market oriented fraction of capital concentrated in the consumer goods industry that was elevated to a position of hegemony as the state allowed profits levels to remain very high in these industries by letting taxpayers (workers and salaried employees) and consumers bear the costs. In the meantime, the newly established consumer industries could not and did not act as the entering wedge of a broad industrialization drive. This was so because the high customs duties on their outputs, combined with negative duties on their inputs and the availability of cheap imports as well, helped to create what Hirschman called a "sinecured, inefficient and pampered industrialist"[494] class with a direct stake in

[494] See A.O. Hirschman, "The Political Economy of Import Substituting Industrialization in Latin America," *op. cit.*, p. 18.

preventing the introduction of investment goods industries. Furthermore, the state gradually lost its capacity to strengthen the local manufacturing bourgeoisie since generous tax rebates and the growing strains on the budget resulting from the SEE's deficits undercut the state's own revenues and made it increasingly difficult for planners to rely on the budget as an instrument to foster economic growth.

In my last section, I discussed the historical conditions under which the state managers could develop not only an active interest in economic growth but also a capacity for its institutionalization. And in the present section, I tried to uncover the differing institutionalized mechanisms in Turkey and France linking these states to investors, with differential implications for the nature and direction of economic development. Thus, I hope to have gone beyond the futile debate in social sciences about the relative merits of 'state interventionism' versus 'free markets' by showing that interventionism via planning could or could not be conducive to sustained growth, depending on the balance of power both between the state and social forces and among different fractions of capital. In short, successful planning was possible only under certain social-historical conditions when a modernization lobby was on the ascendant, and since such a lobby could not gain the upper hand in Turkey over the protectionist bloc in the first place, the autonomy of the Turkish state was bound to remain more limited than the French state, and under these circumstances, attempts to imitate French planning were destined to frustration. I also tried to show that the differing economic autonomies of the French and Turkish states were also reflected in the internal organization of these states regarding their capacity to insulate themselves from grass root pressures, and/or the institutionalized ways via which these states chose to deal with the demands of the interest groups. In this sense, the sharpest contrast between France and Turkey was that while no single state apparatus in Turkey could be insulated from popular pressures and economic decision making was shared among different state apparatuses, thus creating a system of 'checks and balances', The French state developed a differentiation of functions and a centralization of economic power in the few 'core' apparatuses of the state which could fend off civilian participation.

The crucial aspect in the operation of the French planning agency (the CGP) in fact was that the organizations representing the interests of urban and rural small business, and merchants as well, have largely been bypassed both in the formulation of selective economic policies in the context of modernization commissions, and in the implementations of these policies by planners. Furthermore, although organized labor -- unlike Turkey -- was a participant in the discussions of the modernization commissions, representing the legacy of the labor movement which was active in the Resistance and had initiated the planning reform, labor was quickly marginalized as a partner in the 'modernization' alliance, following the onset of the Cold War and the consequent break up of the left-dominated governments. That is to say, planning in France increasingly assumed the character of informal bargaining between planners and corporate management, on a one-to-one basis, outside the channels of modernization commissions in which trade unions never ceased to participate.[495] In the meantime, although excluded from access to the 'core' of the state machine, organizations representing industries which have not been favored by planners, together with other property owners such as merchants, shopkeepers and small farmers found refuge in what can be called the 'peripheral' agencies of the state. Namely, certain specialized departments in the technical ministries, and also specialized parliamentary committees became 'colonized' by small business groups both in agriculture and industry that demanded protectionism via tax breaks and price guarantees in order to survive in the face of competition.[496] Thus, a differentiation of economic functions and a corresponding centralization of power took place within the French state apparatus, in the sense that, thanks to the institutional separation between 'protectionist' and 'interventionist' apparatuses and through its control of the financial system "the state has been able to allocate capital to the expanding sectors, behind the protective barriers and inflationary biases built into the

[495] On the participation of organized labor in the modernization commissions, see, P. Mioche, "Patronats et syndicats dans le plan: amorce d'un consensus?" (The bosses and the trade unions in planning: the beginning of a consensus?), mimeo, to be published by the Institut d'Historie du Temps Present as a sequel to *De Monnet a Masse, op. cit.*, published in 1986. It has also been argued that the marginal status of labor within the institutional framework of planning facilitated the collaboration of big business with planners. In this context Jonas Pontusson writes: "Arguably, business resistance to selective state intervention has been reduced by the fact that policy objectives emanate from within the bureaucracy itself." See J. Pontusson, "Comparative Political Economy of Advanced Capitalist States: Sweden and France," *op. cit.*, p. 56. Although this argument is correct in so far as explaining the reluctance of big business in Sweden to acquiesce to a form of investment planning given the entrenched power of organized labor in the political realm, in this country, one should not jump to the conclusion that labor, when excluded from formal access to politics, exercises no influence over the industrialization strategy. Indeed it is possible that when labor is partially excluded from formal participation, due to the organizational weakness of the unions, as is the case in France, it may become an even more threatening actor to the reproduction of the economic system and therefore it imposes a certain 'veto' over economic decisions. Such a view which has very important implications concerning states' relations with the dominated groups was expressed by M. Aglietta, in an interview, Winter of 1987. I found this hypothesis as a potentially important corrective to the widely held notion in the literature on corporatism that the market place bargaining power of labor translates itself linearly onto the political realm. For a useful collection of essays on corporatism, see P.C. Schmitter and G. Lehmbruch (eds.), *Trends Towards Corporatist Intermediation*, Sage Publications, Beverly Hills and London, 1979.

[496] See R.F. Kuisel, *Capitalism and the State in Modern France, op. cit.*, pp. 257-58.

French economy. The conflict of interest between different segments of the ruling class coalition has thereby been eased."[497]

Within the Turkish state, on the other hand, and not unlike France, the central initiative to strengthen an indigenous bourgeoisie came from the planning agency, the SPO, which designed and allocated various subsidy schemes to the benefit of the industrial sector. Nonetheless, the actual operation of the SPO reflected the different balance of private and public power in France and Turkey where, unlike the CGP, the SPO in Turkey could neither become impermeable to interests other than the advanced fractions of capital, nor could planners in Turkey negotiate with industrialists from a position of strength or even on an equal basis. The relative weakness of planners vis-a-vis private investors was exacerbated by the fact that the highest decision making organ of the planning agency, the High Planning Council (HPC), was under the command of government officials, and planners' power in the HPC amounted to no more than providing politicians with some 'expert feedback'. Furthermore, given the high turnover rate in the SPO which was the result of constant frictions between planners and politicians, it made more sense for businessmen to invest heavily in their relationships with government members, instead of spending their time and money with planners who could hardly provide them with lasting benefits, *unless* asked by the government officials. Naturally, in an economic environment characterized by chronic shortages of foreign exchange earnings and an overvalued TL, official decrees regarding the allocation of scarce dollars meant for businessmen the making and unmaking of their fortunes on an almost daily basis. Thus businessmen of all kinds and size held government members in Turkey under constant siege to protect and/or enhance their fortunes, and under these circumstances, politicians gave planners the impossible dual tasks of pleasing all contradictory social forces that provided the coalitional basis of the government, while also promoting rapid and sustained growth. Consequently, in the absence of quasi-public 'democratic' institutions which in western societies serve to moderate the conflict of interests both between capital and labor and among different fractions of capital,[498] planners' room for placing the costs of industrialization on the shoulders of a single social group,

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[497] J. Pontusson, "Comparative Political Economy of Advanced Capitalist States: Sweden and France," *op. cit.*, p. 63.

[498] On 'corporatism', see P.C. Schmitter and G. Lehmbruch (eds.), *Trends Toward Corporatist Intermediation*, *op. cit.*

were very limited. Indeed, since in contrast to France the 'core' of the state apparatus in Turkey was not insulated from the pressures of party politics, planners were bound to ceaselessly live an 'existential' dilemma or drama: propagate western style capitalism, but practice 'a la Turca' peripheral capitalism which leaves no choice for planners other than promoting a sinecured, inefficient and unenterprising group of industrial entrepreneurs!

The institutionalized differences in Turkey and France regarding the arrangements linking these states to business groups did have differential implications concerning the capacity of these states to restructure their economies by moving resources away from declining and into expanding sectors of the economy. That is to say, the integration with business occurred at the governmental level in Turkey since profitability of private industry came to depend upon personal connections of businessmen with politicians as scarce resources were allocated through political decisions, albeit planners' stamp of approval was also needed. Furthermore, since the much demanded subsidized inputs of the SEE's were also allocated through clientelistic ties between the party officials and businessmen, the constant day to day operation of the SEE's led to job insecurity for managers who wanted to turn state enterprises into profitable business concerns.[499] Thus neither the entrepreneurial part of the state apparatus, nor the central bureaucracy of the state were allowed any 'autonomy' in their everyday deals with the business world. Concerning the overall allocative capacity of the state, such a situation meant that short-term concerns about the profitability of the existing business groups would prevail over longer-term concerns relating to the competitivity of industry and the deepening of the industrial profile. Had the SEE's been allowed to become important centers of capital accumulation with a powerful incentive to expand, then resources might have been concentrated in the capital industries via some collaborative ventures between state entrepreneurship and private capital, as has been the case in some middle income developing nations, say Brazil.[500] But the tendency on the part of planners to convert the SEE's, which undertook more than half of the industrial investments, into a seed of state capitalism has been thwarted at the very outset of the planning experience when the abortive attempt to construct a western style

[499] See B. Walstedt, *State Manufacturing Enterprise in a Mixed Economy: The Turkish Case*, published for the World Bank, John Hopkins University Press, Baltimore and London, 1980.

[500] See P. Evans, "Reinventing the Bourgeoisie: State Entrepreneurship and Class Formation in Dependent Capitalist Development" in M. Burawoy and T. Skocpol (eds.), *Marxist Inquiries*, *op. cit.*

'modernization alliance' came to naught in Turkey with the wholesale resignation of the early planners (see the last section).

In France, on the other hand, because French planning was from the very beginning linked to the use of finance as an instrument of selective intervention in the economy, the integration between the state and local capital occurred at the level of the 'core' state bureaucracy. It is a well known phenomenon in the political science literature that when such very close bipartite relations are struck between a state 'bureau' and a social group, bureaucrats run the risk of becoming captive to their clients in the long run, in the sense that the organized interest groups eventually capture the bureau and bend the rules to their satisfaction, which were supposed to regulate their business practices.[501] Yet such a danger inherent in any bureaucratic intervention in the economy was prevented in France in so far as the 'core' agencies of the state were not regulatory agencies in the classical sense of the term, i.e. organized along sectoral lines to deal with individual industries,[502] but they did have an inter-sectoral sphere of competence.[503] That is to say, the basic divisions within the Treasury and the CGP were such that, both of these agencies were organized along horizontal and not sectoral lines. More specifically, while the CGP designed the industrial policy and chose the industries to be developed, Treasury officials supervised both the micro (the specialized financial intermediaries) and macro (the encadrement de credit system) level instruments of credit policy necessary to implement the industrial policy. Furthermore, Treasury officials intervened in the economy not on a sectoral basis as was the case with the 'peripheral' or regulatory agencies of the state, but since they supervised a range of institutions dedicated to private sector industrial finance, they could afford to shift their alliances and promote new 'industries' in line with the planned industrial policy.[504] Thus, when say the supposed 'national interest' embodied by the planning community necessitated a shift away from the heavy industrial sector,

[501] For a useful conceptualization of the political economy of 'corruption', see P. Messerlin, "Bureaucracy and the Political Economy of Protection," World Bank Staff Working Papers, No. 468, 1983.

[502] The internal organization of the Ministry of Industry and its exclusive links to the advanced industries is pictured and illustrated with examples by a high level administrator of the same ministry. See C. Stoffaes, "Industrial Policy in the High-Technology Industries" in W.J. Adams and C. Stoffaes (eds.), *French Industrial Policy, op. cit.*

[503] The internal organization of the Treasury department of the Ministry of Finance which cuts across industrial sectors and mirrors the involvement of the French state as a whole in industry is depicted by S.S. Cohen, J. Galbraith, J. Zysman, "Rehabbing the labyrinth: the financial system and industrial policy in France" in S.S. Cohen *et al.* (eds.), *France in the Troubled World Economy, op. cit.*

[504] *Ibid.*, pp. 65-72.

oriented to domestic markets and into the so called high tech 'industries of the future', oriented to exports, planners could easily shift their alliances and find new industrial partners. As we have seen, this is in fact what happened after the entry in the EEC in 1958, when planners formulated and vigorously implemented a new industrial policy, since unlike Turkish planners and thanks to the organization of capital markets, self-enhancement of the French planning community did not depend on the protection of sectoral 'clients', but it depended on successful promotion of the advanced sectors of capital. In my chapter on France, I substantiated these claims on the extraordinary economic power of the French state to shift from some traditional activities and into new ones by illustrating the industrial policy of the state in the 'steel' and 'computer' industries, epitomized by the so called 'plans professionals'. To reiterate my basic conclusion on this issue, it was shown that since it operated outside of the public eye and through influence over the financial system which reached deep down into the industrial fabric to the level of individual firms, the French state could arrange quickly and quietly both 'rescue' and 'promotion' operations, thanks to the exemplary collaboration between the different yet complementary arms of the planning community.

It should finally be added that my analysis of the evolution of planning and the corresponding development of the interventionist capacities of the Turkish and French states questions the a-historical 'pluralist' and 'overdeveloped' views on the Western and Third World states which have been summarized earlier while criticizing the sociological literature on development and the state. In fact, the dominant paradigm on the nature of the state in the Third World countries asserts that these are 'strong' states in the sense that the state is viewed as an independent actor, with a bureaucratic structure out of all proportion to the smaller economic base, who plays an active and determining role in the economy in accordance to its own developmental objectives. The mirror image of the same paradigm posits a more 'democratic' and 'pluralistic' state for the West which is characterized as an arena within which economic interest groups compete with one another to orient the making of public policy decisions toward the achievement of their own interests, and decisions are only allocations of benefits and costs among the demanding groups in exchange for votes or bribes. My own historical investigation suggests a *reversal* of the dominant paradigm: it was the postwar French state where planners could insulate themselves from popular pressures and take decisive action to favor investment in capital goods sectors, whereas the Turkish state did not have a 'core' in the sense that no privileged apparatus existed which could promote the advanced sectors of capital while in the meantime curtailing the influence of other 'special interest groups'.

IV. Is There an End to Planning in Turkey and France?

Almost all scholarly material written in the 1970's and 1980's appraising the 'success' of the Turkish and French planning experiences contrasts sharply in both tonation and content with the early writings, sometimes of the same authors. That is to say, early appraisals of planning written during the 1950's and 1960's are generally filled with optimism, presenting indicative planning as a solution to the problem of rapid and sustained economic growth which is not only more effective but also more democratic than its rivals: central planning of the Soviet system and the free market system of the capitalist economies. Reappraisals of indicative planning experiences, on the other hand, are permeated by gloom, ranging from qualified approval of planning to outright rejection, almost all prophesizing the inevitable doomsday, i.e. the dismantling of the institution and practice of planning, very soon.[505] But why has there been such a drastic change in the discourse concerning the relative merits of planning, and what is meant by the term *deplanification,* widely used in the literature to describe the end of planning? More specifically, has there *really* been an end to state interventionism in Turkey and France, as depicted in my last section, and if yes, do these states now give up altogether from interventionism aimed at affecting resource allocation, or is it that these states are simply altering the nature and direction of their involvement in the economy? These are the questions which I will address in this section, after briefly surveying the literature and formulating my own claims concerning *deplanification* in Turkey and France.

A close look at the 'doomsday' literature on the demise of planning reveals that there is not a single, but two major lines of argumentation, crosscutting academic disciplines and Marxist and other forms of reasoning, and mainly separated from each other depending on one's starting point in his characterization of planning. That is to say, although many authors stress different facets of indicative planning, a single facet is conceived of as being primary to the central role of planning as a major institution in capitalist economies. The analysis then proceeds by adducing some adverse internal and external processes (which are said to have been set into motion by or during the evolution of planning) as

[505] The growing pessimism is even reflected in the posthumously published work of A. Shonfield, whose masterpiece, *Modern Capitalism,* written in the early 1960's still stands unsurpassed as the most thorough comparative analysis of the political-economic arrangements in the western world. See A. Shonfield, *In Defense of the Mixed Economy,* Oxford University Press, Oxford, 1984.

the major factors which rendered obsolete the utility of planning, defined form the vantage point of its supposed greatest merit.

More specifically, the first line of argumentation characterizes planning as a 'legitimacy' building institution helping decision makers enhance the popularity of the state's economic policies. The evolution of planning (in France) is then perceived as a *historical* and *political* process in the sense that it simultaneously creates or recreates loyalty and opposition. That is to say, while certain interests are redefined and organized by planners in the context of modernization commissions, other dormant interests (of small capital and the working class in particular) are also touched negatively by the evolution of planning, and as an unintended consequence these economic actors become politicized. In other words, planning became a political liability for governments because, after the entry into the EEC, the French planning agency was given the task of combining responsibility for social expenditure with responsibility for industrial competitiveness and adaptation to the Common Market. This dual task enhanced the political visibility of the plan and sharpened competition for resources between business and labor. The government hoped that the plan would play the role of 'reducer of intransigence',[506] providing an opportunity for the state to test the intensity of opposition to a policy intended to increasingly allocate economic resources not to social betterment, but to industrial development. Yet, in practice, the idea to rely on the CGP as a legitimacy institution backfired. This was so because when the Sixth Plan, in 1970, gave clear cut priority to industrial investments and export sectors rather than private and social consumption, and made this choice public, the large and noncommunist labor confederation CFDT immediately withdrew from planning commissions saying that the plan exclusively responded to the wishes of a single fraction of capital. This public exposure of the close collaboration between big business and public officials was in fact quite embarrassing for governments who thought that rather than mitigating social discontent, planners had actually politicized trade unions and turned them against the government. As a result planning was emasculated to minimize social tension, interestingly for the very same reason it had been created 30 years before. That is to say, starting with the Seventh Plan in 1974, the plan was drastically reduced in scope and it disavowed the idea of

[506] See M. Ozenda and D. Strauss-Kahn, "French Planning: Decline or Renewal" in H. Machin and V. Wright (eds.), *Economic Policy Making Under the Mitterand Presidency, 1981-84*, Frances Pinter, London, 1985, pp. 101-117.

economic targets. Furthermore, civilian participation in planning was drastically reduced.

In short, many authors who characterize planning as a 'legitimacy' building institution perceive the evolution of French planning as a *dialectical* process where success led to eventual demise.[507] And, for the same reason, this analysis does not directly apply to the Turkish SPO since, in the absence of labor's participation, there was no (internal) reason necessitating planning to foment class struggle between the dominant and dominated groups. Nonetheless, a modified version of the same logic can apply to Turkey, arguing that as long as scarce resources were allocated through the planning office, access to the top of this agency was bound to become a highly contested affair between various segments of the dominant groups. Consequently when the SPO director functioned as a deputy prime minister in charge of the manufacturing sector, nonfavored strata of the propertied groups such as merchants, landowners and shopkeepers, rallied behind anti-planning slogans and shifted their political allegiances accordingly. Hence it was in the best interest of governments to downplay planning and curtail the independent stance of planners in the High Planning Council by changing its composition in favor of politicians and at the expense of experts, as happened following the new planning law in 1982.[508]

These political and historical modes of reasoning summarized above are valid insofar as shedding light on the decline in the pilot role of planning agencies in the state machine, in both Turkey and France. However, when talking about the future of planning, it is of utmost importance to *distinguish* the decline in the central role of the planning agency in the economic administration, from *deplanification per se,* although several researchers confound the two and wrongly equate CGP's and SPO's decline and loss of prestige with the end of planning in France and Turkey, when simply a transfer of functions between state apparatuses was at stake. Therefore, when I write about *deplanification* or the end of planning, this term will not be used to describe the loss of prestige incurred by the French and Turkish planning agencies throughout the course of their evolution, but it will refer to a more general phenomenon, i.e., *the state's inability to influence private investment deci-*

[507] See P.A. Hall, "Economic Planning and the State" in M. Zeitlin (ed.), *Political Power and Social Theory: A Research Annual,* Vol. 3, JAI Press Inc., Greenwich, Connecticut, 1982 and J. Pontusson, "Comparative Political Economy of Advanced Capitalist States: Sweden and France," *Kapitalistate,* 1983.

[508] For the new functions and structure of the State Planning Organization after the new law see *Planned Development in Turkey and the State Planning Organization,* SPO, Department of Publication and Press, July 1986.

sions, and the growing role of the 'markets' in determining the allocation of resources among alternative investments.

Because it characterizes planning primarily as an *instrument* of development, rather than as a consensus building mechanism, the second line of argumentation on the demise of planning confronts the question of *deplanification* -- defined as an about turn to markets -- head on. There are in fact two variants of this position, the first held by neo-liberal economists who characterize planning as a form of interventionism useful to build a national industrial base and protect it while it is being nurtured, and the second held by many social scientists inspired by Marxism who characterize planning as a welfarist institution countering cyclical fluctuations in the economy due to shortfalls in consumption through Keynesian demand management.[509] But both schools of thought are in complete agreement in claiming that state interventionism in the capitalist world did come to an end in the 1970's due to some adverse external dynamics which constrained the usefulness of planning as a 'protectionist' or as a 'welfarist' tool, albeit they disagree on the meaning and desirability of this new situation which they both call an about turn to international free market liberalism. In this context, the neo-liberal paradigm which applies to both Turkey and France treats the supposed decline in state interventionism as a logical consequence of the protracted economic crisis in the world economy that reached its apotheosis during the so called oil crisis in the mid-70's. It is said that during a period of very slow economic growth (France), or stagnation (Turkey), the ample protectionist levers wielded by planners, which have in the past been useful to increase production and build an industrial base, proved inadequate to ensure the competitiveness and adaptation of the national industries to a new economic environment characterized by stiff competition from the newly industrializing countries and increasing raw material costs. Furthermore neo-liberals assert that planners have lost their freedom to offer the bait of protection against troublesome foreign competition, as a bargaining chip with big business on the grounds that both France and Turkey had subscribed to the liberalization code of the Organization for European Economic Cooperation (OEEC). It was therefore better to end all remaining forms of interventionism in the

[509] For an illustration of the neo-liberal approach see B. Balassa, "The French Economy Under the Fifth Republic: 1958-1978," in S. Hoffman *et al.* (eds.), *The Fifth Republic at Twenty*, *op. cit.*, and J. Hayward, *The State and the Market Economy*, *op. cit.* For an illustration of the Marxist approach see P. Petit, "The Origins of French Planning: A Reappraisal," *op. cit.*, and A. Lipietz, "Which Social Forces are for Change?" *op. cit.*

allocation of resources and let market forces determine the optimum allocation of investments according to the pattern imposed on each economy by its productive (i.e. labor and capital) factor endowments so that countries specialize in the lines of production for which they do posses a comparative advantage.[510] Admittedly, specialization according to comparative advantages calls forth investing in diametrically opposite lines of activity in Turkey and France: tourism, agriculture, and light industry for Turkey; versus capital and skill intensive industries for France.

The neo-Marxist variant of the same paradigm which also privileges changes in the external environment as having caused the end of planning, puts primary emphasis on the internationalization of industrial capital and the rise of MNC's as its starting point. This analysis applies more to the advanced western economies than Turkey when arguing that the macroeconomic strategy which underpinned French planning was first to pump up domestic demand in order to stimulate the investment that fuels economic growth and then to deal with the wage inflation and trade balance problems that inevitably resulted by periodically devaluing the franc.[511] In this sense, the internationalization of the productive apparatus and the extroversion of national economies, as indexed by the increasing proportion of exports and imports to GNP, are said to have rendered the 'welfarist' role of planning obsolete. This was so because, in an open economy, much of the effective demand created by redistributive measures in favor of the popular strata leaks out of the domestic economy as imports grow and as domestic multinationals move their capital abroad. Thus, economic planning, understood as an institution of the welfare state inspired by Keynesian demand management, could no longer cure economic imbalances, but on the contrary it had turned into a factor exacerbating economic crisis by causing capital flight and business veto on investments.[512] As a consequence, the end of planning as coeval to the end of the so called Keynesian or social democratic compromise whereby capitalists had agreed "to invest at a high rate and workers agreed to moderate their demands with regard to profits"[513] is declared, and an accompanying change in the institutional role of planning, which had functioned as the guarantor of the

[510] See B. Balassa, "Selective versus General Economic Policy in France," *op. cit.*

[511] See A. Cotta, *France and the Universal Imperative*, Presses Universitaires de France, Paris, 1978 (in French). This Argument is summarized by P.A. Hall, "Economic Planning and the State," *op. cit.*

[512] The concept of business confidence is developed by F. Block, "The Ruling Class Does Not Rule," *op. cit.*

[513] See M. Carnoy, *The State and Political Theory*, *op. cit.*, p. 215.

compromise, is expected.

Although I agree with both the neo-liberal and neo-Marxist paradigms in their perception of French planning primarily as an agent of accumulation, rather than of consensus building, I have many substantive, empirical and methodological objections to their claims about the end of planning in Turkey and France. Firstly, substantively speaking, although it is true that both French and Turkish planners possessed 'protectionist' and 'welfarist' tools, these instruments are tangential to the functioning of planning since the operational significance of planning *primarily* stems from planners' ability to affect the allocation of industrial investment in a selective fashion. More specifically, in France, the planning community derives its instrumental autonomy from its leverage over the flow of credits to industry and its discretionary power over the allocation of special non-budgeted investment funds which are under planners control. Thus *deplanification* may ensue if and only if investors can bypass the planning community in their production and investment decisions, either by having direct access to external sources of finance or by self-generating funds needed for new investments. It is therefore the deregulation of domestic capital markets and the internationalization of financial markets which can really give a death blow to planning in France, but as we will show later, such has not been the case so far. In Turkey, on the other hand, planners derive their instrumental autonomy from the control of three basic subsidy schemes designed to benefit the manufacturing bourgeoisie: the provision of low priced inputs produced in the SEE's, generous tax rebates, and the preferential allocation of scarce and overvalued foreign exchange. Because in Turkey, both the privatizations of the SEE's and the lifting of import tariffs were brought on the political agenda, theoretically speaking it is possible to talk about *deplanification*. But, as I will later claim, neither were privatizations actualized nor did trade liberalization proceed too far, while in the meantime planners enhanced their discretionary power by monopolizing the disbursement of tax rebates. Hence it is misleading to talk about the end of planning in Turkey or France, at least for the moment.

Secondly, identifying planning with protectionism, as neo-liberal scholars do, or with Keynesianism, as neo-Marxists do, is empirically wrong. In fact, in my last section I hope to have demonstrated that an 'open economy' after the entry in the EEC and 'effective planning' did not rule each other out in France. On the contrary, I claimed that despite losing control over import tariffs and quotas, planners have strengthened their hand vis-a-vis businessmen in the 1960's. This was so because as long as planners controlled the flow of funds to industry, they were successful at employing the forces of competition as the instruments of their new industrial policy by using the threat of foreign competition as blackmail to induce French businessmen to undertake desired investments in the high tech industries. Consequently planners in France have been successful in managing simultaneously large-scale destruction and the construction of a dynamic export oriented fraction of monopoly capital as the hegemonic stratum in the power bloc not despite, but through market forces. I have also challenged the idea of a close correlation between the level of welfare state provision and the degree of state interventionism in resource allocation in Turkey and France. I distinguished general interventionism in the sphere of distribution aimed at counteracting cyclical fluctuations through demand management from selective interventionism at the firm level aimed at concentrating resources in the potentially most dynamic sectors of the economy. Keynesiansim in fact, as it was applied in other western economies such as Sweden, foresaw a positive correlation between high wages and growth, but left the allocation of resources to be determined by market forces, i.e. corporate decisions.[514] The industrial strategy espoused by planners in France, on the other hand, was premised not only on a selective interventionism in 'capital' -- rather than wage -- markets, but in so far as it existed, welfarism in France took the form of public procurement on a sectoral basis, rather than an attempt to redistribute income in favor of consumers via the provision of public services and transfer payments. In Turkey, on the other hand, welfarism took a turn very different than western European economies in the sense that the government relied on the SEE's for popular welfare distribution measures, ranging from employment creation to subsidizing rural producers via support prices for agricultural products which were higher than prevailing market rates. Hence Keynesianism as understood by neo-Marxists as an economic strategy, based on anti-cyclical fiscal measures applied by planners to counter market fluctuations in order to maintain a buoyant effective demand and full employment, was absent both in France and Turkey.

[514] See J. Pontusson, "Comparative Political Economy of Advanced Capitalist States: Sweden and France," *op. cit.*

Finally, methodologically speaking, both neo-liberal and neo-Marxist modes of argumentation on *deplanification* are based on a functional form of reasoning, instead of a historically grounded form of analysis. That is to say, the adjustment of the Turkish and French economies to external imperatives is seen as an automatic process, unmediated by distinctive state capacities and/or the configuration and balance of class forces in these nations. In contrast I will argue that there has been *no uniform response* to the worldwide recession in the capitalist world, and different fractions of the dominant classes, as well as the state managers, have tried to take advantage of the crisis by pursuing their own narrowly defined group objectives. To reiterate my methodological bias throughout this study: changes in the world economic system do not produce direct results determining the internal balance of social forces, but the external dynamic provides a set of constraints within which class struggle at the national level produces specific outcomes. In contrast to functionalist forms of reasoning I will therefore assert that the maintenance of ruling class coalitions both in Turkey and France was under strain even before the economic crisis intensified these contradictions and altered the terms of conflict among various economic actors that had previously underlied the stability of political-economic arrangements. I have previously summarized these political-economic arrangements, i.e., the historically structured economic links among organized interest groups and between them and the state in Figures 3 (on France) and 7 (on Turkey) of the genesis section. The analysis of the development of economic planning in the last chapter was then premised on the existence and consolidation of the power bloc formations described earlier. Now, the question of *deplanification* will be placed in the same context by seeing whether or not the structured links between the state and society in Turkey and France underwent a change following the onset of economic crisis, and if they did, in which direction and with what sorts of implications for economic development?

It will be my *major argument* in this section that neither in Turkey nor in France has there been a fundamental change in these states' capacities to intervene in the economy and therefore *deplanification* did not occur. On the contrary, I will claim that the supposed abandonment of state interventionism has been no more than a rhetorical device on the part of the Turkish and French states intending to disavow their responsibilities for the massive layoffs and wage cuts which were thought to have been the easiest way to ensure the profitability of industry during a period of slow growth and in the face of rising raw material costs. In the meantime both states aimed at a reorganization of industry which would concentrate its resources in firms and sectors capable of exporting their products and earning the much needed foreign exchange. Yet, depending on the internal balance of class forces and the levers available to planners, the Turkish and French states employed different planned strategies in their attempts to shift resources both across industrial sectors and away from wages to profits. As a consequence they experienced varying degrees of success, with differential implications for the nature of hegemonies in the power blocs and the ensuing paths of development.

Concerning the effectiveness of planning in France in the post-1974 (oil crisis) period, the major argument of this section will be that the 'core' of the state apparatus, thanks to its control of the flow of funds to industry, did not relinquish its selective intervention in the economy which was destined to promote export oriented and capital intensive lines of activity in the industrial sector according to the objectives of industrial policy. More specifically, the French planning community set out to take advantage of the economic crisis and recession in order to write off bad investments in the sunset labor intensive industries such as steel and shipbuilding, and redeploy capital and labor into the so called export oriented industries of the future, particularly aerospace and electronics. Naturally this new policy was not without costs for both the segments of capital and labor concentrated in those low productivity sectors of the economy which were earmarked by planners to be shut down. Yet, since planners continued to affect the allocation of resources by channeling substantial amounts of capital to the high technology sectors which they identified as critical, the nature of the hegemony -- of the export oriented dynamic fraction of capital -- in the power bloc remained unaltered. But in the meantime the efforts to place the burden of the economic crisis on the shoulders of both the wage earners and the domestic market oriented heavy industrial fraction of capital led to a political crisis and eased a socialist victory in the 1981 elections. Finally, in retrospect, several years of socialist rule did not threaten, but consolidated, the hegemony of the advanced segments of monopoly capital in France. In fact, the first sustained socialist rule in postwar France perhaps heralded the beginning of a new era in socialist political history in western Europe in which social democrats proved to be capable economic managers who could rule in the name of collective capital, even if such a task necessitated the repudiation of the Keynesian 'full employment' ideology which had in the past been the hallmark of social democracy.

The chapter on France will be divided into two main parts to illustrate these claims. First, I will claim that the response of planners to the post-74 crisis was by no means a replica of what happened in other advanced nations on the industrial front. On the contrary, the so called new industrial policy or restructuration program formulated by planners exhibited many continuities with the past industrial policy which was formulated after the entry in the EEC in 1958. (This has been discussed in the last section.) Secondly, I will discuss the post-81 socialist response to a similar set of problems confronted by the previous regime. The main argument of this section will be that as far as interventionism in resource allocation was concerned, socialist rule signified not a transformation of the role of planners as economic modernizers, but a sharpening of their *means* that equipped them to play their leading role more effectively in the face of new economic conditions. I will also discuss the implementation of the state's industrial policy in the electronics and steel sectors as typical indicators of the state's role in industrial promotion and rescue to illustrate my claim on the continuity of the remarkable economic autonomy of the French state beneath the rhetorical facade of laisser-faire capitalism.

For Turkey, on the other hand, the starting point of my analysis will be the beginning of 1980, since it was in January of that year that a clear-cut rupture with the economic policies of the preceding decades took place when an orthodox stabilization program was launched upon the recommendations of international organizations such as the IMF and the World Bank. Yet what started as a temporary austerity program was soon turned into a structural reorientation of the economy when, in less than a year after the launching of the new austerity measures, a successful coup by the military which toppled the government and abolished the Parliament, took place. Thereafter the military, semi-military, and parliamentary regimes which followed each other during the 1980's represented striking continuities with respect to the basic development policy orientations. In fact, the Fifth Plan of 1984-1988 which was prepared by a civilian government summed up the new development philosophy in concrete terms by declaring that an irreversible shift in development strategy away from domestic market oriented ISI and towards export-led growth was going to be the main concern of the new industrial policy. Furthermore, the involvement of the state in the economy was denounced on the grounds that it had prevented the market mechanism from allocating resources efficiently. Accordingly, the new plan promised an about turn to the market by stating that privatization of the SEE's, liberalization of foreign trade, and the cancellation of discretionary subsidy schemes, were the concrete steps to be taken toward ensuring the supremacy of the market in resource allocation.

Had what has been said in the plan concerning the about turn to markets really happened, one could conclude that planning, understood as the state's leverage over investment decisions, must have ended. But it will be may major argument on Turkey that such a thing did not happen. On the contrary I will argue that, let alone the deregulation and the liberalization of the economy, the scope of discretionary allocations in the economy widened during the so called 'liberal' export-led phase of development. Furthermore, discretionary power and resources have been concentrated in the SPO which was under the supervision of the Prime Minister, albeit the nature of these resources underwent a change in the post-80's to enable the state to orchestrate the export drive. Planners, in their turn, relied on their discretionary allocations of investment incentives and export rebates in order to secure a different form of insertion of the Turkish economy in the world capitalist system for which a fundamental change in industrial policy away from seeking the deepening of industrial profile, and into specialization in raw materials, minimal processing, commerce and services was called forth. Consequently, while resources were shifted away from industrial areas, a corresponding change in the composition of the power bloc took place, albeit the nature of hegemony remained unaltered since the new policy, as we will see, did not seek to abolish high and differential tariffs protecting the monopolistic sector composed of large conglomerates or holdings. On the contrary, the hegemony of the inefficient monopoly capital was strengthened as the large holding companies redeployed their own capital among their firms, away from industrial ones and towards commercial and financial activities, in order to take advantage of the new policy orientation of the state. As a consequence a process of *deindustrialization* ensued, accompanied by substantial layoffs and a radical deterioration of the purchasing power of the working class.

The chapter on Turkey will be divided into three parts to substantiate these claims. The first part will try to situate the ending of the ISI model in Turkey in its proper internal context to argue that the bankruptcy of this model should not be understood as an automatic response to external pressures. On the contrary, I will argue that similar pressures were exerted by international organizations on other countries pursuing identical development strategies in Latin America, but the different socioeconomic outcomes in Turkey and others attest to the fact that internal dynamics may frustrate externally imposed projects. Secondly, I will try to identify the new levers via which the state wielded leverage over the allocation of investments and look at the actual allocation of these subsidy schemes among different segments of the investor groups. In other words, on the empirical plane, certain subsidy schemes are identified as the major domains of conflict around which we can understand the crystallization of interests in the power bloc (see Propositions 1 to 4 in the last section). And finally I will claim that the newly structured links between planners and investors were no more conducive to economic development than the previous ones since, given the dominance of the unproductive monopoly capital in the power bloc, a western style modernization alliance is far from emerging in Turkey, even during the new phase of economic development or the so called export-led growth period.

7. FRANCE

How French Industrial Policy Adapts Itself to Recession

As one acute observer called it, the radical transformation of the French economy in less than a quarter of a century after the onset of planning was "a splendidly successful instance of what Veblen called the advantages of backwardness."[515] That is to say, at the very beginning of the postwar period, France had an abnormally high proportion of its labor force tied up in unproductive (i.e. low output per worker) activities such as traditional farming, redundant trade service occupations, and small business. Then, as we have seen in the last section, as production shifted significantly towards new industries, non-industrial sectors "contracted and released labor to expanding activities, and the backlog of excessive numbers of producers in nearly all fields began to be corrected."[516] In the meantime, the massive influx of people from agriculture or small trade backgrounds into the industrial workforce undermined the already weak market place position of organized labor,[517] and as a consequence it became possible to supply the labor required by new industries "without raising costs so steeply as to erode the profits needed for continuing investments."[518] Furthermore, the considerable productivity gains realized by shifting resources away from nonindustrial into industrial activities enabled the French state to subsidize the traditional producers and small business groups without significantly slowing down the growth process. Thus the conflict of interest between the two partners in the power bloc, i.e. big and small capital, had been eased. As to the costs of this subsidization, they were paid both by the state in terms of specific fiscal arrangements providing tax breaks to property owners and small businesses, and by the working class through inflated prices on items of popular consumption, and food in particular.[519] Finally as I have argued before, the particular organization of the French political economy and the institutional separation between the 'core' and 'protectionist' state apparatuses allowed small capital to have access to the periphery of the state, while guaranteeing exclusive links, structured around the

[515] See S.S. Cohen, "Twenty Years of Gaullism: The Economy," *op. cit.*, p. 12.

[516] J. Sheahan, *An Introduction to the French Economy, op. cit.*, p. 31.

[517] See G. Lefranc, *Le Mouvement syndical de la liberation aux evenements de mai-juin 1968*, Payot, Paris, 1969.

[518] J. Sheahan, *An Introduction to the French Economy, op. cit.*, p. 95.

[519] J. Pontusson, "Comparative Political Economy of Advanced Capitalist States: Sweden and France," *op. cit.*, p. 63.

financial system, between planners and the advanced sectors of big capital.

In short, during the first two phases of planned development discussed earlier, the conflict of interest between different segments of the power bloc could be held at bay, thanks to the abundant supply of French or immigrant labor to industry, and to the existence of inefficient employment in all sectors. Yet gradually the French economy exhausted the Veblenian 'advantages of backwardness' in the sense that as a result of successful and sustained industrialization, the supply of previously *unutilized* manpower reserves represented by underemployment or inefficient employment in farming, trade and small industry has been used up, and the productivity gap between France and the most advanced countries was closed. In the meantime, as the influx of labor to industry ended, the working class gradually accumulated organizational strength, and began to press for higher wages and social spending, thus narrowing the political scope of pursuing a strategy of growth which rested on low wages. Hence, already by the mid-60's, and *before the onset of the worldwide economic crisis,* wage increases in France started to match or even surpass productivity growth,[520] a situation which squeezed the profitability of industry and consequently imposed serious strains on the maintenance of the ruling class coalition. That is to say, *given* the working class power to resist cuts in its share of income, the two requirements for the effective maintenance of the power bloc, "protection of traditional strata and economic growth through the expansion of the advanced sectors have become increasingly incompatible in the 1970's."[521] As a result continuing economic growth came to require redistributing resources away from the petty bourgeoisie via eliminating their subsidies so as to channel these funds towards capital formation.

I have just given a very brief summary of the development process in France to show that even in an advanced western country where the state's economic autonomy was considerable, economic growth did come to a standstill and thus indicative planning by itself provides no magic solution to the problem of development. Furthermore, I intended to show that the stagnation of the French economy was not

[520] See J. Sheahan, *An Introduction to the French Economy, op. cit.*, and P. Coffey, *The Social Economy of France*, The Macmillan Press, London, 1973.

[521] J. Pontusson, "Comparative Political Economy of Advanced Capitalist States: Sweden and France," *op. cit.*, p. 130.

solely due to external factors, such as the surge in oil prices and competition from the newly industrialized countries, but the erosion of postwar compromises and coalitions which preceded the oil crisis was an integral part of the pattern of capitalist development in France and can only be understood in the context of France's specific postwar political economy. In other words, the maintenance of the ruling class coalition between monopoly capital and the petty bourgeoisie was already under strain in France, as in the other western countries, when the externally induced economic crisis intensified these contradictions by upping the raw material prices, thus leading to a squeeze on profits, and inflation. Hence, the true meaning of the deceptive term 'economic liberalization' or an about turn to markets, can not be understood but in the context of the French planning community's search to take advantage of the 'crisis' to reorder the political and economic arrangements within their country in order to regenerate growth by shifting the economy onto a new development path and into a new role in the changing international division of labor. Consequently a new industrial strategy known as 'economic restructuring' was formulated in the name of securing continuing prosperity during a crisis. Accordingly the Eighth Plan of 1975-1980, in which the new industrial strategy was inscribed, declared that the easy days of growth were over since from now on the only means of realizing productivity gains, i.e. economic growth, lay in shifting resources across industrial sectors and not from nonindustrial into industrial activities.

Technically speaking, the idea of restructuration was simple and can be stated in a clearcut triple formula: withdraw from declining sectors, i.e. almost all of the industries promoted by the First Plan; enter into new industries such as aerospace and electronics; and, promote exports in the so called six strategic 'industries of the future', i.e. bioengineering, marine industries, robotics, electronic office equipment, consumer electronics and alternative energy technologies![522] Hence, at least in theory, there was remarkable continuity between the old and new industrial policy, in the sense that, not only were specific industries selected for promotion by planners and not via free markets (or corporate decisions), but also the state committed itself to specific lines of action in order to fully implement its industrial policy which was laid out in the plan. Furthermore, the implementation of this selective industrial

[522] See S.S. Cohen, J. Galbraith and J. Zysman, "Rehabbing the labyrinth: the financial system and industrial policy in France," *op. cit.*

policy was not without serious consequences for several groups in French society, and in this sense given that planners continued to exercise determining influence on the allocation of resources, any talk about deplanification on the part of 'liberal' politicians, such as the Prime Minister at the time, R. Barre, was bound to remain speculative. Later, while discussing the 'socialist' experience in planning, I will describe the industrial policy in motion by focusing on examples of promotion (electronics) and de-promotion (steel). Here, in the remaining pages of this chapter I would like to emphasize the *uniqueness* of the French response to economic recession in terms of its differences from other Western European countries as far as France's solution to the problem of reordering its existing political-economy is concerned.

It is true that, not only France, but many advanced capitalist countries began to experience economic stagnation in the mid-70's, and as a result, all of these states had to devise solutions to a common set of problems. More specifically, all of these states confronted the problem of restoring investments to adequate levels during a recession, since, as F. Block argues, the state managers had a direct interest in using their power to facilitate investments as their own continued power rested on a healthy economy.[523] Furthermore, the increasing international dependence and consequent extroversion of many Western European economies that resulted from postwar capitalist development meant that the use of traditional Keynesian techniques to stimulate demand often brought immediate balance of payment problems, as much of the effective demand created by reflation leaked out of the domestic economy in terms of induced imports in the more open economy of the 1970's. Hence for *all* of the capitalist states, the benefits which business stood to gain from the expansion of the domestic market have become less compelling, and accordingly the states sought a reorganization of industry which would concentrate its resources in sectors capable of meeting more intense foreign competition. Yet the actual response to the crisis which was caused by the interplay between internal and external dynamics took many forms, as far as the resolution of conflicts between the members of the power bloc was concerned. To oversimplify, two models or programs to deal with the crisis stood out among others: the so called *neo-liberal* or monetarist response, and a renewed version of *Keynesian reflation*. Both

[523] See F. Block, "The Ruling Class Does Not Rule," *op. cit.*

England and the USA adopted the first approach, whereby conservative governments placed the burden of the crisis squarely on the shoulders of both the state employees and the working class. That is to say, in order to restore profit margins, wage increases were kept below price increases in both the public and private sectors, as a result of a concerted attack on the part of the state and business world which aimed at breaking trade unions' bargaining power in the workplace. In addition, new capital funds have been transferred to business either via cutting back corporate taxes, or via reducing employers' contribution to the social security payment. As a result, corporate profits were restored to adequate levels, albeit a deindustrialization of the economy took place in these countries, i.e. the manufacturing sector shrank in sheer size and in terms of its contribution to the national wealth.[524]

In certain Northern European countries such as Sweden and Germany, on the other hand, in which the power of the working class was firmly entrenched both in the marketplace and in the political arena, an attempt to imitate the Anglo-Saxon model proved impossible. Neither could the size of the state itself be shrunk to levels adequate to satisfy the investors, so as to transfer funds back to industry by cutting corporate taxes. Consequently, in these countries, the states responded to the economic crisis by renewing the terms of the compromise between labor and big business. In this case the burden of adjustment fell squarely on the shoulders of the traditional petty bourgeoisie, as state subsidies to small business and agriculture were reduced or eliminated. Labor confederations, in their turn, agreed to an income policy whereby wage increases would be pegged to productivity gains, in return for the state commitment to retrain the workforce which would be made redundant during the process of shifting resources across industrial sectors. Hence, in these countries, the restructuration of industry did not entail an American style deindustrialization; on the contrary, a full scale adjustment to a new international environment took place without altering the sociopolitical bases of the existing Keynesian compromise.[525]

The French pattern of adjustment to a new international environment, and the restructuration of

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[524] See S.S. Cohen and J. Zysman, *Manufacturing Matters*, Basic Books, New York, 1987.

[525] See F.E. Andersen and R. Friedland, "Class Coalitions in the Making of West European Economies" in M. Zeitlin (ed.), *Political Power and Social Theory: A Research Annual*, Vol. 3, JAI Press, Greenwich, Connecticut, 1982. See also two interesting articles on Sweden, A. Debove, *Manchester Guardian*, February 12, 1989.

its industry, in its turn, differed from both the so called monetarist and Keynesian responses. This was in fact hardly surprising, given that, for one thing, unlike the Northern European countries, the power of the working class was not institutionalized in the political arena in France, but for another thing, unlike the Anglo-Saxon world, the power balance between the state and the business world favored the former and not the latter.[526] In addition, since the French state refused to absorb the cost of increased imported energy prices via subsidizing the industrial sector, increased raw material costs were borne by profits and as a result the corporate debt rose precipitiously in the mid-70's, causing a sharp decline in the rate of *self-finance*. Earlier I have argued that the linchpin of the leverage wielded by planners over the choice of investment in the private sector lied in the state control over the flow of funds to industry. In this sense one could legitimately talk about *deplanification* if the business sector had either been able to self-finance its investments, or if capital markets had been made free of state interventionism. Neither has been the case in France, in the mid-70's, under the self-proclaimed 'liberal' regime of the R. Barre government. On the contrary, self-finance fell below the level of 50 percent that it had reached before the onset of the oil crisis,[527] and the French state tightened its grip on the economy by sharpening its principle instruments of monetary and credit policy and sealing off the French money markets from the rest of the world, while simultaneously opening up the industrial sector to competition. Hence the so called deregulation of financial markets that had happened in the USA and Great Britain did not happen in France, as French credit and capital markets have been made nearly inaccessible to foreign investors and banks.[528] Thus, the financial fraction of capital could not take advantage of the crisis in France and it continued to remain weak, despite the fact that in the capitalist world as a whole the crisis of industry had strengthened the hand of banking capital vis-a-vis the industrial sector.[529] In France, on the other hand, what I called the second dimension of state economic autonomy, or allocative effectiveness, was kept intact as the planning community continued to bypass the markets and directly influence private and public investment decisions.

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[526] See P. Birnbaum, "The State versus Corporatism," *Politics and Society*, Vol 11, No. 4, 1982.

[527] See R. Penaud and F. Gaudichet, *Selectivite du Credit, Financement, Politique Monetaire, op. cit.*, Ch. 12.

[528] See R. Gonenc, "Capital Market Changes and Corporate Strategies," mimeo, January 1987, Tables 1 and 2.

[529] See C. Keyder, "Notes on the crisis," in *Studies on Social History*, Dost editions, Ankara, 1983 (in Turkish).

It now remains to be seen to which use the allocative capacity of the state has been put, and how this was different from the rest of the western world, and with what sorts of implications for the patterns of industrial development? Technically speaking, the idea of restructuring proposed by planners was not very different than the intentions of other Western European economies, which all wanted to shift away from certain depressed industries and to outcompete their competitors by finding new niches in the markets along which to develop new and promising industries. But in terms of both the institutional mechanisms via which industrial restructuring was achieved, and in terms of the social allocation of the costs of adaptation among different strata of the population, France differed from the rest. To start with the institutional issue, adaptation has not been pursued by reducing the role of the state and allowing the allocation of resources to be determined by market forces, as was the case in countries pursuing neo-Keynesian formulas. On the contrary, thanks to their firm grip over the financial flows, planners continued -- as has always been the case -- to select "new industries with promising futures, picking specific companies to develop them, and backing the winners in various ways to permit them to develop the desired activities."[530] To this end planners selected six new 'strategic' growth areas[531] in which they undertook a commitment to invest 25 billion dollars over the next five years. In addition, both 'sector-specific' and 'horizontal' subsidies were channeled towards these industries, and concentrated in the 'chosen' firms. The magnitude of state aid and the results which strengthened the dominance of export-oriented monopoly capital sector in the power bloc can be gathered from Tables 6 and 7 of the last section. (See the last section in chapter 5 and note that after 1974 both direct and indirect state aid to industry recorded a substantial increase.) Consequently, according to the unanimous verdict of many experts, "had the government not promoted the production of military aircraft, nuclear weapons, and nuclear power, France would never have enjoyed the allegedly enviable position (i.e. international competitiveness, V.M.) it now occupies in these activities."[532]

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[530] C. Stoffaes, "Industrial Policy in the High-Technology Industries" in W.J. Adams and C. Stoffaes (eds.), *French Industrial Policy*, The Brookings Institution, Washington, D.C., 1986, p. 37.

[531] They were telecommunication, microelectronics, electronic office equipment, nuclear power, aerospace, biotechnology and undersea research. See. D. Lewis, "France aims for tomorrow's markets: the international economic survey," *New York Times, Feb. 8, 1981.*

[532] *See W.J. Adams, "Introduction," in W.J. Adams and C. Stoffaes (eds.), French Industrial Policy, op. cit.*

But how were the costs of this successful adaptation allocated among various strata of the population? On this count, the French practice in which macroeconomic management was subordinated to the implementation of industrial policy differed from both the monetarist and social democratic models, although it contained elements of both. To start with, unlike Sweden and West Germany, France was a country where the urban and rural producers retained much of their political importance and provided a mass base for the ruling 'right of the center' Gaullist regime. Hence planners could not easily entertain the idea of placing the burden of adjustment squarely on the shoulders of these groups by curtailing the subsidization and protection of the petit bourgeoisie.[533] Unlike the Anglo-Saxon countries, on the other hand, Frar 'e was a country in which the state managers did possess considerable levers to foster socioeconomic change. Therefore business spokesmen in the political arena could not easily entertain the thought of starting a crusade against the state functionaries with a view of thinning down their size so as to move economic sources away from the state and into private industry. Given these internal constraints, the 'politically feasible' restructuration strategy proposed by French planners aimed at placing the burden of the crisis not only on the shoulders of the working class, but also on the shoulders of monopoly capital. That is to say, in the name of 'liberalization', the French state sought to relieve itself of responsibility for declining industries; that is many of the labor intensive heavy industrial sectors which have been promoted by the First Plan now became candidates for depromotion. (For the details of industrial policy in the steel sector see the section entitled "Industrial Rescues and Promotion in Practice.") To the extent that this policy was successful, the French example of industrial policy during recession proved that the 'symbiosis' between the state and big capital did not have to entail a loss of independence for the state managers who primarily interacted with monopoly capital. In other words, the *form* of the integration between big business and the state mattered as much as the content of state interventionism when understanding the nature of the relation between the state and capital. More specifically, as long as the capacity of the state to intervene selectively in favor of particular industries or firms derived from these 'core' agencies of the state which had an *inter-sectoral* sphere of competence based on the control of the markets for industrial finance, there was no reason for these

[533] The politically entrenched power of the traditional petty bourgeoisie in France is analyzed by S. Berger and M.J. Piore, *Dualism and Discontinuity in Industrial Societies, op. cit.*, Part Two.

agencies to be captured by business groups, as has been claimed to have happened in France by many observers.[534]

Finally, the actual macroeconomic policy of the French state during the 'recessionist' phase of industrial policy fitted handsomely with the overarching objectives of restructuration. On the fiscal front, three new developments aimed at shifting resources away from wages to profits. To this end, firstly, indirect taxes were raised while income taxes were decreased for upper income groups; secondly, employers' contributions to social security were increased while that of employees' decreased; and finally, price controls were ended in many consumer products, including the basic goods mostly consumed by lower income groups.[535] The results should be considered successful when judged from the vantage point of profitability since "corporate profits jumped a healthy 22.5 percent in 1978, 16 percent in 1979 and are expected to have repeated the increase in 1980."[536]

On the 'monetary' and 'foreign trade' fronts of macroeconomic policy, on the other hand, the main objective of the state was to select efficient, and only efficient, companies for survival. To this end, the exchange rate was held artificially high in order to realize the pruning of inefficient enterprises which could *not export* at these high prices.[537] The result of this policy was the strengthening of the export oriented industries such as aerospace (aircrafts, space launchers, satellites, missiles, etc.), telecommunications systems, and nuclear plants, where sales to foreign countries were often the function of successful diplomacy and/or superior quality, rather than cost efficiency. Nonmilitary oriented and import-competing sectors, such as consumer electronics or machine tools, on the other hand, did less well as the French market was flooded by foreign goods in these sectors as a result of the high and stable franc which rendered competing imports relatively cheaper.

The 'monetary' policy of the state, in its turn, reinforced the basic orientation of the foreign trade policy. That is to say, for many years before 1974, France was able to stimulate investment by keeping

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[534] See R. Miliband, *the State in Capitalist Society*, *op. cit.*

[535] See S.S. Cohen, J. Galbraith and J. Zysman, "Rehabbing the labyrinth: the financial system and industrial policy in France," *op. cit.*

[536] P. Lewis, *New York Times*, February 8, 198, p. 31.

[537] This analysis is taken by S.S. Cohen, J. Galbraith and J. Zysman, "Rehabbing the labyrinth: the financial system and industrial policy in France," *op. cit.*

interest rates low, often negative in real terms.[538] This policy underwent a radical change in the second half of the 1970's, when, the interest rate on credits was substantially increased, admittedly to mobilize the savings of the households towards banks. Yet, aside from this obvious aim, a high interest policy strengthened the hand of the planning community vis-a-vis the corporate sectors since high level state administrators could manipulate the terms of credit available to capital. Indeed, the differential between subsidized and nonsubsidized credits increased, enhancing the attractiveness of the SFI's long-term credits for the corporate sector. (Table 7 of chapter 5 proves that these credits have mostly been concentrated among nine beneficiaries. These were mostly enterprises in the high tech armaments industries which exported at least one half of their products.) In short, over a period of time the new macroeconomic and industrial policies dramatically strengthened the export oriented armaments industries, while weakening the internal market oriented and often labor intensive segment of big capital.

The Socialists in Power: Major Claims

In May 1981 the French people elected a Socialist President, F. Mitterand, for the first time in postwar French history. A month later, the conservative majority in the National Assembly ended, and it became possible for F. Mitterand to nominate a left-wing government, run by several ministers from his own party and four from the French Communist Party (FCP).[539] The five years of the ensuing socialist rule in France gave rise to a heated debate among social scientists in France and abroad, ranging from the philosophical issues such as the meaning of socialism in an advanced western nation to more empirical questions such as the ability of 'socialism' to develop a viable response to economic recession.[540] My own discussion of the socialist rule in France, on the other hand, is more limited in scope as it concerns only one aspect of socialist policy. That is to say, the purpose of this chapter is to see whether or not a change of party within the state itself altered the nature and direction of industrial policy in France, and if the answer is affirmative, how was the composition of the power bloc and the

[538] *Ibid.*

[539] The socio-economic reasons leading to a socialist victory remain outside the scope of this work. For a good discussion see J. Pontusson, "Apropos Mitterand," *Kapitalistate*, 9, 1981. The social composition of the Socialist Party is analyzed by M. Kesselman, "Socialism without the workers: the case of France," *Kapitalistate*, 1983.

[540] See the special issue on French socialism, *Telos*, 55, Spring 1983. A thorough analysis fo the economic policies of the Left is now available: A. Fonteneau and Pierre-Alain Muet, *La Gauche Face a la Crise*, Presse de la fondation national des sciences politiques, Paris, 1985. For a very enjoyable 'what was happening in the backstage of politics' analysis, see S. July, *Les Annees Mitterand*, Editions Grasset, Paris, 1986.

nature of hegemony affected? When discussing these issues, it will be useful to distinguish between the two phases of socialist industrial policy, since the main goals of industrial planning, if not the basic tools of implementation, did undergo a radical change. In other words, I will make two distinct arguments. Firstly, I will claim that what I called the two dimensions of state autonomy, i.e. the state's ability to garner revenues from society and its capacity to bypass the market in resource allocation were not affected in France, under socialist rule. Hence *deplanification* did not occur, and neither did a reversal of the capitalist parameters of planning. Secondly, I will argue that the main orientation of industrial policy underwent a change at the beginning of Mitterand's rule, as major concessions were given to the traditional working class when the primary emphasis in industrial policy became state assistance to big firms in trouble. Accordingly, the state maintained heavy subsidies for the ailing industries, such as steel, shipbuilding and textiles, at the expense of industrial promotions which in the past had intended to establish enterprises in competitive positions on international markets. From mid-March 1983 onwards, on the other hand, 'modernization', defined as high growth and competitiveness, once again became the major goal of industrial policy, and consequently the attention of planners was shifted away from rescue efforts towards industrial promotion. Consequently, the threat which has been posed against the hegemony of the export oriented sector of monopoly capital was short lived as French socialists repudiated the Keynesian 'full employment' doctrine, and proved to be as good planners as Gaullists by learning how to restructure capital by moving resources away from declining to expanding sectors of the economy.

Industrial Policy During the Honeymoon Period (1981-83)

The new socialist government revealed to the public its own priorities in industrial planning at the very outset of its rule. In fact, in an interview headed "The Prime Role of the Plan," Pierre Joxe, Mitterand's interim Industry Minister, spelled out both the continuities and the discontinuities with the past:

> "Our prime concern is the multiplication and growth of dynamic firms. What was done by my predecessor is not, on the whole, to be criticized, in particular the emphasis on innovation, the technological irrigation of the industrial tissue, the desire to promote the industries of the future. *What will change* is the scale of action; the framework it is situated in: the Plan; the spirit behind it, consultation, dialogue; *the priority given to employment.*"[541]

[541] P. Holmes and S. Estrin, "French Planning and Industrial Policy," *Journal of Public Policy*, Vol. 3, Part 1,

In practice, however, industrial policy under socialists did not combine the two aspects of industrial planning mentioned above, i.e. industrial 'rescues' and 'promotion', equally. On the contrary, the state switched from the former strategy to the latter, exemplifying the extraordinary capacity of the French state, operating through its influence over the financial system, both to give quick decisions on the future allocation of resources, and then to implement these decisions fully. More specifically, at the beginning of the Left's rule, the last clause of the Minister's statement, i.e. 'the priority given to employment', became the main feature of industrial policy which distinguished it from the past. Such a priority found expression in the statement of 'reconquering internal markets' which was inscribed in the 'Plan Interimaire' of 1982-83 as the prime objective of industrial policy.[542] (Socialists abrogated the Eighth Plan of 1980-1985, prepared by their predecessors, and, while preparing their own Ninth Plan, they put into effect the so called 'Plan Interimaire' as a temporary device which was intended to fill the temporal gap.) In fact, the Left severly criticized the past industrial policy of moving French industrial structure toward finding narrow technological niches *(crenaux)* in skill intensive and high tech sectors on the grounds that such an industrial promotion had led to massive unemployment, and the sacrifice of entire industrial sectors and regions. It was also claimed that past efforts to promote exports had succeeded at the cost of rendering the growth of the French economy directly linked to the prosperity of other economies, and as a consequence employment in France had become too dependent on exports.[543]

In contrast, the objectives of the new industrial policy differed sharply from the past by rejecting the very distinction between rising and declining sectors which had informed the idea of 'restructuration' discussed earlier. By inscribing in the new plan that "there are no condemned industries, only outmoded technologies," the new industrial policy aimed at renovating the capital stock of the so called sunset heavy industrial sectors via new investments. Furthermore, state assistance to both public and private firms which were in trouble, was not seen as a palliative measure to buy social peace at the

February 1983 (emphasis added).

[542] See P. Bauchet, *Le Plan Dans L'Economie Francaise*, Presses de la fondation nationale des sciences politiques, Paris, 1986.

[543] What was in fact rejected by socialists was the logic privileging market mechanisms to take care of the employment problem. M. Albert, the head of the CGP under G. D'Estaing nicely epitomized this logic, uttering the following equation: "Employment is related to economic balance and the trade balance is related to the adaptation of our industries." See M. Crozier's article, *Le Monde*, August 8, 1980.

expense of growth. On the contrary, in total opposition to the idea of directing resources to specific niches *(crenaux)* where France was likely to be competitive, it was spelled out in the new 'Plan Interimaire' that the object of the new industrial policy was to strengthen the entire range of products in each sector so that no part was lost to imports. (The new policy was called *politique de filieres.)* In this view, certain multinationals were seen as having adverse effects on economic growth and employment levels by suppressing inter-industry linkages, because of their use of components from other countries.[544] Hence the state should attempt to induce French companies to reduce the share of imports in domestic consumption, not via restrictive protectionist measures, but primarily by making sure that France produces everything. Thus the overriding objective of the new industrial policy epitomized by the injunction of 'reconquer the internal markets' was not meant to raise tariff levels or close borders to foreign imports. Instead it was meant as a bold experiment in securing a nationally centered development of the French productive apparatus, to guarantee that no jobs would be lost to imports. Thus the government pledged to attempt to reduce the role of trade in the GNP rather than continue unlimited promotion of exports. In addition the new government undertook some redistributive Keynesian measures by sharply increasing minimum wages and social benefits, hoping that reflation would spark off a consumer boom that would revive the declining branches of French industry which were being lost to imports. And to hedge itself against a possible investment strike on the part of disenchanted industrialists, the Left nationalized many industrial conglomerates in almost all industries. As a result the French state came to own thirteen of the twenty largest firms in France, and state holdings now accounted for "30 percent of the exports, and 60 percent of the annual investment in the industrial and energy sectors of the French economy."[545] Thus, in addition to its grip on the financial system, the state could now use the nationalized sector to channel vast sums of capital directly into industrial investment, in case the private sectors refused to do the same.

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[544] H. Prevot, the head of the CGP under Mitterand (he resigned after the about turn in economic policy and was replaced by H. Guillaume), stated views along these lines to his interviewers. See P. Holmes and S. Estrin, "French Planning and Industrial Policy," *op. cit.*, p. 144.

[545] See P. Hall, "Socialism in One Country: Mitterand and the Struggle to define a new economic policy for France" in P.G. Cerny and M.A. Schain (eds.), *Socialism, the State, and Public Policy in France*, Frances Pinter, London, 1985, p. 89.

This discussion of the early socialist experiment in industrial planning indicates that it can be neatly summed up by two terms: Keynesian demand management and industrial policy. Neither amounts to socialism, conceived of in terms of the transformation of the social relations at the point of production. Nonetheless the idea of stimulating growth by increasing popular purchasing power was new, and bore a distinctive French brand in the sense that the state inserted this macroeconomic strategy in the context of its traditional industrial policy. That is to say, the hierarchical structures of the economic state apparatuses and their insular mode of decision making in a fashion which was impermeable to popular pressures remained unchanged. Thus, as has been the case before, most industrial investment was channeled either directly by state aid, or through the parapublic long-term credit institutions which were under the planning community's control. Yet given that the new aim of industrial policy was to strengthen French companies which have been threatened by imports, the state diverted its attention away from picking new 'industrial winners' into assisting the firms in trouble. To implement this industrial policy Mitterand created a hybrid interdepartmental committee, named CIRI, that was chaired by the Minister of Finance. In addition, a similar committee named FMI was created and placed under the control of the Ministry of Industry in order to promote those firms investing in new plants and technologies.[546] Such policy making bodies definitely added teeth to the plan for two reasons. First, as they controlled some discretionary non-budgeted funds, they could affect the allocation of industrial investment in a selective fashion by arranging a direct transfusion of state aid into a 'chosen' firm. Second, since they were controlled by the 'core' of the state administration, these committees could pressure the parapublic banking institutions to involve their resources in rescues whenever the state planning community chose to commit itself to the task. Thus in practice the French state -- unlike the Turkish state -- wielded considerable leverage over industrial allocation, not only by committing its own finite resources, but also by mobilizing the whole network of financial markets towards the fulfillment of its planned goals.

It now remains to spell out the functioning of the industrial policy in practice, in the early 80's. With no doubt, the new orientation in economic policy affected the inter-sectoral power balances in

[546] *Le Monde*, July 29, 1983.

French industry in favor of those heavy industries utilizing labor-intensive techniques and primarily oriented to domestic markets. Socialists, in fact, devised rescue plans for no less than eight major industries in 1981-83 including steel, chemicals, textiles, machine tools, furniture, leather goods, toys, and electronics.[547] And, in order to implement these plans, they made ample use of the practice of 'plans professionals', i.e. planning contracts between the state and industrial enterprises, which were intended to commit these enterprises to certain forms of industrial behavior (such as new investments and mergers) in return for state aid and/or public purchases of their products.[548] We can now see the consequences of the implementation of industrial policy by examing both the global allocation of state aid to industry under the terms of the planning contracts, and also by inspecting the actual configuration of these contracts in some given industries. (See chapter 5 for the development paths of the steel and electronics industries in the 1960's along the lines desired by planners.)

To start with the global results, most of the direct state aid to industry was channeled via CIRI and FMI to avoid bankruptcies and cover losses in depressed sectors. For example, between 1981 and 1985, some "40 percent of the capital grants for public enterprises (25 billion Francs) went to the steel industry, which suffered cumulative losses of about 50 billion Francs between 1981 and 1985. About 40 percent went to chemicals, nonferrous metals, and automobiles -- also to cover losses and to allow the cleansing of balance sheets. Only 20 percent went to research and investment in such growth industries as electronics."[549] It should be added that, in line with the industrial policy objective of promoting whole vertical streams of production *(filieres)*, rather than specific niches *(crenaux)*, additional banking funds other than direct state aid have been made available to the eight industries mentioned earlier, which have become the object of the rescue plans. In return, the main companies in these industries -- whether nationalized or not -- were forced to undertake a commitment to merge, to renovate their capital stock, to decrease their imports via buying domestically manufactured components, and not to lay

[547] See Andre de la Lattre, M. Pebereau and C. Stoffaes, *Politique Economique de la France*, IEP les Cours de Droit, Paris, 1983, Ch. 7.

[548] As we have seen before, such contracts existed and were amply used between planners and industrialists. The novelty now lied in the fact that these 'plans professionals' were inserted in the context of the plan, i.e. CGP officials were empowered to check them for consistency with the plan. See H. Guillaume, "Implications of the New Indicative Planning" in W.J. Adams and C. Stoffaes (eds.), *French Industrial Policy, op. cit.*, for details.

[549] C. Stoffaes, "Postscript," *ibid.*, p. 203.

off workers. The sectoral plan for 'machine tools' for instance regrouped the existing "130 firms into larger entities while providing 3 billion francs in grants and 4 billion francs in loans over three years to the industry. Public orders will be used to stimulate the production of numerically controlled machine tools and to reduce the rate of imports of machine tools from 60 percent to 30 percent."[550]

The new idea of *filiere,* i.e. strengthening the entire range of products in each sector so that not a single part was lost to imports, also manifested itself in the details of the newly signed planning contracts. In electronics, for example, which President Mitterand had described as "our weapon of the future,"[551] the state formulated a new sectoral plan called *'plan filiere electronique'*. In macro terms this plan amounted to a state commitment to spend 140 billion francs or about 5 percent of GDP with 1981 prices, over five years in order to redress the commercial balance in the sector, create 80,000 new jobs, and increase production by 9 percent a year. But above all the key idea of the plan was to develop the weak industries in this sector by taking advantage of the strong ones in order to develop inter-sectoral linkages and to reconquer the parts which were lost to imports. Given that the French electronics sector was especially competitive in military electronics and telecommunications, but weak (i.e. unable to compete with American and Japanese products) in integrated circuits and consumer electronics, emphasis was placed on a selective use of public procurement and subsidized credits to bring the weaker industries onto a par with the strong ones in this sector.[552] In short, while the state was pumping vast sums of money to industry, it was reluctant to favor the dominant export-oriented fraction of monopoly capital which had specialized especially in skill intensive military oriented industries, crosscutting between the energy, aerospace, and electronics sectors.[553] The political advantages of such a policy were obvious: it meshed well with the strategy of the left-wing government to defend all sectors against foreign penetration since "in the struggle against unemployment no battlefields need to be conceded to the enemy."[554]

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550 P. Hall, "Socialism in one country: Mitterand and the struggle to define a new economic policy for France," *op. cit.*, pp. 93-4.

551 *Ibid.*, p. 94.

552 For the structure of the electronics sector in France see C. Stoffaes, "Industrial Policy in the High Technology Industries," *op. cit.*, pp. 55-61.

553 *Ibid.* See especially the tables on the structures of the aeronautics, electronics and energy sectors.

554 P. Hall, "Socialism in one country: Mitterand and the struggle to define a new economic policy for France," *op. cit.*, p. 195.

Industrial Policy During the Period of Austerity (1983-86)

Before even their second year in office was completed, French socialists abandoned the strategy of a well-controlled, nationally-centered development of the French economic apparatus. On the macroeconomic plane, they adopted the very opposite of redistributive policies, opting instead a transfer of resources away from wages to profits by depressing wages, reducing employers' contributions to social security and tightening the budget for expenditures other than industrial promotions. Had such a radical about turn in policy been merely confined to the macroeconomic realm, one could talk about a temporary setback necessary to deal with economic crisis, before possibly launching a renewed reflationist policy with full vigor. But it was more than that. That is to say, after the critical redirection of macroeconomic policy at the beginning of 1983, industrial policy also changed dramatically. Such an about turn in the course of socialist economic policy gave rise to a heated debate in France and elsewhere concerning the reasons for the failure of the transition to 'socialism' in France.[555] What con-

[555] A good source in English that locates the problem in a historical perspective is J. Jenson and G. Ross, "The Tragedy of the French Left," *NLR*, No. 171. If the failure of transition is understood in a narrower sense as the capitulation of the Socialist Party to the logic of indicative planning by stating that 'efficiency' and 'competitivity' were the objectives to be reached, one is tempted to seek the reasons why this about turn to capitalism took place. Such questions were raised in France by many socialists and an interesting debate took place among many factions of the Socialist Party in the pages of political journals such as l'Enjeu, l'Intervention and Economie et Humanisme. Perhaps an interesting way to approach this question would have been to relate the 'failure' of the French socialists to different Marxist theories of the state. We can then distinguish at least three arguments, those of F. Block, N. Poulantzas and A. Przeworski. *F. Block's* argument would be that state managers, irrespective of their political orientations, have an interest in the promotion of capitalism since they depend upon it for their own well being. If they alienate the investors by pursuing anti-capitalistic policies, business groups may refuse to invest and then the ensuing economic crisis hurts the electoral chances of the party in government. *N. Poulantzas*, on the other hand, argues that it is the very built-in structures of the state which may imprison an incumbent Socialist Party and thereby paralyze any movement towards socialism. *A. Przeworski*, in his turn, emphasizes the fact that since the constituencies of social democratic parties in Western Europe are principally made up of middle classes, these parties are forced to dilute their working class appeal, and act accordingly if they want to come to or remain in power. The French examples can supply ample evidence for each of these forms of explanation to substantiate their notions of the state, but none are entirely satisfactory. Very briefly, although *F. Block* is right in a general sense, it is interesting to see that French economy did quite well despite the early policies of the Socialist Party. In fact during 1981-83 GDP grew by 2.4% in France, much better than the EEC average which was 0.3%, and capital formation fell by only 1.9% versus 2.7% on average in the EEC. Hence it is very possible that the specter of flight of capital was conjured up by socialists as an excuse to justify pursuing their about turn. *N. Poulantzas'* theory, in its turn, is correct insofar as it argues that the structures of the French state and its mode of policy-making present obstacles to the integration of the working class. But it suffers from a monolithic notion of the state, forgetting that the electoral victory of the Socialist Party introduced political struggle into the very core of the state machine, and that the outcome of this struggle was by no means predetermined. *Przeworski's* argument is valid insofar as it shifts our attention to the need for any Leftist party to develop large electoral constituencies by forging alliances with other classes. It can be added that the Socialist Party's main constituency in France was the new middle class, i.e. mainly salaried and professional groups, and not the traditional working class. Yet by letting the Communist Party control four ministries and by maintaining subsidies for ailing industries, French Socialists gave concessions to the working class in their attempt to build their own electoral base. But why then did France fall short of replicating the social-democratic experience of the advanced capitalist countries of Central and Northern Europe? In other words why and how did Socialists decide so suddenly to dump the working class which makes up a third of the voting population, and turn to those industrial entrepreneurs and high ranking bureaucratic administrators who hardly comprise one percent of their constituency?

cerns us here however, is different. That is to say, in line with our focus on the state's capacity in altering investment behavior, we will first show how the new industrial policy was different than the old one, and second we will focus on the implementation of this policy to elucidate the capacity of the French state to affect both inter and intra-sectoral power relations in industry, irrespective of business cycles or a change of party in the government.

The answer to the first question is easy, yet tedious. It is easy, since the new Ninth Plan of 1984-1988 clearly stated the main task and principles of industrial policy. It is also a tedious task since one risks becoming too repetitive, given that the so called new orientation was nothing but a return to the old practice which has been followed for the 23 years, after the entry into the EEC. So much so that despite the scorn poured on the stillborn 'rightist' Eighth Plan, its socialist successor followed it closely, in substance and even in form.[556] To summarize quickly, not to become too repetitive, the main task according to the plan was 'the modernization of the French economic apparatus' understood as an attempt to bring France to the most advanced form of capitalism through the well known practices of planned interventionism. It was also clearly stated that employment was no longer an objective of industrial policy. On the contrary it was said that giving priority to employment was the quickest way to relegate French industry to the level of developing Third World nations. In addition, the importance of the home market and the need to occupy all stages of each stream of production in each sector were no longer mentioned. Instead, the much criticized practice of *crenaux*, i.e. directing resources toward narrow technological niches in fast growing markets for products with high value-added where France was likely to be competitive, became the main goal of investment policy. Accordingly the companies were told to become more competitive and look to exports, because the economy would remain open to foreign competition. Finally the early socialist idea of relying on public companies to create employment at the expense of profits was discarded. In contrast, public enterprises were encouraged to withdraw from unprofitable activities and to become more profitable, even if they needed to lay off workers and cooperate with foreign multinationals.

[556] See the *Resume of the French Ninth Plan (1984-1988)*, Press Service of the Commissariat General Du Plan, July 1984.

Following the total repudiation of the Keynesian 'full employment' ideology which in the past had been the linchpin of social democracy, French socialists set out on the task of restructuring French capitalism by relying on the time tested structures of the French planning machine. Likewise, no new tool was invented to implement the plan, but the well known tools have been sharpened in order to strengthen the allocative effectiveness of the state. In this regard, an attempt was made to strengthen the links between the state budget and the plan (see my Proposition 2 on France in chapter 5) by inserting 12 priority execution programs (PAP's) in the plan, and operationalizing them in terms of both budget allocations for each over a period of five years, and also in terms of providing precise numerical indicators of the objectives to be reached.[557] Therefore the novelty of the PAP's lied in the fact that they were the principle public investment projects which could be programmed for the term of the plan, thus shielded from short-term fluctuations in the economy. The overriding concern of the 12 PAP's was to carry out a full scale modernization of the French productive apparatus. Thus, they absorbed most 'future benefits' expenditure of the state in the sense that by pledging to allocate a specific proportion of its budget to carry them out, the state committed itself to invest in electronics product and related technology (PAP 1), in professional training (PAP's 2, 3 and 6), in the establishment of scientific and technical research bodies (PAP 3), and in the promotion of exports (PAP 7). To this end, a total of 350 billion francs (of which 59 billion was supposed to be spent in 1984) was allocated in the budget for the 1984-1988 period, and the available evidence for 1984 and 1985 suggests that the implementation rate was quite high, approximately 90 percent with slight variations among the 12 categories.[558] Most significant however was the fact that the formulation of the PAP's represented a significant move on the part of the state to use the public budget towards capital formation. The PAP's in fact absorb nearly 40% of the 'unallocated' expenditures in the budget during the lifetime of the Ninth Plan.[559]

[557] That is to say, precise sub-programs or 'actions' have been defined for each of the PAP's, and then, physical or numerical objectives have been attached to each in order to follow the implementation. For further details, see, Jean Le Garrec, *Demain La France*, Editions La Decouverte, Paris, 1984. It should be added that from the Seventh Plan of 1975-1980 onwards, the plan had spelled out certain priority actions to be taken in the public realm, and therefore the attempt to harmonize short and medium-term budgetary expenditures was not new. What was novel however was the fact that the state had committed itself more fully this time compared to the past by making it possible to evaluate its real performance. That is to say, the PAP's of the Ninth Plan were both more detailed than the past, and it was easier to check their execution since the precise physical indicators that were attached to each sub-program constituted a more accurate evaluation criteria than those budgetary references used in the past.

[558] Calculated by the author from various documents prepared by the 'Service du Financament' of the CGP, concerning the financing of PAP's.

[559] See Y. Ullmo, *La Planification en France*, Fondation national des science politiques: service de polyropie, 1983,

Expenditures are 'Unallocated' in the sense that certain categories in the budget are inflexible (expenditures such as the cost of public debt, minimum salaries, social security payments, military expenditures, etc.) and they do remain constant over the years irrespective of the economic policy orientation of the government. Thus, in France, like in other advanced nations, if expenditure of this inflexible type is subtracted from the total budget, it can be seen that the margin for maneuver is quite limited. Therefore the implementation of the PAP's represents a significant sharpening of the available tools via which the state affects resource allocation.

The most significant interventionist tools to alter investment behavior in order to modernize the French industrial base which was the overriding concern of the Ninth Plan[560] however, have been under socialists -- as before -- public procurement, subsidized credits, subsidized exports and capital grants. And it was through the use of these tools in the context of 'sectoral plans' and 'professional contracts' with individual companies that planners continued to wield significant leverage over industrial resource allocation. As a consequence, not only were inter-sectoral balances in industry affected, but also planners were able to penetrate deep down to the level of individual firms and both create and consolidate the dominance of the monopoly fraction of export oriented capital. Given that the socialist reign is still unfolding in 1989, in France, it may be premature to argue that the modern monopolistic sector irreversibly strengthened its position vis-a-vis its partners in the power bloc after the critical about turn in socialist industrial policy. But the trend is unmistakably towards this direction, although global data does not tell us too much, except for pointing out that an increase in the extroversion of the French economy, as indexed by the ratio of foreign trade to GDP, is now fully underway, following the setback during the early years of socialists.[561] As to the composition of exports, France continues to export and specialize in those high value-added niches of the world markets reserved for high tech armaments, while neglecting inter-industry linkages as exemplified by the demise of many labor-intensive manufacturing industries. More interesting is the fact that it is the socialist controlled state which is

p. 140.

[560] In fact the PAP No. 1 stated the following dictum: *Modernize industry* with the assistance of new technologies accompanied by a strong effort for savings.

[561] In fact the French share of world markets diminished from 10 percent in 1980 to 8.5 percent in 1984, while imports have grown. But now the situation is changing; see *Bilan Economique et Social 1985*, published by Le Monde, January 1986, pp. 58-59.

orchestrating this demise, since the French planning community is anxious to bypass the market in order to accelerate the decline of traditional industries even if this entails massive layoffs. Such layoffs in fact are seen as the price to be paid in order to promote high tech exports so that France keeps up with the practice of the most advanced nations.[562] What is at stake therefore, is *not* the deindustrialization of the economy in a way reminiscent of the USA, but a conscious and selective effort to shift resources across industries in order to concentrate them in firms and sectors capable of penetrating foreign markets not on the basis of cost efficiency, but via technical excellency. The contrast with the earlier industrial policy of socialists -- and thus the striking continuity with the past industrial policy which had lasted 25 years -- will be made more clear by discussing the implementation of the post-1983 policy in two given industries: steel and electronics. (See chapter 5 for the evolution of French industrial policy in these sectors.)

Industrial Rescues and Promotion in Practice

To start with the example of the declining industry, that of steel, it should first be said that this industry has always been a key one, selected for special attention by planners, and therefore it had become the subject of numerous 'plans professionals' between planners and private investors, from the very first plan onwards. In 1974, when the steel industry found itself faced with a serious crisis,[563] it employed 160,000 workers in plants whose control was divided between two conglomerates or geographic ensembles, USINOR and SACILOR, centered respectively in the North and the Lorrain. Consequently, this industry became the first major showcase for the French planning community in the late 1970's to orchestrate a major restructuring operation. More specifically, the so called Barre Plan of 1978 attempted to solve the industry's problems by cutting a third of its labor force, combining the

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562 In fact at the very beginning, the new plan declares that the continuation of the external deficit in France would cause grave problems and the only panacea rests in the modernization of the productive apparatus, implying that France should integrate itself fully into the international division of labor by giving priority to exports and cutting out sectors in decline, writing off bad investments, concentrating resources in high tech areas with a strong export potential. Needless to add, a rigorous wage and salary policy is called for under the slogan of 'stabilizing fiscal charges in enterprises' so that French firms would be able to compete with foreign rivals.

563 There were two dimensions to the crisis, one cyclical, and the other structural: "The cyclical crisis, of course, resulted from the slowdown that occurred in the world economy after the rise in the price of oil. The structural crisis resulted from a variety of factors. Not only were traditional customers developing substitutes for steel, but those customers were themselves declining in importance relative to industries like electronics that use very little steel." R. Levy, "Industrial Policy and the Steel Industry," in W.J. Adams and C. Stoffaes (eds.), *French Industrial Policy*, *op. cit.*, p. 67.

remaining smaller firms into two existing conglomerates, and virtually nationalizing the sector by converting a portion of the steel industry's debt into public shares. The ultimate goal was to create an internationally competitive industry, and since according to econometric studies commissioned by French planners, such a task required substantial reduction in employment, the government did not hesitate to reduce employment, in Lorraine alone, from 79,000 to 39,000 people.[564] This was a remarkable and courageous political operation, illustrating the extraordinary economic power and autonomy of the French state. Observed three American scholars with nostalgia: "The scale, speed, thoroughness, and emergency procedures invoked in the exercise provide a remarkable contrast to the course of such operations in the USA."[565]

Unfortunately massive layoffs produced considerable political turmoil, and soon afterwards the center-right coalition, which had governed France for more than a quarter of a century, was forced to relinquish its grip on the government as a result of the 1981 elections. Socialists, in their turn, came up with a new 'rescue' plan for steel which was diametrically opposite of the previous plan. That is to say, in line with the Left's general industrial policy orientation, the major goal of sectoral policy in steel shifted from securing international competitiveness to guaranteeing increased production to adequately supply domestic markets, even if imports were cheaper. That is to say, the problems facing this industry were attributed to the unfairness of foreign competition, and the remedy was seen to be expansion rather than contraction of this industry. Accordingly, in 1982 the Left launched an ambitious investment program in this industry with the objective of stabilizing the employment levels, and increasing the production capacity from 19 million tons to 24 million tons via a new "investment programme for 1982-6 costing 15.5 billion francs."[566] Given that the two now state owned conglomerates were in red, the government also promised to cover the losses of USINOR and SACILOR, and overall "it was estimated that the steel industry will by 1985 have cost the French state 60 billion francs since 1978"[567] (measured in 1978 francs, and about 3 percent of the GDP). It should be added that the cost

[564] *Ibid.*, p. 69.

[565] See S.S. Cohen, J. Galbraith and J. Zysman, "Rehabbing the labyrinth: the financial system and industrial policy in France," *op. cit.*, pp. 22-3.

[566] See J. Hayward, *The State and the Market Economy*, *op. cit.*, p. 100.

[567] *Ibid.*, p. 102.

of the 'rescue' operation was borne less by the state than the banking system, since, by using its influence over the financial system, the Treasury created and expanded various financial intermediaries (SFI's) to mobilize their savings for use in rescue programs.[568] Hence the SFI's who have normally been mobilized by planners to promote a certain 'industry of the future', were now forced to pick up a piece of the financing package. In the meantime, steel absorbed the lion's share of both direct state subsidies and subsidized banking loans to public enterprises, at the expense of industries of the future, such as aerospace and electronics.

In April 1984, in line with its new policy orientation discussed earlier, the government radically revised its 1982 rescue plan. The major goal became, as has always been the case with the exception of early socialist rule, that of bringing the steel industry in France on a par with the most efficient practice in the world. (In this case the Japanese Nippon steel, the largest steel firms in the world, was taken as a model.) To this end a merging of USINOR and SACILOR which would have ensued in the creation of the second largest steel firm in the world was proposed (not yet realized), and a substantial decline in the steel workforce was foreseen. (This happened, as in 1988 the total workforce has fallen to 50,000 from approximately 90,000 in 1984.) In addition, several plants which were considered as 'poorly located' or specialized in outmoded products were to be closed, and future investments "would be concentrated at the sites most likely to be able to compete in the future."[569] I should add that it was President Mitterand himself who announced the new 1984 steel plan to the public, and he made it clear that 'social peace' would no longer be bought at the expense of international competitiveness. In the meantime, "although the trade unions were consulted, it was made clear that the government's decisions were irrevocable,"[570] and indeed everything was arranged quickly and quietly in small group negotiations involving only the 'core' apparatuses of the state, and the managers of the concerned enterprises. Finally, new managers were appointed to head USINOR and SACILOR, and it was made clear to them that they were expected to turn these companies into profitable enterprises, and while pursuing this task they were welcome to cooperate with foreign multinationals and/or withdraw from unprofitable

[568] These intermediaries mostly raise money by floating bonds guaranteed by the state itself on various securities markets. See C. Stoffaes, "Postscript," *op. cit.*

[569] R. Levy, "Industrial Policy and the Steel Industry," *op. cit.*, p. 71.

[570] J. Hayward, *The State and the Market Economy*, *op. cit.*, p. 103.

activities, even if such a task entailed laying off workers.

One of the prime concerns lying behind the new proposals for the contraction of, not only steel, but also of coal and shipbuilding industries, has been to allocate an increasing share of public subsidies towards industrial promotion. *Electronics,* which was described as 'our weapon of the future' by President Mitterand, is a case in point. In fact, from 1984 onwards the state committed itself to full scale interventionism in the electronics sector "by attaching the Ministry of the Post Office and of Telecommunications to the Ministry of Industry. In so doing, it will be able to finance its electronics and space policies from the vast profits generated in telephone services."[571] Hence substantial investments in modernization in these industries are now in order. In telecommunications, for example, the government merged the two giants Ericsson-France and ITT-France into Thomson-CGT and, in line with the sectoral plans, investments exceeding 30 billion Francs a year in telecommunications equipment are now in order.[572] In the meantime professional managers have been put in charge of the newly industrialized firms, such as Thomson, to carry out a new investment strategy on the firm level, as this is called for by the critical about turn in the state's general industrial strategy. Accordingly publicly owned companies are now expected to specialize in narrow technological niches which are profitable, and cease promoting whole vertical streams of production. At the beginning of 1982 for example, the Thomson group was composed of five divisions: consumer electronics, defense electronics, telecommunications, medical and general spares.[573] Among those activities only the first two were not in red, but the attempt by the corporate management to get rid of the losing sectors was prevented by the socialist Industry Minister on the grounds that the sectoral plan called '*filiere* in electronics' was based on the key idea of strengthening the entire range of products in each sector, irrespective of their economic viability, so that no part was lost to imports. Thus if many activities which lost money had been dumped, the firm would have been deprived of the technological synergies between its various branches, rendering France vulnerable to foreign intrusions. After March 1983, on the other hand, the

[571] C. Stoffaes, "Postscript," *op. cit.*, p. 207.

[572] A high level administrator in the Ministry of Industry writes: "Thanks to these public purchases and to the research subsidies associated with public procurement, the telecommunications industry has been able to develop state-of-the-art technologies and to produce on a mass scale." C. Stoffaes, "Industrial Policy in High-Technology Industries," *op. cit.*, p. 57.

[573] See *Manchester Guardian Weekly*, November 6, 1988, p. 16.

situation changed radically when the nationalized industries were given a "down-to-earth mission: make money ... if they failed, public sector bosses were liable to face the axe."[574] Consequently, in line with the new perspective, Thomson's management decided to cut down many activities -- trimming manpower by 5000 jobs along the way -- and concentrate its resources in the two profitable industries: consumer and defense electronics. Thus what was happening in the larger industrial arena was also mirrored in a large conglomerate, i.e. an attempt was underway to reorganize Thomson so as to concentrate its resources in firms and industries capable of meeting intense foreign competition. As a consequence the losing firms, such as CGR in medical spares were sold to foreign MNC's (General Electric in this case), and conversely the remaining branches started looking for good deals for acquiring foreign companies in order to capture their markets.[575] When judged in terms of international competitivity the result is spectacular: Thomson has jumped from fifteenth to second place in world ranking -- in terms of turnover -- in defense electronics, and to fifth place in electronic consumer goods. In short, the Thomson example, amongst others, proves that since French planners can still -- in the 1980's -- penetrate deep down to the level of individual firms via using their well known tools, the state can continue to affect the allocation of industrial investment in a selective fashion with the outcome of altering not only inter but also intra-sectoral power relations in industry.

Is There a Change in the Nature of the Power Bloc in France?

The preceding discussion on the nature and consequences of planned interventionism in post-crisis years in France should suggest that the answer to the question above is negative. In other words the bloc formation depicted in *Figure 3 of the Genesis section* and entitled "Post-Second War Historical Bloc in France" is still by and large intact, in the late 1980's. This is not to say that the hegemony of the export oriented fraction of productive capital has never been threatened. In fact, had the earlier orientation in socialist policy from outward oriented growth towards a nationally centered development of the productive apparatus continued, things may have been different. But as we have seen, this period

[574] *Ibid.*

[575] M. Guardian Weekly writes: "In June 1987 Thomson bought up the consumer division of Britain's Thorn-EMI. In July, it brought off its big coup: the agreement with General Electric enabled it to double its size in the sector. Thomson suddenly found itself invested with the role of an anti-Japanese rampart in the United States where now was left a lone American television manufacturer -- Zenith (it is up for sale today)." *Ibid.*

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did not last long enough to affect the nature of hegemony in the power bloc, and therefore the sudden rise in the fortunes of the domestic market oriented segment of industrial capital came to a sudden naught. Overall, throughout the years following the onset of the world economic crisis in 1974, the French planning community continued to affect the allocation of resources by channeling substantial amounts of capital to the high technology and export oriented industrial sectors. Yet in contrast to some Northern European countries, the burden of this support was not placed on the shoulders of the petty bourgeoisie, since various subsidization measures firmly entrenched in the protectionist state apparatuses to safeguard small urban producers' statuses as supplier or subcontractors to big industrial firms remained unaltered. Instead the burden of adjustment was borne by some individual segments of primarily internal market oriented and labor intensive monopoly capital when state subsidies toward big firms in steel, coal and shipbuilding were gradually cut down. The weakness of the financial fraction of capital which was a legacy of the postwar reforms undertaken under pressure by the labor movement definitely facilitated the restructuration of industry along the lines described above, since the planning community never lacked capacity to mobilize the whole network of financial institutions towards industrial promotions, when deemed necessary. Naturally industrial restructuration resulted in massive layoffs and the rule of socialists should be remembered for the official repudiation of the Keynesian 'full employment' program which had in the past been the benchmark of social democracy. Indeed it was under socialist rule that the hegemonic fraction of capital moved increasingly toward multinationalization as exemplified by the case of Thomson, a public company. Actually if one defines state capitalism as a system where state enterprises are allowed to become key centers of capital accumulation, we can say that under socialist rule such a system fully blossomed in France. (As we will see, in Turkey on the other hand, the implementation of a similar project was thwarted even under a 'liberal' regime intent on turning the SEE's into the seeds of growth.)

Finally, I should add that the sustained industrialization record of the French economy in the postwar period accompanied by the concentration of capitalist production led to a significant change in class structure, especially in the internal composition of the petty bourgeoisie. In other words, the postwar period was characterized by the significant decline of the peasantry, artisans and small shopkeepers who have fallen from 31% to 14% of the population from 1954 to 1978,[576] while new layers of petty bourgeoisie were on the rise. That is to say because the promotion of advanced sectors such as electronics, bio-engineering and telecommunications necessitated an educated labor force comprised mainly of engineers, computer programmers and technicians at the expense of the traditional strata of the working class population, the modernization process of industry concomitantly ensured the proliferation of the new 'middle class' categories in the population. Similarly, over the years, many people displaced by the reorganization of industry and agriculture swelled the ranks of the so called 'service sector', i.e. essentially those salaried jobs in the ranks of administration, especially in the health and education sectors.[577] If we judge the effects of socialist policy on the relative well being of these 'new middle class' groups from the distributional consequences of economic policy, we can see that they fared quite well and probably came ahead of inflation by raising their real income.[578] This outcome however is hardly surprising given that non-traditional petty bourgeois categories form the very backbone of the socialist party.[579] It should therefore be concluded that although the alliance between dynamic export-oriented industrial capital and the petty bourgeoisie still forms one of the main axes in the power bloc, the nature of the petty bourgeoisie underwent a radical transformation throughout the years, heralding the irreversible success of indicative-capitalist planning in France.

[576] See A. Lipietz, "Which Social Forces are for Change?" *op. cit.*, p. 15.
[577] See S.S. Cohen, "Twenty Years of Gaullism: The Economy," *op. cit.*
[578] See *Bilan Economique et Social 1985*, *op. cit.*, pp. 50-6.
[579] See M. Kesselman, "Socialism without the workers: the case of France," *op. cit.*

8. TURKEY

The Breakdown of the Import Substituting Industrialization

In my last chapter on France, I argued that the conflict of interest between different segments of the power bloc could be held at bay as long as the growth of the French economy offered new benefits to different fractions of the bourgeoisie. Yet for both economic and political reasons, the rate of new investments had declined in the mid-70's, and the 'solution' to the problem or the so called 'restructuration of industry' did have a political dimension in the sense that it necessitated a reordering of the relations between planners and various branches of industry. For Turkey, in a similar vein, neither the collapse of ISI nor the beginning of a new 'export-led' era can be understood unless one takes into account the political aspect of the problem. In fact, in my last section I analyzed the political economy of ISI in Turkey and argued that this industrial policy had created its own 'economic' and 'political' obstacles to further development (i.e. the deepening of the industrial structure), and these two sets of built-in constraints were interrelated. To reiterate briefly, on the economic plane, the availability and continued flow of foreign exchange was the weakest link in the chain linking Turkish manufacturers in consumer industries to foreign suppliers of capital good inputs. This was so because the model of ISI had started from the consumption goods end and approximately 38 percent of the total cost in the manufacturing industry was made up of imported inputs.[580] Furthermore, given the uncompetitive structure of these manufacturing goods which could not have been exported, but only consumed in the protected internal markets, the trade balance in Turkey was bound to emit negative signals, year in, year out. Thus the resource gap between earnings of foreign exchange and import expenditures had become chronic, albeit until the mid-1970's this gap had been amply covered by two things: the availability of easy loans and the remittances of Turkish workers abroad. In other words, the preconditions of the successful reproduction of the industrial base in Turkey depended on external factors outside the control of Turkish planners. In addition, there was an internal political dimension to the problem: the hegemonic fraction of the bourgeoisie or the oligopolistic manufacturing capital itself resisted further industrialization. In chapter 6 I analyzed the material factors which propelled big holding companies in Turkey to choke off

[580] See Y. Kucuk, *Quo Vadimus*, Tekin Publication, Ankara, 1985 (in Turkish).

vertical integration of industry, adding that this sector did have the capacity to prevent both the state and other investors from entering investment goods industries, albeit they would not venture themselves into these arenas, either.

By the mid-1970's these above mentioned constraints inhibiting sustained industrialization in Turkey reached dramatic proportions. First, remittances began to decline after 1974, as a result of a new immigration policy in Western European countries. Thus while the gains of Turkish workers abroad were sufficient to cover the trade deficit in 1973, the ratio of imports paid for by foreign exchange earnings through remittances declined to 38% in 1974, 28% in 1975, 19% in 1976, and 17% in 1977.[581] In the meantime, the surge in oil prices took its toll, and between 1976 and 1979 petroleum accounted for more than a quarter of imports, reflecting the quadrupling of its price.[582] And finally foreign loans ceased flowing to Turkey, reflecting both a structural factor such as the ending of international Keynesianism which had rested on the 'hegemony' of the USA in the world capitalist system;[583] and a conjunctural factor such as the boycott of Turkey by international lending organizations which was due to the refusal of the Left-wing Ecevit government in 1979 to acquiesce to an IMF conceived package of rescue.[584] Thus while international agencies increased pressures on the social democratic government to succumb to the IMF, Western countries stopped trading with Turkey, and consequently Turkey slipped steadily in international credit ratings and found it virtually impossible to obtain credits to service its debts or to import basic materials.

The international boycott of Turkey led to a serious conflict between the manufacturing bourgeoisie and the Turkish state. This was so because the provision of cheap foreign exchange to benefit holding companies had constituted the linchpin of the relations between the state and capital, and now this link was broken. In more concrete terms, the state had in the past 15-20 years of ISI enabled the manufacturing bourgeoisie to obtain high rates of profit, but in the late 70's it was no longer able to do

[581] See C. Keyder, *State and Class in Turkey*, Verso, London and New York, 1987, p. 185.

[582] *Ibid.*, p. 195.

[583] See C. Keyder, "The American Recovery of Southern Europe," in G. Arrighi (ed.), *Semiperipheral Development*, Sage Publications, Beverly Hills, 1985, pp. 135-148.

[584] See H. Ramazanoglu, "The politics of industrialization in a closed economy and the IMF intervention of 1979," in H. Ramazanoglu (ed.), *Turkey in the World Capitalist System*, Gower publishing company, Hants-England, 1985, pp. 80-97.

so. In fact, the unavailability of foreign exchange forced industrialists to import necessary inputs by obtaining their own foreign exchange in the black markets from the financial speculators, and therefore industrial capital was forced to share its profits with the so called smugglers, i.e. the unofficial segment of the commercial bourgeoisie.[585] In addition, at a time when the capacity utilization rates were in sharp decline, industrialists were unable to layoff workers so as to economize on variable costs, since throughout the 1960's the institution of collective bargaining had been fully developed in Turkey and labor confederations were strong enough to thwart anti-labor projects. Therefore between 1974 and 1979 wages as a percentage of industrial value added increased from 27% to 37%, while industrial profits and output declined.[586] As confidence in the government plummeted, the business community in Turkey virtually stopped investing, and instead hoarding of available funds and black marketing became commonplace. The dismal economic consequences of the 'crisis' can be better appreciated from several indicators given in the table below. This table in fact distinguishes between 3 periods, that of 1973-6 or the most mature period of ISI, the 'crisis' period (1977-80), and the start of a new phase of export-led growth from 1980 onwards. Hence it will provide the core quantitative material for the discussion of the new phase of economic development in Turkey in the coming pages. Note that when the external sources of finance dried up in the late 1970's, the industrial structure receded (row 2), and the economic growth came to a standstill (row 1).

[585] See C. Keyder, *State and Class in Turkey, op. cit.*, Ch. 8.

[586] *Ibid.*, p. 192.

Table 1

Main Economic Indicators, 1973-1986

	1973-76	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Growth and Accumulation											
1. GDP Growth	7.6	4.9	4.4	-0.4	-1.0	4.7	4.3	4.1	5.8	4.2	7.2
2. Industrial Growth	9.1	10.2	6.6	-5.4	-5.6	7.4	4.5	8.0	9.1	6.2	8.6
3. I/GNP (Real:'83,%)	21.9	25.6	22.4	21.7	19.7	19.3	19.0	19.0	18.0	19.3	22.2
4. Real I (index)	74.6	100.0	90.0	86.8	78.1	79.4	82.2	84.6	85.6	96.4	119.4
5. Real Public I	68.0	100.0	86.4	90.8	878.0	95.2	97.3	98.9	91.2	106.8	134.5
6. Real Private I	81.8	100.0	93.6	83.0	68.7	62.7	66.1	69.3	79.6	85.3	103.3
7. I(pub.)/I(total) (%)	46.5	51.6	49.5	53.7	59.4	61.8	61.0	60.3	58.9	57.1	58.1
8. L-Prod. (manuf.;index)	**96.4	100.0	92.4	72.0	70.2	85.8	89.1	80.4	76.4	79.0	-
9. Real Manuf. I (index)	77.5	100.0	86.8	77.6	76.5	72.0	65.6	64.8	59.2	68.3	79.2
10. Real Manuf. I (pub.)	71.7	100.0	81.7	101.0	110.8	101.4	85.2	82.4	70.7	54.8	56.2
11. Real Manuf. I (priv.)	81.4	100.0	90.3	61.6	52.9	51.9	52.1	52.7	51.3	77.5	95.0
12. Manuf. I / Total I	30.6	29.6	28.6	26.4	28.9	26.8	23.6	22.7	21.3	20.9	19.6
13. Private S/GNP (%)	10.6	11.7	10.6	13.5	10.6	9.4	9.2	9.2	9.2	9.3	11.7
14. Private I/GNP (%)	10.6	11.8	11.1	9.7	8.5	7.2	7.3	7.5	8.2	9.4	9.8
15. Public S/GNP (%)	8.3	6.4	5.3	2.7	5.3	8.6	8.9	7.3	7.6	9.2	11.2
16. Public I/GNP (%)	9.4	12.4	10.6	10.7	10.9	11.7	11.5	11.4	10.0	11.2	13.5
Distribution											
17. Real wage (index)	73.5	100.0	100.4	106.1	84.8	89.0	88.4	88.7	76.4	76.3	-
18. W/Y (manuf;index) (%)	29.3	36.9	37.7	38.7	30.7	25.3	23.5	24.8	23.8	22.4	-
19. Agr. TOT (index)	100.6	100.0	82.9	67.5	58.3	58.3	52.3	50.6	51.4	48.4	47.0
20. i/surplus (ind.%) (a)	-	-	-	13.3	22.2	36.3	39.2	53.7	42.0	46.0	39.0
21. i/surplus (ind.%) (b)	-	-	-	-	-	-	60.2	65.8	42.2	42.1	61.8
22. Real bank profits	-	-	-	100.0	247.3	429.4	437.5	329.0	636.7	617.6	968.8
23. Trade/GDP (%)	-	-	-	15.3	16.3	17.2	17.3	18.0	18.4	17.6	17.5
External Surplus											
24. CAD/GDP (%)	*4.4	7.1	2.7	1.6	5.3	3.6	2.2	4.5	4.1	2.4	3.0
25. M/GDP (%)	12.1	12.2	8.9	8.3	14.2	15.6	17.0	18.4	22.2	21.8	19.3
26. X/GDP (%)	4.9	3.6	4.3	3.5	5.1	8.3	10.9	11.3	14.3	15.1	12.8
27. (M-X)/GDP (%)	*39.7	34.9	20.7	22.9	45.4	38.0	31.8	38.0	44.7	33.8	28.0
28. CAD/I (%)	20.8	28.9	12.3	7.7	27.3	17.6	11.4	22.0	21.4	12.0	13.0
29. Debt service ratio	-	8.1	19.6	18.1	23.2	21.6	25.3	30.0	27.8	29.8	37.0

(*) 1974-76; (**) 1976.

Notes: Rows 1,2: GDP and industry's growth rates are in real terms. Rows 3, 7, 12, 14, and 16: Shares of total, public, manufacturing, private and (once again) public fixed capital formation in 1983 prices within GNP or within total investments (I). Rows 4-6, 9-11: Index numbers of total, private, manufacturing and private manufacturing investments in 1983 prices. Row 8: Value added per worker in 1982 prices in manufacturing industry. Rows 13, 15: Shares of private and public savings in GNP. Rows 17, 18: Real wage index numbers and share of wages in value added in manufacturing industry. Row 19: Agriculture's terms of trade based on GDP's sector deflators. Rows 20, 21: Share of interests from industrial gross profits in Eskisehir firms (a) and of 500 largest firms (b). Row 22: Real bank profits with 1979 prices. Row 23: The share of trade in GDP does not include the surplus accruing to the exporting segment of commercial capital given that in practice large export corporations belonging to the oligopolistic sector reap the tax rebates on exports. Terms in Rows 24-28: CAD-current account deficit; M and X -- imports and exports; other terms as above. Row 29: External debt service as a ratio of exports of goods and services.

Source: K. Boratav and O. Turel, "Notes on the Current Development Problems and Growth Prospects of the Turkish Economy," *New Perspectives on Turkey*, Vol. 2, No. 1, Spring 1988, and K. Boratav, "Inter-class and Intra-class Relations of Distribution under 'Structural Adjustment': Turkey During the 1980's," Paper presented to a Conference on "Turkey's Economic Development in the 1980's," CMES, Harvard University, April 1988.

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In Turkey, as in many other Latin American countries,[587] the resolution of conflicts both between the state and capital and among various fractions of the bourgeoisie could not have been possible without a decisive political defeat of the industrial working class. The military junta in Turkey which toppled the government in September 1980, and returned it back to civilians in 1983 after the purgatory operation was over, accomplished this task. I will analyze the political economy of the new era in the coming two sections while demonstrating that planners continued to wield leverage over investors and enabled manufacturers to maintain high profits, albeit via different *means* than the past, given the shift in development strategy from inward orientation toward export-led growth. Yet before proceeding further I would like to test the validity of the dependency hypothesis echoed in the writings of many social scientists in Turkey.[588] To simplify, dependency theory claims that external interests can shape the political and economic outcomes in a less developed country and that the 'dependent' state is seen as either irrelevant to the process or as the tool of foreign capital. Is that really so?

Not quite, or at least this has not been the case for Turkey. Post-80 governments in fact adopted the IMF package in a rather selective way, i.e. only those aspects of the package which coincided with the views of the hegemonic fraction of capital were implemented.[589] No country, on the other hand, in which the ISI strategy had come to a standstill embraced the whole package: Brazil and Chile for example came under very similar pressures to those exerted on Turkey but the nature and social implications of the adapted solutions differed among these countries. In short, the social and political structures of these middle income countries in the periphery should be conceived of as shaped by the interaction of internal and external forces rather than through foreign domination alone. Cardoso and Faletto grasp the changing nature of imperialism in the modern world when they characterize the contemporary form of dependency in Latin America as "the internationalization of external interests" (see my criticism of their work earlier). That is to say, Cardoso and Faletto imply that capitalism is increas-

[587] For the collapse of ISI in Latin American countries, see the useful collection of essays edited by D. Collier, *The New Authoritarianism in Latin America*, Princeton University Press, New Jersey, 1979.

[588] C. Keyder, *State and Class in Turkey, op. cit.*, provides the best argued example of the dependency paradigm as it is applied to the case of Turkey.

[589] The political-economic aspirations of the big capital in the wake of the military takeover have been deftly summarized by G. Tuzun, "Reflections on the intentions of the bourgeoisie," *Yurt ve Dunya*, No. 18, November 1979 (in Turkish).

ingly becoming able to reproduce itself in many countries in the Third World without resorting to external and direct forms of political domination. No doubt this observation is valid for Turkey where the domestically conceived package of rescue paralleled many recommendations of the IMF, but it was by no means a mere replica of the latter.

What are then the differences? To lay out the details of the whole IMF package is a long task; hence I will only summarize those aspects of it that relate directly to my concern, i.e. planning or resource allocation. On this count, the most striking aspect of the international organizations' recommendations to the peripheral countries, which echoed in their publications or policy proposals, has been the wholesale rejection of interventionism by the state in resource allocation.[590] In other words, what I call 'planning' is rejected as an anomaly, preventing the market mechanism from allocating resources efficiently. Efficient resource allocation, in its turn, implies that countries should specialize in the production of goods in which they possess a comparative advantage given their productive factor resources, i.e. land, capital, and labor. ISI is then criticized for having pulled industrial development excessively in the direction of capital-intensive production methods in countries where capital is the scarcest resource. Instead, specialization in tourism, agriculture and light industry is recommended to many countries such as Brazil, Turkey, and Mexico.[591]

Four sets of policy recommendations derive from the adoption of the 'comparative advantages' model which is based on the premises of Eighteenth Century free-market liberalism. First, liberalization of the foreign trade, i.e. the removal of tariffs and quotas, is proposed, since it is believed that once an economy engages in free trade, specialization in the production of goods in which it has a comparative advantage will follow. Secondly, the involvement of the state in production is categorically rejected on the grounds that it biases industrial resource allocation in favor of heavy industrial projects. Third, on the fiscal plane, the adoption of balanced budgets is recommended on the assumption that budget deficit usually leads to inflation and inflation impairs exports. Greater emphasis on the export

[590] The notorious IMF stand-by agreements embody such 'laisser-faire laisser-pusser' notions and reprimand state interventionism. An informative collection of essays highly critical of IMF policies appeared in Turkish: C. Erdost (ed.), *IMF Stabilization Policies and Turkey*, Savas Editions, Ankara, 1982.

[591] This anti-industrialization bias inherent in IMF recommendations to the Third World nations is also criticized by A.O. Hirschman, "The Turn to Authoritarianism in Latin America and the Search for its Economic Determinants," in D. Collier (ed.), *The New Authoritarianism in Latin America, op. cit.*, pp. 61-99.

sector in fact is seen as the fulcrum of the new industrial strategy (called export-led growth), since the opening of national economy to international competition is said not to have been possible without it. And finally the adoption of measures to encourage direct foreign capital investments (DFI) is recommended, because DFI is seen as the sole means of managing the debt crisis of the peripheral economies in the face of international bankers' reluctance to extend new loans.[592]

Had the whole package outlined above been implemented, one could legitimately talk about deplanification, i.e. the ending of the nation state's ability to affect resource allocation, in post-1980 Turkey. But as we will shortly see in the next section, this did not happen. Only those aspects of the IMF program which corresponded with the interests of the hegemonic fraction of capital found a receptive audience in Turkey. In other words policy recommendations such as import liberalization, and debt-to-equity conversions to benefit foreign capital have not been implemented since these measures were opposed by the national bourgeoisie. External pressures to promote exports and to reduce state expenditures favoring popular strata, on the other hand, were effective to the extent that they coincided with a similar strategy of domestic groups in the power bloc. The Turkish state in its turn remained central to the restructuring of the domestic economy since the state managers mediated between foreign capital and the local bourgeoisie, on behalf of the latter, throughout the bargaining with international organizations concerning the future shape of the Turkish economy. In fact the unofficial economic embargo of the country was not going to be lifted without some concessions, and bargaining over the nature and intensity of these concessions constituted the main stuff of discussions with the international organizations. And furthermore to the extent that planners were successful in restoring industrial profits to pre-crisis levels via devising time tested or new subsidy schemes, the rift which in the late 70's is said to have developed between the ruling class alliance and the state has been patched up.

Finally, the *uniqueness* of the Turkish response to external pressures can be better appreciated if its main differences from other similar cases are laid out. In this sense, the IMF project which tried to impose uniformity on various parts of the world economy can be said to have partially failed, since

[592] For the illustration of the neo-classical position defending increasing DFI as a necessity for the development of Turkey, see A. Erdilek, "The Role of Foreign Investment in the Liberalization of the Turkish Economy," in T.F. Nas and M. Odekon (eds.), *Liberalization and the Turkish Economy*, Greenwood Press, New York, 1988.

countries such as Brazil, Chile, and Turkey -- which all had a common denominator in the sense that industrial policies based on ISI had collapsed -- could not be uniformly tailored to the prescriptions of the neo-liberal model. Chile, perhaps, came closest to being the 'ideal' case since it was there that the social and political structures, for reasons outside the scope of my work, have been successfully tailored to fit the neo-liberal model. Concerning Turkey and Brazil, on the other hand, one is tempted to say that it was the neo-liberal model which has been tailored to fit the internal dynamics of these countries, rather than the other way around. The contrasts between different variants of export-led development may be detected by analyzing the character and goals of state interventionism, and the nature of resulting hegemonies in the power blocs. That is to say, whereas in Chile, following the military takeover in 1973, both the size of the state budget and its involvement in production have been radically reduced, neither in Brazil nor in Turkey has such a phenomenon happened. In fact, during the 1970's in Brazil, the state attempted to strengthen the local bourgeoisie vis-a-vis international corporations by facilitating collaborative ventures between state entrepreneurship and private capital. Consequently the state managers became crucial actors who contributed to national economic development by creating a new form of capital via joining the state economic enterprises and local capital into a single hybrid 'oligopolistic community' which was active in heavy industrial sectors. In short, the upper fraction of the industrial bourgeoisie has been assisted by the state through the expansion of the productive activities of the peripheral state apparatuses (the SEE's).[593] In Chile, on the other hand, the post-Allende state virtually withered away. That is to say, not only tariffs have been eliminated, but also the state substantially reduced its productive activities and the level of its subsidies, both measures profiting the manufacturing industry in the past. As a result a process of deindustrialization went fully underway; the rate of growth declined; and Chile became re-inserted in the world economy as an exporter of raw materials, minimally processed goods and agricultural products, i.e. in a way which conformed to its (supposed) comparative advantages. In the meantime the financial fraction of the bourgeoisie, i.e. the banking sector, greatly benefited from the new economic arrangements and if the distribution of payments to capital

[593] See P. Evans, "Reinventing the Bourgeoisie: State Entrepreneurship and Class Formation in Dependent Capitalist Development," in M. Burawoy and T. Skocpol (eds.), *Marxist Inquiries*, supplement to American Journal of Sociology, Volume 88, The University of Chicago Press, Chicago and London, 1982.

by main sectors (i.e. agriculture, industry, trade and banking) is taken as an indicator, the financial fraction of capital became the hegemonic force in the power bloc.[594] In short, in Turkey, the break with the ISI model was total and the political economy of export-led growth in Chile was characterized by a fundamental alteration in terms of both the role of the state in accumulation and the bases of domination in the power bloc.

The political economy of the new phase of industrial policy, in Turkey, on the other hand, conforms to neither Brazilian nor Chilean models. Very briefly, unlike Chile the state has not attempted to weaken the manufacturing bourgeoisie in post-80 Turkey, and as we will see, the hegemony of the monopolistic holding companies in the power bloc is not threatened. Yet unlike Brazil the capacity of the state to bolster manufacturing capital primarily stems from those executive-governmental agencies of the state, and not from the 'autonomous' industrial state economic enterprises as is the case in Brazil.[595] In short, planners are still able to affect inter and intra-class relations in Turkey via their leverage over the allocation of investments. But *under what conditions* and *with what consequences* for economic development? These are the questions to which we now turn.

Resource Allocation under Export-led Growth: A Realignment in the Power Bloc?

Major Claims

As we have seen in the last section, the linchpin of the leverage wielded by planners over the allocation of resources throughout the period of ISI in Turkey lay in their discretionary control of three subsidy schemes designed to benefit the manufacturing bourgeoisie: the provision of low priced inputs produced in the SEE's, generous tax rebates, and the preferential allocation of scarce and overvalued foreign exchange. Following the abrupt change in the economic policy orientation of the state in the early 1980's, the SEE prices have been freed, thus increased, and an initial maximum-devaluation combined with the adoption of a new exchange rate regime, involving daily adjustments, heralded the end of two out of three main subsidy schemes benefiting the manufacturing bourgeoisie. Yet state interven-

[594] See C. Fortin, "The Political Economy of Repressive Monetarism: The State and Capital Accumulation in Post-1933 Chile" in C. Anglade and C. Fortin (eds.), *The State and Capital Accumulation in Latin America*, University of Pittsburg Press, Pittsburg, PA, 1985.

[595] See P. Evans, *op. cit.*

tionism did not end. In fact it is the central argument of this chapter to show that contrary to what Turkish decision makers claim, the supposed abandonment of state interventionism has been no more than a rhetorical device on the part of the the Turkish state intending to appear responsive to international pressures and to disavow its responsibility for the massive layoffs and substantial wage cuts that were supposed to be inevitable under a new export-led regime. In the meantime, the state attempted at fundamentally altering both inter and intra-sectoral resource allocation in order to move resources away from import dependent industries towards those foreign exchange earning areas, viz., textiles, clothing, food products, raw materials, tourism. And beneath the facade of non-involvement such a radical shift in investment policy was made possible by widening the scope of discretionary allocations in the economy, paradoxically during the so called 'liberal' export-led phase of economic development. Furthermore, discretionary power and resources have been concentrated in the SPO which was under the supervision of the Prime Minister, albeit the nature of these resources underwent a change in the post-80's to enable the state to orchestrate the export drive. Consequently, to the extent that the new project was successful, a corresponding change in the composition of the power bloc took place, albeit the hegemony of the unproductive monopoly capital was strengthened. That is to say, the large holding companies were the first and foremost ones which took advantage of the new policy orientation of the state by redeploying capital among their firms away from industrial ones and towards commercial and financial activities. As a consequence a process of *deindustrialization* ensued, accompanied by massive layoffs and a radical deterioration of the purchasing power of the working class. In short, from the vantage point of economic development, the newly structured links between planners and economic actors do not hold any more promise than the old ones, and a French style modernization alliance which had been constructed in the postwar period and had formed the backbone of successful indicative planning there, is nowhere in sight.

New Subsidy Mechanisms

Two new subsidy schemes which have been designed in the early 1980's more than compensated for the loss of others, and overall they increased the scope of discretionary allocations in the economy. Firstly, in a way reminiscent of what has been done in France in the postwar period, some discretionary capital funds have been established. The total number of these funds amounted to 96 and they were financed through various earmarked revenues such as the new sales taxes on luxurious goods, the exit fee charged all Turks traveling abroad, foreign loans, etc. The actual allocation of these funds among many applicants was truly discretionary in the sense that since their budgets were separate from the national budget and thus not subject to prior approval by the national assembly, disbursements remained under the control of the Prime Minister and his deputies, each in charge of several funds. The combined assets of almost a hundred capital funds amounted to 5 to 6 billion dollars in 1987, according to some estimates.[596] This was a substantial sum given that it reached almost 15% of the public budget and 3% of the GNP.[597] Furthermore when capital flows originating from the funds were targeted to finance specific projects, the amount of the subsidy accorded to their uses was noteworthy given that their transactions did not bear interest. Considering that in the 1980's the lending rate on short-term credits was not less than 80 percent or so, via the discretionary allocation of interest-free long-term loans, a situation was created which privileged political allocation processes and, consequently, bargaining at the very top administrative level rather than in the market.

The second subsidy scheme which increased the scope of planners' discretionary power consisted of what is customarily called 'tax incentives' aiming at promoting exports. In fact, in addition to a new exchange rate policy which was favorable to exporters since it ended the overvaluation of the Turkish currency, the state promoted exports via various subsidy measures ranging from tax rebates, to preferential interest rates, and foreign exchange allocations with duty free imports. Among these three direct export incentives, tax rebates, whose selective allocation required planners' stamp of approval, remained by far the most important, accounting for about two-thirds of the overall subsidy to exports, and amounting to about 2% of the GNP in 1984,[598] and probably more after 1986, although the true dimensions are not revealed to the public.[599] The name 'tax rebate' can be misleading since what is at stake here is a grant scheme, specifying the amount of money that would be granted to exporters per item or

[596] See *Financial Times*, May 23, 1988 and O. Oyan, "The Funds, Stabilization Program and Privatization," *Mulkiyeliler Birligi Dergisi*, January 1988, pp. 20-26 (in Turkish).

[597] See *Cumhuriyet Newspaper*, December 12, 1986.

[598] See O. Turel, "Some Observations and Appraisals Concerning the Post-80's Public Sector and its Financing," in B. Kuruc (ed.), *Laisser Faire Laisser Passer*, Bilgi Editions, Ankara, 1985, p. 121.

[599] See *Cumhuriyet Newspaper*, December 4, 1986.

per tonnage exported, such as 5 dollars per leather skirt, 100 dollars per ton of beef or mutton, etc.[600] Indeed the list is very detailed and comprehensive; it covers almost everything that Turkey does export and therefore it gives the impression that planners lack a *selective* approach to export promotion. The sole objective is to earn foreign exchange, and generous grants aim to compensate for the absence of competitivity in Turkish industry in the foreign markets, allowing Turkish producers to make profits even if they sell at a loss. I should add that the other two above mentioned export incentive schemes accounted for a third of direct subsidies, and the more important of the two was the preferential Central Bank credits to exporters, since they made it possible for exporters to use cheaper credits, almost 20 percent below the market rates.[601] Overall it has been calculated that the total subsidy rate for manufacturing stood at about 20 to 30 percent of total export value[602] in the 1980's; and generous subsidies benefited all branches of the manufacturing industry more or less equally.

The Actual Allocation of the new Subsidies

As we have shown, the allocative capacity of the Turkish state has not diminished under the new economic regime, and there were good reasons for the new subsidy schemes primarily designed by planners to have become the major distributive domains of conflict between various economic actors. But how were these finite resources disbursed among many applicants? The available material on the inter and intra-sectoral flow of these funds suggests that scarce resources have been primarily secured for the large holding companies (which under the military regime had easier access to the top), albeit not necessarily for investments in manufacturing. That is to say, the selective nature of the economic policy under ISI favoring consumer durables was dropped, and instead the state attempted to promote all investments with a potential for exports, i.e., primarily light industrial goods (food, textiles, clothing) and non-industrial projects in mining, agriculture and tourism. In fact since almost all projects were given some kind of incentives, the SPO officials found it more practical to issue a list of the *non-favored industries* rather than the other way around! The black list was comprised of many investment

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[600] *Ibid.*

[601] See the World Bank, *Turkey -- the Fifth Five Year Plan in the Context of Structural Adjustment: A Review*, Three Volumes, July 20, 1985, p. 78.

[602] See K. Dervis and P.A. Petri, "The Macroeconomics of Successful Development," *NBER Macroeconomics Annual*, 1987, pp. 211-54.

and capital goods industries that Turkey needed to develop in order to deepen its production profile.[603]

To start with the disbursement of the new 'capital funds', the actual allocation of these interest-free loans is impossible to know, since they are strictly discretionary. Yet the provisional evidence suggests that through these funds a large flow of public resources has been directed into housing, power generation, roads, and other forms of infrastructure.[604] Such an allocation is in fact consistent with the sectoral distribution of public investments under the export-led regime since after 1980 the dynamic sectors in investment levels and shares have been infrastructure (energy, communication and transportation), and 'other services' which cover local government and tourism as major components.[605] Real manufacturing investments in the public sector, on the other hand, continually declined from the late 1970's onwards, and consequently the manufacturing sector's share in total capital formation fell *(see rows 9 and 10 of the table).* Hence, in total opposition to France, discretionary funds in Turkey have been targeted to non-industrial areas. Furthermore, the activities of the Mass Housing and Public Participation Fund (MHPPF) which is the single most important of these funds with a total capital estimated around 2 billion dollars,[606] suggests that the primary beneficiaries have been the big holding companies. In other words, substantial loans were channeled to the largest companies via the MHPPF, while the recipients redeployed their own resources among their firms away from manufacturing and towards commercial, financial, and real estate activities in order to take advantage of the new policy orientation of the state.

The disbursement of the export incentives, on the other hand, shows that big companies were unarguably the sole beneficiaries. This was so because most export incentives in the 1980's were bestowed upon exporters, particularly through the large export corporations, and not to the producers per se. In other words small producers in agriculture and industry (especially in ready clothing and textiles where the bulk of manufacturers were composed of small firms) could not reap the benefits of these subsidies, although they had to seek and find their own customers abroad, and were obliged to go

[603] See the *Official Journal*, October 15, 1986, pp. 15-16 (in Turkish).

[604] Interviews conducted in Ankara, Winter of 1986-7.

[605] See K. Boratav and O. Turel, "Notes on the Current Development Problems and Growth Prospects of the Turkish Economy," *New Perspectives on Turkey*, Vol. 2, No. 1, Spring 1988, pp. 37-41.

[606] See *Financial Times*, May 23, 1988 and O. Oyan, "The Funds, Stabilization Program and Privatization," *Mulkiyeliler Birligi Dergisi*, January 1988, pp. 20-26, for the available yet scant information on these funds.

through the mediation of a handful giant export corporations belonging to the large holding companies, in order to reach foreign outlets. This rather peculiar arrangement was due to the fact that export rebates were bestowed upon exporters who could fulfill a high quota, impossible to reach for individual producers. Thus in order to get any benefit at all, albeit a small percentage, small manufacturers had to market their products through big firms. Consequently the biggest holdings -- 10 or so -- in Turkey incorporated in their body new firms specializing in such commercial transactions, and gradually these corporations became the most profitable unit in the holding, expanding at the expense of those manufacturing firms, the joy and pride of 25 years of ISI in the country.

Apart from the two new incentive schemes analyzed above, investment allowances or tax rebates for new incentives (see Proposition 3 in the last section) continued to be allocated via the SPO as has been the case in the past. But throughout the 1980's such incentives increased numerically, as much as seven times between 1982 to 1985, reaching 4000 billion TL, or approximately 4 billion dollars in 1985.[607] What changed however compared to thr ISI period was the fact that sectoral allocation of these incentives was very different. The most significant decline was in the share of manufacturing whose allocation of four-fifths of the total investment incentives in the past (see Table 14 of the last section) was reduced significantly, ranging between 26 to 50 percent during the 1980's.[608] Agriculture in its turn, has been discriminated against as much as before. In fact the allotment of agriculture in total investment incentives never exceeded 4 percent during the 1980's, a small figure compared to the contribution of this sector to GNP which was 18 percent in 1985.[609] The bulk of incentives, or about half of the total, on the other hand, went to the so called 'service' sector, primarily to support commercial projects in transportation and to a lesser degree in tourism.[610] This was a logical choice given the new emphasis on exports since the SPO grants to 'transportation' were destined to big companies in order to enable them to build their own trading network, composed of ships and large trucks. Finally, within the manufacturing sector, the inter-industrial distribution of incentives proves to be consistent

607 See the State Planning Organization, Publication No. DPT 2022 TUB:38, February 1986 (in Turkish).

608 *Ibid.*

609 See *Planned Development in Turkey and the State Planning Organization*, Department of Publication and Press, SPO, Ankara, July 1986.

610 State Planning Organization, Publication No. DPT 2022 TUB: 38, *op. cit.*,

with the list of the 'non-favored' industries spelled out by planners. That is to say, in opposition to the lifetime of the first four plans, the major beneficiary during the 1980's was consumer non-durables which stood the best chance for export, and capital intensive projects in consumer durables as well as intermediate and investment goods industries have not been supported.[611] Thus given the new objective of backing only those commercial or industrial projects geared to exports, it should not come as a surprise that between 1980 and 1986 private manufacturing investments declined in real terms, and consequently this sector's share in total capital formation fell *(see rows 9 and 11 of the table).*

The manufacturing sector, however, and especially past investments in consumer durables, continued to be protected against foreign competition despite the new emphasis on exports and the lip service paid to import liberalization. Thus high and differential tariffs protecting Turkish consumer durables against imports were maintained. In fact the effective tariff protection rates (see Proposition 4 of the last section and Table 15 for the calculation of ETP rates) did not decline under the new 'liberal' regime. On the contrary during the 80's the producers of consumer durables, i.e. big holdings, were protected more than ever. This was so because the near elimination of tariffs for capital inputs used in the production of consumer durables allowed these manufacturers to import more cheaply, and more than compensated for the adverse price effects of the devaluation, while domestically produced manufacturing goods have continued to be protected via quotas and high tariffs which varied between 16 to 225 percent (on the average 41 percent) depending on the product.[612] As a result the overall effective production accorded to some branches of industry, especially consumer industries, may have been increased during the new phase of development, although exact figures are not available. Although my claim flies in the face of the new domestic 'end to protectionism' rhetoric, and international organizations' contention that Turkey had become a 'market' economy, it is hardly surprising in the view of the well entrenched political and economic power of monopoly capital in Turkey. In fact, as has been argued earlier, the Turkish state only adopted those aspects of IMF program, such as

[611] *Ibid.*

[612] See *Cumhuriyet Newspaper*, January 10, 1987.

'export promotion', which coincided with the interests of the hegemonic fraction of the bourgeoisie. Yet there is also the other side of the coin. That is to say, other aspects of international capital's agenda for Turkey, such as import liberalization, debt-to-equity conversions, or the much talked about privatizations of the SEE's were not implemented, since these measures did not find a receptive audience in Turkey.

Economic Development under Export-led Growth and the Winners and Losers of the New Economic Policy

If we judge the winners and losers of the new industrial policy by taking its distributional consequences as the main indicator, monopoly capital in Turkey should be declared as the main beneficiary, without losing sight of the fact that its nature was transformed as exemplified by the transformation in the internal investment patterns of the large holding companies. Unfortunately, as hinted at before, this internal transformation which was encouraged by the disbursement of planning incentives did not facilitate vertical integration of industry in Turkey. In this sense the Turkish case does not provide any exception to the norm of other ISI countries, especially in Latin America where 'late late industrializers' failed to sustain their industrialization by constituting the backward linkages which were supposed to follow early specialization in consumer industries (see chapter 6 on Turkey). This was so because, contrary to what happened in the early or late industrializer 'core' countries, industrialization in the periphery did not start from the capital goods end of the manufacturing process, and then proceed to encompass other industries.[613] Furthermore, the investment behavior of the industrial fraction of capital in the periphery did not replicate the western pattern, and on the contrary, as I have argued for Turkey, the industrial fraction of capital was at the forefront of a drive towards disindustrialization in the allocation of resources. In fact the owners of large holdings directed too large of a fraction of their savings towards real estate, commercial, or financial ventures, instead of reinvesting their profits to increase plant and equipment *(see rows 11 and 14 of the table).* But this was hardly surprising given that different sets of economic interests overlapped with each other within the large holdings, which came

[613] See A.O. Hirschman, "The Political Economy of Import-Substituting Industrialization in Latin America," *The Quarterly Journal of Economics*, Vol. LXXXII, No. 1, February 1968.

into existence in the planned period, and in which production, marketing (including exports and imports) and banking functions[614] are combined vertically and operate in a coordinated manner. Consequently, as opposed to western countries in which the process of capitalist development sharpened the conflict of interest between various fractions of capital, in Turkey commercial, industrial, and financial fractions of capital have coexisted peacefully. Thus, in the 1980's when profits have increasingly derived from non-industrial ventures, thanks to generous subsidies, large holdings re-deployed their own activities with considerable ease toward banking, real estate, and commerce, at the expense of manufacturing. *(See rows 22, 23 and 25-27 of the table* concerning the profitability of financial activities, and the increasing importance of internal and external trade in Turkey, in the 1980's.)

In short, the internal market orientation of the past policy was diminished if not eliminated,[615] but in the meantime a reverse industrialization process was underway. In other words, in contrast to the beginning of ISI in Turkey in the mid-1950's when commercial profits were channeled to productive activities, now the very opposite has happened as resources moved away from productive uses into non-industrial or light industrial fields. (Note that the response of French planners to the crisis was just the opposite, i.e. the linchpin of the idea of restructuration was to move resources across industrial fields toward more productive, i.e. high tech, high value added fields.) Consequently to the extent that actual distinctions between industrial, financial, and commercial capital became superfluous via the concentration of capital in the holding companies, which accelerated under the export-led regime of growth, the rate of productive investments declined and both economic and industrial growth suffered *(see rows 1 to 3 of the table).* Furthermore, because no fixed capital investments in new capacities were undertaken, the 1980's witnessed a definite aging of the existing capital stock, a key factor which goes a long way toward explaining the considerable decline of labor productivity in manufacturing *(see row 8 of the table).* It should therefore be concluded that, in contrast to the expectation of neo-liberal

[614] The commercial banking sector is highly concentrated in Turkey. The assets of the four largest banks equal over half of the assets of the entire banking system. The largest nine banks control more than 80 percent of total deposits and are partially or wholly owned by major private holding companies. They also have a high level of participation in industrial and commercial firms.

[615] More specifically, even in 1985 after the onset of the new export-led growth policies, 46 holdings divided among themselves the internal market for 22 commodities in consumer durable and non-durable industries, where total sales amounted to 6.2 trillion TL, i.e. 10% of the GNP in the same year. See *Cumhuriyet Newspaper*, December 5, 1985.

economists and modernization theorists, when economic resources were at the disposal of the strongest 'entrepreneurial' class, this hegemonic fraction of capital used these resources not to further but to choke off sustained industrialization.

The last question which remains is to identify the losers, i.e. those strata of the population upon whose shoulders the burden of sustaining the adjustment to a new economic policy was placed. In this regard the first observation in order is that since the first steps toward structural adjustment in 1980, real wages in manufacturing fell sharply *(see row 17 of the table)*. The share of wages within value added, on the other hand, which should be taken as the most accurate indicator of relative surplus extraction by capital with respect to urban wage earners,[616] moved decisively against labor from 1979 onwards *(see row 18 of the table)*. Social wage also declined sharply as expenditures on public health and education, as proportions of GDP, fell from 3.3% and 1.1% in 1980 to 2.4% and 0.6% in 1985, respectively.[617] In short industrial workers suffered a substantial decline in their real income, following the dismantling of progressive labor unions and the introduction of new labor legislation under the military regime.[618] Government employees or the salaried groups, in their turn, did not fare any better than industrial wage earners. In fact national account series suggests a drastic decline in the share of civil servant salaries "within non-agricultural GDP from 15.8% in 1976 to 15.3% in 1979 and to an astonishingly low level of 7.2% in 1986. A rough estimate of per capita civil servants' salaries shows a real decline of 50% during the same period."[619]

Apart from these two popular strata, i.e. wage and salary earners, small farmers who form the bulk of agricultural producers in Turkey also suffered a serious setback in their economic position as the terms of trade for agriculture[620] moved decisively against small producers, causing a substantial decline in agricultural incomes[621] *(see row 19 of the table)*. The main reason for the decline of

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[616] For a thorough theoretical framework, see K. Boratav, "Inter-Class and Intra-Class Relations of Distribution under 'Structural Adjustment': Turkey during the 1980's," Paper presented to a conference on "Turkey's Economic Development in the 1980's," CMES, Harvard University, April 1988.

[617] See M. Celasun, "Turkey: Fiscal Aspects of Adjustment in the 1980's," Paper presented to a Conference on "Turkey's Economic Development in the 1980's," CMES, Harvard University, April 1988.

[618] See R. Margulies and E. Yildizoglu, "Trade Unions and Turkey's Working Class," *MERIP Reports*, No. 121, Vol. 14, No. 2, February 1984, pp. 15-21.

[619] K. Boratav, "Inter-class and Intra-class Relations of Distribution under 'Structural Adjustment': Turkey during the 1980's," *op. cit.*, p. 26.

[620] See *ibid.*, pp. 12-20, for a detailed discussion.

[621] For information on the 'functional distribution of income in Turkey, 1963-1986', see Z. Onis and S. Ozmucur,

agricultural incomes was the fact that although throughout the 1960's and 1970's the state had supported agricultural products above their market levels, it ceased to do the same in the early 1980's, thanks to the abrogation of populistic channels linking peasants to politicians (see Proposition 2 on Turkey in the last section). Hence support prices during the 1980's have moved significantly behind wholesale price movements, to the detriment of the petty commodity producers in agriculture, and to the benefit of manufacturers who processed agricultural products.[622] Naturally the new negative orientation of the state policy affected mostly the producers of wage crops (wheat, sugar beet, etc.), and not the ones who produced primarily for foreign outlets, such as tobacco or cotton producers. In fact the substantial devaluation and the daily adjustment of the TL vis-a-vis foreign currencies has been beneficial to export crop producers, a significant strata in Turkey amounting to almost half of the rural inhabitants. Yet the actual benefits enjoyed by these producers have been proportionally much smaller than the depreciation of the Turkish Lira for two reasons. First, prices of imported inputs used in agriculture went up as a result of devaluation, and the state refused to subsidize rural producers by channeling fertilizers and other inputs to them below the prevailing world market rates. (Thus the new import liberalization policy was applied selectively, and market forces were allowed to act themselves out in the determination of wages, salaries, and agricultural incomes; but not allowed to interfere in the determination of commercial and industrial profits, or interest incomes.) And secondly since rural producers had to market their products through the large export corporations, they could not benefit from the extra-market export incentives discussed earlier. Thus commercial margins, i.e. the difference between the final price of agricultural products and the price received by the farmer substantially widened in the 1980's, as much as 2.5 fold in the case of export crops.[623] It should be added that in addition to commercial capital which benefited from the widening of commercial margins, and industrial capital which benefited from the worsening of terms of trade for agriculture, financial capital also benefited from the new orientation of the export-led policy. This was so because, as a field study in the Cukurova region where cotton producers are concentrated indicates:

Supply Side Origins of Macroeconomic Crises in Turkey, Bogazici University, 1988.

[622] See K. Boratav, "Inter-class and Intra-class Relations of Distributions under 'Structural Adjustment': Turkey during the 80's," *op. cit.*, Table 8B.

[623] *Ibid.*, Table 6.

> "farmers with holdings below 250 decars cover around 47% of their current production costs through loans and ... nearly 85% of these loans are obtained from the unorganized credit market, i.e. from merchants or specialized moneylenders. The same study establishes that for loans with 3-6 months of maturity 60% interest rates are charged. (Note that the data refers to a year with 52% annual rate) ... if we can make a rough estimate from generalizing from these findings we come up with the result that 7.7% of agricultural GDP is extracted in the form of interest by moneylenders."[624]

The plight of the small farmer has also been mirrored in industry, since small capital which has been a partner in the power bloc (see Proposition 4 of the last section on Turkey) has been hit hard through soaring interest rates and rising input costs, due to the depreciation of the Turkish currency. Consequently ballooning increases in production have decapitalized important segments of the industrial sector and have put a brake on private investments. *(See rows 20 and 21 of the table* concerning the division of the industrial surplus among the fractions of capital, proving that a considerable progression of interest income has taken place against the decline of industrial profits during the 1980's. In other words small and medium sized firms lost ground vis-a-vis financial capital, or more specifically vis-a-vis the 12 holding companies which own 15 out of 26 private national banks in Turkey.) In the meantime a chain of bankruptcies occurred in the small and medium sized enterprise sectors oriented to the internal market in the early 1980's, accelerating the pace of the centralization of capital.[625] Yet not unlike the situation of export crop producers, the export oriented fraction of small industrial capital, i.e. those producers concentrated in textiles or ready clothing, fared much better than their internal market oriented counterparts, under the new economic regime. Unfortunately recent industrial surveys measuring the true dimensions and proportional weight of these export oriented small firms in the manufacturing sector are non-existent; yet circumstantial evidence suggests that they are flourishing and thriving on the basis of low wages in these labor intensive sectors.[626] But there is no doubt that since the first steps toward structural adjustment in 1979, unemployment reached significant proportions,[627] and agricultural

[624] *Ibid.*, pp. 19-20.

[625] The following lamentations by the president of the Izmir Chamber of Industry summarize the plight of industrialists in the 1980's who did not own or have privileged access to private banks: "Within the structure of costs, labor's share should come next to the share of raw materials. This is the natural state of things. However, under the present circumstances in the Turkish enterprises, the share of interest charges has reached almost twice that of the wage share. If the value of labor has declined to one-half of the cost of finance in an enterprise, there must be an imbalance there. In order to survive, we industrialists are repressing wages and transferring the resulting savings to the increased cost of money. We can bargain only with our workers; but we have no bargaining power via-a-vis interest, energy and raw material costs." *Milliyet Newspaper*, December 10, 1987.

[626] Interviews conducted in Ankara and Istanbul, Fall and Winter 1986-7, and various newspapers.

[627] Unemployment in 1986 stood at 16.7% of the total labor force in the population. See Z.Y. Hershlag, *The Contemporary Turkish Economy*. Routledge, London and New York, 1988, Ch. 2.

producers, together with wage and salary earners who comprised the overwhelming majority of the population, did experience a deterioration of their real income which decreased almost 50 percent between 1979 and 1986; whereas incomes from interest, rent and profit nearly doubled.[628] All these radical changes suggest that the so called de-regulation or liberalization component of the new industrial policy was carefully orchestrated by the state managers via changing and redefining the policy parameters regulating and shaping income distribution in order to realize a radical redistribution of income called for by the collapse of internal market oriented ISI.

Unfortunately the deterioration of income distribution under the export-led regime was not conducive to sustained economic development, since the new resources created through the squeeze of popular groups were concentrated primarily in large holding companies whose propensity to invest in productive ventures was low, given the hybrid nature of the new form of capital which emerged throughout the growth of these oligopolistic corporations. In the meantime, in this post-ISI age Turkish planners became the guarantor and organizer of the hegemony enjoyed by the upper fractions of a highly oligopolized bourgeoisie, skillfully created via the intermingling of commercial, financial, and industrial fractions of capital in a single and not too benign mix. (In the absence of a clear-cut term in the literature which can capture the nature of the hegemonic fraction of capital under export-led growth, I borrow the descriptive turn of 'hybrid oligopolistic community' from P. Evans to characterize the new form of hegemony.) The figure below pictures the new bloc formation which was gradually formed in the 1980's, in the light of our preceding discussion, by using the same notation and symbols as in previous diagrams. (Compare with Figure 7 of the genesis section.)

[628] See Z. Onis and S. Ozmucur, *Supply Side Origins of Macroeconomic Crises in Turkey, op. cit.*

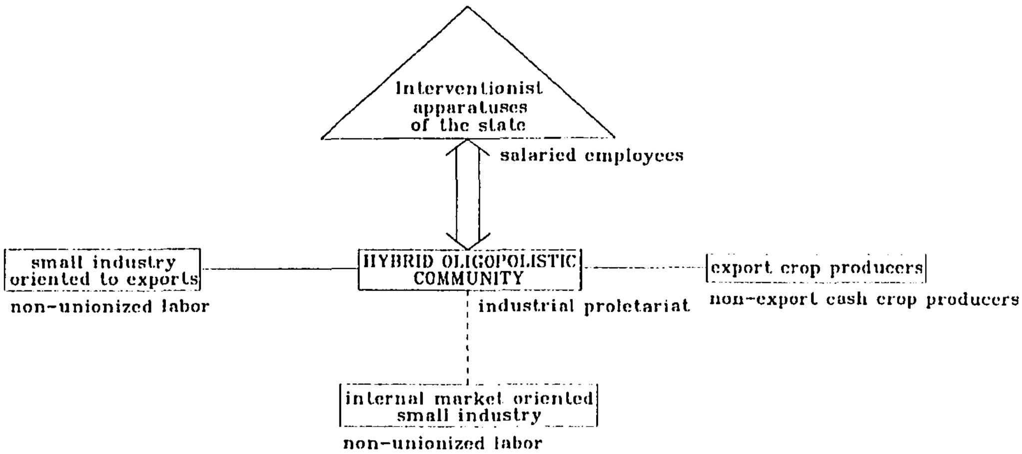

Figure 1

Political Obstacles to Economic Development Under Export-led Growth

Several indicators in Table 1 (rows 1 to 16) attest to the fact that despite the new export orientation of the economy in the 1980's *(see row 26 of the table),* Turkish economic growth came to a standstill, and unless capital investments in new capacities are undertaken in the manufacturing industry which may have reached effective upper limits of available capacities, industrialization will no longer serve as the growth engine of the national economy. Yet beneath these indicators which quantify the economic dimension of the development problem, a deeper malaise or the political dimension of the same problem is revealed: the Turkish state -- unlike the French one -- lacks the capacity and freedom of maneuver to act as the engine of growth. In the light of our preceding analysis I should add that the state is (potentially) the only agent in the economy which can achieve the deepening of the economy via investments in capital goods since private investments did not -- and in the future they are not likely to -- favor capital intensive heavy industrial fields. In fact just the opposite trend unfolded throughout the 1980's; industrial profits were channeled toward real estate, tourism, commerce and finance, simply because these areas were more profitable given the particular insertion of the Turkish economy into the world economic division of labor. Hence when real manufacturing investments in the private sector slackened (row 11), if economic development was to proceed, public investments should have shifted toward industrial areas to substitute for the absence of private investments. But as we have seen, the very opposite happened in Turkey (row 10), and the dynamic sectors in public investment levels and shares have been 'infrastructure' (energy, communication and transportation) and 'services' (tourism, local government). Why?

Granting F. Block's general assertion that the continued power of the state managers rests on the maintenance of a healthy and growing economy, the answer to the question above should derive from an analysis of the nature of the Turkish political economy, and not from modernization or dependency theories. That is to say the root of the malaise in the Turkish economy preventing economic growth lies in the inability of the state to secure access to private or public savings sufficient to finance self-sustained industrialization. More specifically, since the primary source of the public revenues consists of taxation, when profit earning groups in the country can afford to resist increasing taxes -- and there is a limit to taxing fixed income groups which constitute the bulk of taxpayers in Turkey -- planners' access to greater control over capital funds in order to finance industrial investments is precluded. Indeed given the state's inability to expand its tax base in the 1980's, the ratio of tax revenues to GNP which amounted to 20.2% in 1977, declined to 17.3% in 1980 and stood only at 14.6% in 1984.[629]

Besides tax revenues, the state's own profits from the activities of the SEE's constitute a secondary source of public savings. Yet in the last section we have seen that under the ISI regime, the SEE's could not even come even, let alone earn profits, and they chronically needed to patch up their operating deficits from public sources since they functioned to transfer money to the accounts of industrialists via underpricing their inputs. When the SEE prices were freed in 1980, this situation ended. Nonetheless despite rising prices, the SEE's do not still generate enough operating profit, and to keep them afloat, budgetary transfers continue even if the claims made by the SEE's on the Central Bank have declined.[630] The economic reason for the poor performance of the SEE's despite their newly gained autonomy in setting their own prices lies in the fact that productivity still remains low in these enterprises, primarily because their capital stock is aging and no internal restructuring to improve financial and inventory management, quality control and marketing, took place.[631] But why can't the SEE's

[629] O. Turel, "Some Observation and Appraisals Concerning the Post-80's Public Sector and its Financing," in B. Kuruc (ed.), *Laisser Faire Laisser Passer*, *op. cit.*, p. 96.

[630] See the World Bank, *Turkey: Adjusting Public Investments*, 5 volumes, June 1986.

[631] *Ibid.*

be reorganized along capitalist lines in Turkey as they have been in France? Unquantifiable evidence suggests that, as has been the case in 1960 at the very outset of planning (remember that inability to reform the SEE's was one of the three main factors which led to the resignation of early planners), the manufacturing bourgeoisie in Turkey still lacks any desire for the SEE's to become more efficient. And this is understandable given that if the SEE's are allowed to accumulate and decide on their future investments, then they can expand to the detriment of the private sector. Given the balance of power in politics, the emergence of French style state capitalism is therefore precluded in a peripheral country by the very interests which have been promoted throughout the process of dependent industrialization.[632]

In short what I called 'generative capacity', or the first dimension of state economic autonomy, continues to remain low in the new phase of export-led development in Turkey, mirroring the limits imposed upon state action by the nature of the power bloc. The strength of the financial fraction of capital -- which constitutes a big segment of the oligopolistic community -- on the other hand limits allocational efficiency, i.e. the second dimension of state economic autonomy or the ability of the state to channel surplus funds in the banking system to the most productive and profitable uses. The available evidence in fact suggests that in the 1980's private banks continued to channel their deposits towards short-term loans in real estate, commerce (both exports and imports), and light industry due to the higher returns and lower risks involved in these fields. *(See row 22 of the table* on the profitability of the banking sector in the 1980's.) Thus in contrast to France where structural reforms in the postwar period affected the power balance between financial capital and planners in favor of the latter, planners in Turkey could not get the upper hand over banks and enjoy discretionary power over the flow of funds to industry. Accordingly long-term credit institutions which could finance relatively risky capital goods projects either did not blossom, or to the extent that such institutions existed, they remained too

[632] The SEE's in fact are not allowed to accumulate and to become a seed of state capitalism in Turkey as has been the case in some Latin American countries: G. O'Donnell, "Tensions in the Bureaucratic Authoritarian State and the Question of Democracy," in D. Collier (ed.), *The New Authoritarianism in Latin America, op. cit.*, pp. 285-319. An interesting incident that happened in Turkey illuminates my point. This is the case of Sumerbank, the state owned textiles company which competes with the private sector. Between 1984-7 Sumerbank, under a dynamic manager lured from the private sector, E. Tapan, became a profit-making and successful enterprise. This was so because Tapan was an able administrator who overhauled production, finance and marketing activities in Sumerbank in three years, supplying the market with high quality goods cheaper than the ones manufactured in the private sector. Yet under strong pressures by the big holding companies active in textiles, Tapan was forced to resign. He later stated that he wanted Sumerbank to stand as a model of what the SEE sector could do. Unfortunately, given the particular balance of power in politics, he was not allowed to carry out his experiment to full maturation.

marginal in the Turkish financial system. Nonetheless the creation of discretionary funds whose total capital amounted to 15% of the national budget in 1987 was a step in the right direction, enhancing the allocative capacity of the state. Their effectiveness however is limited given that unlike the case in France (see chapter 5 on France), the state agencies which disburse these funds lack the ability to mobilize the whole network of financial institutions towards the promotion of a certain project, once planners commit themselves to its realization. Thus capital subsidies in Turkey are given to recipients via only a single channel, increasing the risks of spreading the resources of the state too thin among many applicants eager to profit from these non-interest bearing loans.

The cumulative negative effects of the low economic autonomy of the Turkish state can be seen from the table in terms of the increased foreign indebtedness of the Turkish economy over the years *(rows 24 to 29)*. The main dynamic behind increasing debt dependency was that given the persistent budget deficits in the 1980's and the refusal of the private sector to accede to higher taxes, the state was driven to look abroad to cover the public sector financing requirement. In addition because direct foreign investments never took off as expected,[633] and moreover remittances from workers abroad declined, foreign loans made up most of the net inflow of long-term capital to Turkey after 1980. Consequently the 1980's have witnessed an overall weakening of public finances. "Roughly one half of the government expenditures of the 1986 budget, for example, consists of transfer payments, of which two thirds are allocated to service the external and internal debt."[634] The positive effects of the decline in the claims made by the SEE's on public sources following the freeing of their prices were thus more than offset by the skyrocketing foreign debt *(see row 29 of the table)*.

Yet both international circles and Turkish decision makers correctly assert that foreign debts are not a severe problem, *provided that* a country can pay them back via its foreign exchange earnings primarily stemming from exports.[635] And with respect to the exports, the objectives explicitly mentioned

[633] In 1985 for example, authorized DFI was only 4.7% of the actual national gross fixed investment. According to past trends, one would expect less than half of the authorized DFI to be realized. See A. Erelek, "The Role of Foreign Investment in the Liberalization of the Turkish Economy" in T.F. Nas and M. Odekon (eds.), *Liberalization and the Turkish Economy, op. cit.*, pp. 141-59.

[634] See K. Boratav and O. Turel, "Notes on the Current Development Problems and Growth Prospects of the Turkish Economy," *op. cit.*, p. 43.

[635] In this context a high level administrator in an international organization writes: "The emphasis on exports had two further benefits. While the same current account results could have been achieved with fewer exports and fewer imports, international perceptions of creditworthiness are critically influenced by ratios of debt and debt service to ex-

in the Fifth Turkish Plan are three: the maintenance of export competitiveness via exchange rate adjustments, the diversification of exports, and the increase in the share of industrial products in total exports.[636] These are definitely worthy objectives but the problem is that the chosen means to implement them which are ultimately rooted in the institutionalized balance of power relations in politics have unintended results and end up in a *vicious circle*. That is to say the vicious circle starts with the stagnation of labor productivity in manufacturing (row 8) which renders increased levels of subsidization of exports a necessity in addition to exchange rate adjustments, if the country desires to export any industrial products at all. But resorting to such extra-market mechanisms to transfer public funds amounting to 2% of the GNP to the accounts of exporters results in straining the already insufficient public budget, thus further undermining the capacity of the state as an agent of economic growth. Then the state's dependency on foreign loans becomes chronic in the sense that the continuation of export promotion calls for newer subsidies from the public budget which can only be obtained through foreign loans. Consequently the second half of the vicious circle is completed when exporters become structurally dependent on direct subsidies which in turn cause them to have now very little reason to undertake both new fixed capital investments and investments in research and design to improve labor productivity in manufacturing, since their competitivity is secured via means other than increased efficiency.[637] Thus the main objectives of the plan, viz., diversification of exports via the increase in their manufactured component is made very difficult given that any reluctance on the part of foreign financiers to sustain the export drive may lead to the near collapse of the whole edifice. Furthermore, as far as the 'dependent' nature of the economy is concerned, the leverage exercised by the international banking system over domestic policy is likely to be strengthened by the large debt and the necessity to refinance it at frequent intervals.[638] Naturally this means that the economy becomes particularly vulnerable to IMF

ports. As is also evident from Korea's experience with debt, a high volume of trade can sustain larger current account deficits than a low volume of trade. In addition, spectacular export growth in a concrete and visible indicator of success." K. Dervis and P.A. Petri, "The Macroeconomics of Successful Development," *op. cit.*, p. 251.

636 See the *Fifth Five Year Development Plan*, SPO, Ankara, 1984.

637 For a neo-classical economics inspired criticism of the export rebates, see M. Odekon, "Liberalization and the Turkish Economy: A Comparative Analysis," in T.F. Nas and M. Odekon (eds.), *Liberalization and the Turkish Economy, op. cit.*, pp. 29-46. The author rightly claims that the logical structure of the 'infant industry' argument which constituted the ideological justification of the ISI model is very similar to the 'export promotion via direct incentives' argument, which constitutes an important element of the export-led growth model.

638 In fact continued foreign borrowing has produced an external debt in 1988 that is over 55% of the GNP with servicing obligations that will average 7 billion dollars per annum in the coming years, or 60% of the export savings.

imposed stringent conditions on economic policy, i.e. particularly public expenditures cuts leading not only to the slashing of public investments in manufacturing but also to the steady reduction of the relative economic autonomy of the state. Concerning the future of planning, all of this implies that any attempt on the part of planners to undertake a structural overhaul of the economy is doomed, if such an attempt takes place in the context of the existing parameters of capitalism in Turkey.

Summary and Conclusions Concerning State Capacities in Turkey and France

In this section I called into question the general belief of many social scientists that a radical about turn to markets occurred in both Turkey and France in recent years as a result of the world economic crisis of the mid-1970's, and therefore planning defined as the state's leverage over private or public investment decisions, ended. In contrast, my central argument in this section was that beneath the rhetorical facade of laisser-faire capitalism which serves some political purposes, both Turkish and French states continue to affect the allocation of resources in their economies. But under what conditions and with what consequences for the configuration of the power blocs and the ensuing patterns of economic development?

Concerning Turkey I argued that, let alone the deregulation and the liberalization of the economy, the scope of discretionary allocations in the economy widened during the so called 'liberal' export-led phase of economic development. Furthermore, discretionary power and resources have been concentrated in the SPO, albeit the nature of these resources underwent a change to enable planners to orchestrate the export drive, and to realize a different form of insertion of the Turkish economy in the world capitalist system, calling for specialization away from heavy manufacturing and towards raw materials, minimal processing, commerce and tourism. Consequently, to the extent that the new project was successful, and the internal market orientation of past economic policy was diminished, a corresponding change in the composition of the power bloc took place, albeit the hegemony of monopoly capital was strengthened.

Concerning France, on the other hand, I argued that the scope of discretionary allocations remained unchanged in the post-74 period, albeit from the Seventh Plan (1975-80) onwards, the links between the plan and the budget were strengthened via the inscription of future sectoral public expenditure priorities in the plan. Besides, the planning community in France continued to derive its instrumental autonomy from its leverage over the flow of credits to industry, and its discretionary control over the disbursement of special non-budgeted investment funds. Consequently the French planning community was able to implement a successful restructuration program aimed at shifting resources across industries toward the high tech skill and capital intensive sectors it identified as critical, and therefore the nature of hegemony -- of the export oriented dynamic fraction of capital -- in the power bloc remained unaltered.

In fact the most remarkable aspect of the French state's answer to the worldwide recession was that since it operated outside of the public eye and through influence over the financial system which reached deep down into the industrial fabric, the planning community could arrange quickly and quietly both 'rationalization' (of the declining industries) and 'promotion' operations, and redeploy resources into the industries of the future, particularly aerospace and electronics. In the meantime the burden of adjustment was borne by some individual segments of primarily internal market oriented monopoly capital and the working class as well, when state subsidies towards big firms in steel, coal and shipbuilding were gradually cut down. In Turkey, on the other hand, it was the inefficient monopoly capital which took advantage of the crisis to restructure its own investment policy, not towards more productive fields, but the opposite. That is to say the large holding companies were the first and foremost ones which took advantage of the economic collapse of the country in the late 70's by redeploying capital among their firms away from industrial ones and in the direction of commercial and financial activities. Thus, in contrast to the beginning of ISI in Turkey when commercial profits were channeled to productive activities, now the very opposite happened as resources moved away from productive uses into non-industrial or light industrial fields. As a consequence a process of disindustrialization ensued, accompanied by massive layoffs and a substantial deterioration of the purchasing power of the popular groups.

In short French planners have been more successful than Turkish planners in steering their economy towards a path of reasonable economic growth by adapting to the requirements of the world economy and enhancing the competitivity of their high value added industries during worldwide recession.

As the critical political factor facilitating the success of French planners, I highlighted the importance of the weakness of the financial fraction of capital in France -- which was a legacy of the postwar reforms -- which rendered the state managers capable of mobilizing the whole network of financial institutions in order to restructure industry, when deemed necessary from the vantage point of economic modernization. Thus the French planning community was structurally well placed to exploit an unforeseen event (such as the world economic recession) in a rigorous attempt to turn it to its own advantage by writing off bad investments and redeploying capital and labor in a way much quicker than what would have occurred if it had been left to the 'free functioning' markets to determine resource allocation. Earlier, in the development section, I said that French planners used the European Economic Community pressure for liberalization of foreign trade to turn big French companies into formidable international competitors. In the same way, the so called 'oil' crisis weakened French industry by increasing the dependence of big companies on the external sources of finance (controlled by planners), and thus provided an excellent opportunity for those state managers who have been contemplating an overhaul of the French productive apparatus for a long time. In Turkey, on the other hand, although planners did have the same desire to act in the name of efficiency and competitivity (i.e. they wanted to represent 'collective capital', instead of acting as the representatives of a single group), neither could the SEE's be rationalized, nor could the protectionist macroeconomic measures causing a great deal of industrial complacency be brought to an end. In fact beneath planners' personal failure to modernize the Turkish economy, a deeper malaise or the political dimension of the development problem was revealed: the Turkish state -- unlike the French one -- lacked both the capacity and freedom of maneuver to act in the name of collective capital. More specifically, the strength of the financial fraction of capital limited the state's capacity to concentrate resources in most productive uses, and the nature of alliances in the power bloc made it impossible for the state managers to secure access to private or public savings sufficient to render the public sector the main engine of growth. Therefore, in Turkey, as opposed to France, it was the private interests which took advantage of the economic crisis to maximize their return on investments, and external pressures to reorder the Turkish economy were successful insofar as they echoed strongly with the desires of the hegemonic fraction of capital in the power bloc. This is not to say that the Turkish state has been no more than a tool of the hegemonic fraction. In fact, Turkish planners not only mediated between foreign capital and the local bourgeoisie throughout the bargaining with international organizations concerning the future shape of the Turkish economy, but once the nature and intensity of economic concessions to the outside world were determined, it was planners who oversaw the implementation of the new economic policy.

I should add that my above mentioned observations with regard to the differential success of the French and Turkish planners in taking advantage of the 'crisis' to further their own objectives, confirm my earlier rejection of the a-historical 'pluralist' and 'overdeveloped' views on the Western and Third World states. (See my "Criticism of the Literature" for the formulation of these theories and chapter 6 for critical reflections grounded in historical and comparative analysis.) That is to say, contrary to what is claimed in the literature, the state in Turkey was *not* a 'strong', but rather a 'weak' state in the sense that it could not play an active and determining role in the development process according to planners' developmental objectives. The prevailing 'pluralistic' postulate on the advanced capitalist western state, on the other hand, misrepresents the nature of these states. That is to say, if France is taken as a representative of advanced states, it can be seen that the state in the 'core' countries does not merely serve as an arena within which economic interest groups compete with one another to orient the making of public policy decisions toward the achievement of their own interests. In a way such a model voiced by both 'pluralist' and some 'Marxist' scholars fits better the case of Turkey. In contrast, the French state should be characterized to function at least partially independently from class influences and will. In fact, thanks to the many resources they have been empowered with, as a legacy of labor induced postwar reforms, French planners could afford to direct the economic affairs of their nation according to their developmental objectives. Indeed, throughout the course of the evolution of the French economy, privileges, incentives and disincentives appear to be distributed to different groups (i.e. industrial sectors) mainly according to their relative potential abilities to further the planning community's objectives. This potential ability, and thus the importance the state accords to its bearer, changes when the objective of the planning community changes. Successive crises which sporadically emerge and plague the development process in all countries may even be welcome in this context, in the sense that they provide impetus for a shift in the balance of power between planners and private investors in favor of the former. That is to say, successively emerging profitability crises never permit and allow sufficient time in the 'core' countries for a class fraction to strengthen itself enough and establish the necessary power base to dominate the state. In the 'peripheral' countries, on the other hand, profitability crises do provide similar opportunities to restructure capital, but it is not too unlikely that these opportunities will be missed when the contemplated 'rational' measures involve short-term economic costs to strong private groups, even if they aim to achieve greater economic and political benefits for the same groups in the long run. In the meantime planners look in vain to find a clientele who is receptive to listen to the imperatives of 'collective capital' and act accordingly.

Epilogue: A Note on the Future of Planning in Turkey and France

In a way, speculating on the future of planning, i.e. the state's capacity in bypassing the markets in resource allocation in France and Turkey, is a difficult task, since the future of planning depends both on the configuration of the links between the state and social forces, and among organized interest groups, in the years to come. And because changes in the nature of such links should not be conceived of simply as an automatic process in response to the evolution of capitalism, but as mediated by distinctive state capacities and the dynamics of class conflict and alliances at the political level, the future course and nature of state interventionism cannot be postulated *a priori*. Nevertheless, in the light of our preceding analysis of the nature and evolution of planning systems in Turkey and France, we can make some educated guesses, at least with regard to the foreseeable future.

To start with France, the main conclusion that follows from our previous discussion will be that the planning community in this country is likely to maintain its leverage over investment decisions in the years to come unless: (i) the balance of power between the state and investors changes at the expense of the former, or (ii) different fractions of business decide to unite and mobilize their resources against planners, refusing to cooperate with them.

The first possibility is definitely a remote one. In fact as long as investors can not bypass the planning community in their production and investment decisions, either by having direct access to external sources of finance or by self-generating funds needed for new investments, planners' leverage over investment decisions is bound to continue in the foreseeable future. True, it is possible that some segments of business may self-generate investment funds when profitability peaks, but as we have seen, such a situation in France -- unlike Turkey -- remains the exception rather than the norm, since, given the level of integration of the economy with the outside world, no single branch of industry can afford to maintain a 'privileged' position for a long time. Successive crises, on the other hand, naturally impair the self-finance capacity of business and strengthen planners' hand, who often turn an unexpected event to their advantage. Yet it is feasible if not probable that the business class may bypass planners by having direct access to external sources of finance. In other words, the deregulation of the financial markets in France, and the unrestricted opening of French stock and bond markets may give a death blow to French style planning. But for the moment at least, such a prospect is not on the political agenda since neither the financial fraction of capital is strong enough to push for such a radical change, nor is the French state so heavily indebted as to put up with Anglo-American pressures for the opening of financial domestic markets to outside competition. On the contrary, both the political right and left in France find it very convenient to wield discretionary power over the allocation of domestic resources and seem unwilling to entrust planners' control over non-budgeted capital funds and long-term credit flows to industry to other forces, be it foreign investors or domestic trade unions who ask to manage their own pension funds.

The second possibility, i.e. all fractions of business becoming united against the planning community, is still a remote prospect, but not necessarily an unfeasible one. That is to say, as has been suggested earlier, the viability of the alliance in the power bloc between big capital and the petty bourgeoisie may be coming to an end, not only because the working class could not be made to finance high profits and the political costs of subsidizing inefficient traditional strata indefinitely, but also the political importance of the petty bourgeoisie was declining as a result of the modernization of the French economy. Thus it is possible that the 'thwarted' early socialist project, i.e. the idea of catching up with the social democratic practice of the advanced capitalist countries in Central and Northern Europe may reappear on the political agenda. In other words, at a more opportune moment (than 1981), characterized by the expansion of the world economy, the Socialist Party in France may attempt to create the conditions for the formation of an 'objective' alliance between organized labor and advanced segments of capital, at the expense of the petty bourgeoisie and uncompetitive strata of the industrial sector. If such a prospect unfolds in the future, it is of utmost importance for socialists not to let labor co-manage the design and implementation of industrial policy, but to limit labor's participation in decision making to other areas (as practiced in Northern Europe) such as the determination of an incomes policy and the democratization of the workplace. This is so because *in a capitalist context* the functioning of planning can not be democratized by inviting labor to share power with planners, without losing the support of business groups which make up planners' core clientele. (I am assuming that socialists in France are unwilling to go all the way to the total conquest of power by or in the name of the working class, and instead they prefer to reform certain aspects of French political/social/economic structures.) In fact the experience in other settings suggests that the business class has been willing to cooperate with planners when policy objectives emanated from within the bureaucracy itself, but collaboration is rejected when workers actively participate.[639]

Concerning the future of planning in Turkey, we should rephrase the question raised for France, and ask ourselves whether planners in Turkey can ever overcome severe political limits on their capacity to manage the economy and succeed in not only representing but also acting in the name of collective capital. For the moment we have seen that both the 'generative' and 'allocative' effectiveness of the state continue to remain low, mirroring the limits imposed upon planners by the nature of the power bloc. Thus although planners desire to acquire greater control over available resources and direct them towards the deepening of the industrial profile, because such measures involve economic costs to private investors in the short term, they can not be implemented even if they signify greater political and economic benefits for the same investors in the longer run. In short, the relative economic autonomy of the state is not conjured up just because it is necessary from the vantage point of economic development. The autonomy of the state in fact is a product of the dynamics of class conflict and the resulting political alliances in a given country, and only if such factors affect the power balance between the state and private groups in favor of the former, then planners may be placed at the helm of the state to

[639] J. Pontusson, "Comparative Political Economy of Advanced Capitalist States: Sweden and France," *op. cit.*

orchestrate a process of sustained industrialization. More specifically, for such a prospect to occur we should *either* witness the emergence of a French style 'modernization' alliance in civil society in Turkey, *or* we should wait for a serious rift to develop between the state and the power bloc so that it becomes possible to re-order the links between the two, in a way more conducive to development.

The first 'possibility' is what modernization theorists put their stakes on, and throughout my dissertation I argued against the feasibility of the emergence of an entrepreneurial class in Turkey which can replicate the western experience by becoming the main engine of growth. (Yet I rejected the dependency theorists' opposite view that an indigenous industrial bourgeoisie may not be born in the 'periphery', or if it is, it will amount to no more than an appendage or tool of metropolitan capital. On the contrary, it was shown that the manufacturing segment of capital in Turkey was powerful enough to frustrate some elements of the externally imposed 'projects' in the late 1970's.) A new version of the modernization theory is now put forward by some political economists with a liberal bent, who believe that the export-led policies of the present regime in Turkey will sooner or later create interest groups with a direct stake in the program, and these strata will eventually learn to stay on their own feet and compete effectively for the world markets in manufactured goods with foreign capitalists. Theoretically speaking such a prospect is possible, and one can hope that future policies enhancing economic efficiency (such as the SEE reform) will create a French style export oriented and dynamic manufacturing sector, controlling sufficient resources and people to build up a new alternative coalition to the prevailing 'protectionist' bloc. The problem, however, is to specify those structural and historical mechanisms which can lead to such a desirable outcome. In this regard, the most concrete proposal adduced by liberal scholars is that Turkey's full integration into the European Economic Community (EEC) will unleash some (unspecified) dynamic forces, which have so far been supposedly suppressed under the crushing weight of etatism. Such views are naive at best, and incorrect or politically suspect, at worst. This is so because they do not take into account the fact proven for France that the state managers can turn an unforeseeable event (such as joining the EEC) to their own advantage, *if and only if* planners are structurally well placed to exploit it in such a way as to put pressure on private investors, and compel them toward increased production and enhanced competitivity.

In the absence of western style links between planners and investors in a country like Turkey, the only alternative which remains open to liberal scholars is to base their future expectations on the hypothesis that there are certain progressive elements among propertied groups in Turkey who favor a western style modernization, and who can stand on their own and pursue modernization without the state managers' interference. Yet the problem with the liberal argument is that it never clearly specifies its premises, let alone tries to ground them in historical analysis. What are after all the historical conditions under which such 'progressive segments' of the bourgeoisie are created, or if they are already in place, how can they get the upper hand over others? For France, I claimed that such divisions existed within the 'bourgeois camp' as a result of the timing and character of industrialization, and moreover they were sharpened when the business community as a whole lost power and prestige in the Second World War, when even the maintenance of the capitalist system came under direct internal and external threat. In Turkey, on the other hand, such threats to the bases of capitalist power relations do not exist, and given the character of the actual industrialization process, it is easy to see why a large section of the manufacturing bourgeoisie remains both inefficient and wedded to the maintenance of a reactionary coalition with small capital -- both in agriculture, industry, and trade -- built upon patronage, protectionism, and labor repressive policies. I have also shown that this 'anti-modernization' coalition is alive and well even a decade after the onset of the export-led growth policies, as exemplified for instance by the refusal of the hegemonic 'oligopolistic community' to let planners turn SEE's into efficient, profit making enterprises. Likewise, I fail to see any guarantee for the same oligopolistic community, made up of a hybrid combination of financial, commercial and industrial fractions of capital, to initiate an internal reform after the entry to the EEC. After all high profits will be guaranteed to the members of the oligopolistic community through the well known state subsidies even after joining the EEC, provided that the qualitative balance of power relations between the state and society remains unchanged. Thus when they can obtain lucrative profits in speculative fields, it makes no sense for the large holding companies in Turkey to try competing with foreign manufacturers on efficiency terms, and in case the EEC forces them to give up their privileges, domestic companies are powerful enough not to let Turkey become a member of the European Community. I should add that Europeans, on their part, do not seem to have any desire to see Turkish industry compete with them in manufacturing branches, but naturally they prefer to receive a larger share for themselves from the high rents created by the forms of state interventionism in Turkey, which so far have been reaped by the domestic oligopolistic sector, alone. In short, the prospects after joining the EEC are such that we should expect Turkish planners to deepen their mediating role between foreign and domestic capital and negotiate with MNC's on behalf of the domestic manufacturers, but hardly function as the principle actors who can set the future economic agenda, in a way reminiscent of French planners.

The second possibility which in the future may affect the nature of planning in Turkey relates to the opening of a serious rift between the state and the power bloc. Such a prospect is not altogether out of question in the foreseeable future given that after the collapse of ISI, the new equilibrium which has been established between the economic demands of international capital and the domestic bourgeoisie in Turkey looks both dynamic and fragile. It is *dynamic* because specific policy measures adopted by the state in response to internal and external pressures may intensify the divergence of existing economic interests in the power bloc, and/or create new interest structures (such as rising popular demands for a redistribution of income in favor of the strata hurt by export-led growth) which the initial parameters of the policy have not taken into account. It is also *fragile* because the economy with a foreign debt amounting to 40 billion dollars and debt servicing obligations swallowing 60% of export earnings has the appearance of a house of cards: any weakening in the chain of elements holding the system together such as a possible default on foreign debt or the loss of some foreign markets for exports could cause the whole edifice to collapse. Hence organic crises, i.e. serious conflicts between the state managers and organized private investor groups may be precipitated by forces beyond the control of the state managers in a 'peripheral' country like Turkey, and as a consequence both the political and economic arrangements linking the state to civil society may be transformed. Yet outcomes are related to the dynamics of social conflict, both among social forces and between the state and economic actors, and therefore neither the nature nor the direction of the future political economy can be postulated *a priori*. What can be said with more certainty, however, is that chances for Turkish planners to become good 'traffic policemen' look very dim, at least under the political and economic parameters of the existing capitalist system in Turkey.

CONCLUSION

In this study I tried to develop a framework which can account for the diversity of political-economic arrangements in the modern capitalist world. It is in fact my central concern to explain variability and distinctive patterns of development in the 'core' versus 'periphery' of the world economic system primarily in terms of a different matrix of class alliances and structured links between states and economic agents. In addition, instead of adopting an 'ideal type' of analysis, in which underdevelopment in a peripheral country is compared to some unexamined model of development in the center, I based my study on the appraisal of the Turkish experience with planning with explicit comparison to an advanced economy: France. On the basis of this comparative study in political economy I hope to have demonstrated that 'market' and 'plan' were not antithetical to each other, and both in Turkey and France liberation of the market required continual intervention by the state. Thus my study should be placed within the context of a new yet growing literature dealing with the interaction between 'states and markets',[640] and trying to specify socio-political conditions under which states are endowed with adequate levels of bureaucratic capacity to pursue developmental goals.

The most general conclusion which can be drawn from my study is that economic underdevelopment should be characterized as a *contingency* rather than a *necessity*. In practice this general statement is based on three observations which provided the theoretical building blocs for my study. First, it has been claimed that differences in industrialization strategies both within a nation across time and between nations at a given point in time should be understood in terms of the broad coalition of economic interests that converge around specific policy alternatives. Second, as far as development is concerned, it has been claimed that successful interventionism became possible only when protectionist power blocs which ruled in both Turkey and France prior to the establishment of planning broke down under socio-political pressures. Special emphasis was then placed on the role of labor movements in bringing about the downfall of protectionist power bloc in France, adding that the structural reforms initiated by left-wing governments in the mid-40's failed to institutionalize working class power but

[640] For a useful list of references, see P. Evans and J. Stephens, "Development and the World Economy," in N.J. Smelser (ed.), *Handbook of Sociology*, Sage Publications, Newbury Park, 1988.

instead led to the unintended consequence of linking the state to the advanced sectors of capital. And thirdly, I took the strength and autonomy of the state economic apparatuses as an independent variable influencing development. In this context I separated between the two components of state autonomy, i.e. the state's 'generative' capacity to raise revenues necessary to finance a large scale industrialization drive, and its 'allocative' capacity to bypass the markets and directly channel private and public investment toward capital goods and high tech fields. I have also tried to show that the differing economic autonomies of the French and Turkish states were also reflected in the internal organization of these states and their respective abilities to insulate themselves from interest group pressures. In this sense, the sharpest contrast between France and Turkey was that while no single state apparatus in Turkey could be insulated from grass root pressures, and economic decision making was shared among different state apparatuses, thus creating a system of 'checks and balances', the French state developed a differentiation of functions and a centralization of economic decision in the planning apparatuses of the state which could fend off civilian participation. This observation which was borne out by comparative empirical research led me to argue in favor of a reversal of the dominant paradigm in political sociology which views the state as an independent actor endowed with the capacity of affecting class relations in the 'periphery' in a way conducive to development and in accordance to its own developmental objectives, as opposed to the 'democratic' and 'pluralistic' state in the center which merely serves as a conduit for struggles among interest groups.

My theoretical arguments concerning development and underdevelopment, not as preordained by historically specific phenomena, have been illustrated with regard to both the genesis and decline of planning in Turkey and France. Concerning the former I argued that the institution of successful planning was not automatically conjured up in the West just because it was necessary for industrial deepening to proceed. On the contrary when pressures to institute economic planning emanated from many circles in the West, in the aftermath of the second world war, business groups were adamantly opposed to it. The specificity of France was then not that the state economic managers wanted to represent political interests of 'collective capital' by acting in the name of 'modernization', but they were able to translate this desire into practice. And this was because, in contrast to some countries such as Britain in which the business class was politically powerful enough to scuttle burgeoning attempts to establish planning, the opposite was true in France. That is to say, not only was French business very weak in this period, starved for capital and associated with Vichy government, but also the working class was politically powerful. Under these conditions it became possible for planners to circumvent 'business confidence' as a veto on state policy and institutionalize a structural reform which led to a new balance of power between the state and private investors. Consequently both the nature and direction of state interventionism was transformed, with positive implications for sustained development. (Retrospectively, the countries such as Japan, France and Sweden in the 'core' where interventionism in resource allocation became the norm after the second world war, far surpassed the economic performance of the relatively market-oriented countries such as England and the USA.)

Variations in the character of the power blocs both between the 'core' and 'peripheral' nations and also among nations in each category also influenced the capacity of the states in responding adequately to the so-called world economic crisis in the late 70's. In fact during a period of slow growth and in the face of rising raw material costs, many states, including Turkey and France, aimed at a reorganization of industry in order to concentrate resources in firms and sectors capable of exporting their products and earning much needed foreign exchange. Yet, depending on the internal balance of class forces and the levers available to planners, the Turkish and French states employed different planned strategies in their attempts to shift resources both across industrial sectors and away from wages to profits. As a consequence they experienced varying degrees of success, with differential implications for the nature of hegemonies in the power blocs and the ensuing paths of development. More specifically, the French planners were able to take advantage of the crisis by using the ideology of the market in order to write off bad investments in the sunset labor intensive industries such as steel and shipbuilding, and redeploy capital and labor into the so-called export industries of the future, particularly aerospace and electronics. Naturally this led to the reorganization of relations within the power bloc in favor of the dynamic and export oriented fraction of capital and at the expense of labor intensive heavy industrial sectors. In Turkey, on the other hand, planners lacked levers to reorganize relations in the power bloc in favor of a potentially dynamic fraction of the manufacturing bourgeoisie. As a result it was the preexisting 'protectionist' power bloc which defined the response to demands from international economic organizations; a response that led to the deepening of underdevelopment, the restoration of profit levels for a reconstituted "hybrid oligopolistic" fraction of the dominant class without corresponding changes in productive efficiency.

Given that the economic stagnation in the mid-70's was a worldwide phenomena, all states in the 'core' and in the 'periphery' had to devise solutions to a common set of problems. Yet what actually happened in Turkey and France was by no means a replica of what happened in other countries in the periphery or in the center. In the core, for instance, depending on the character of the power blocs, two models or programs to deal with the crisis stood out among others: the so-called *neo-liberal* or monetarist response, and the renewed version of Keynesian *reflation*. Both England and the USA adopted the first approach, whereby conservative governments placed the burden of the crisis squarely on the shoulders of both the state employees and the working class. But in terms of sustained development, monetarism was more a kill than a cure. That is to say although corporate profits were restored to adequate levels as a result of the deregulation of the economy, the share of investments in total profits significantly declined and therefore the manufacturing sector shrank in sheer size and in terms of its contribution to national wealth. Keynesian reflation, on the other hand, achieved moderate increases in growth and employment, when, in countries such as Sweden and Germany the state responded to the crisis by letting the burden of adjustment fall squarely on the shoulders of the traditional petty bourgeoisie, as state subsidies to small business and agriculture were reduced or eliminated. But Keynesianism in the open economies of the late 70's could not be considered an unqualified success given that it has stimulated inflation and deficits in international trade.

The French pattern of adjustment to a new international environment, in its turn, differed from both the Anglo-Saxon and Northern European models. In fact neither the deregulation of financial markets took place, like what happened in the economies following the monetarist model, and nor was adaptation pursued by reducing the role of the state in resource allocation as has been the case in Northern European countries. On the contrary planners in France continued to bypass the markets, not only in a negative way by seeking to relieve themselves of responsibility for declining industries in the name of an about turn to markets, but also in a positive way by selecting new industries with promising futures and picking specific companies for promotion.

The French style industrial restructuration policy which was designed to weed out inefficient sectors of monopoly capital and to promote internationally competitive industries, miserably failed in Turkey. Yet what happened in Turkey in terms of socio-economic outcomes was by no means identical to other outcomes in other (relatively developed) peripheral nations which came under similar pressures from the international loan agencies. In fact only those aspects of the international economic bodies' program which corresponded with the interests of the hegemonic fraction of capital found a receptive audience in Turkey. Thus, although stipulated by the IMF and other international loan agencies, policy recommendations such as import liberalization and widespread privatization of the SEE's have not been implemented. Consequently big and inefficient holding companies which monopolized industrial, trade and financial activities were able to retain their exclusive control of the nation's resources during the 1980's. In other words ISI is not dead, despite the new 'export' orientation of the economic policy.

Some countries in Latin America such as Chile and Argentina, on the other hand, followed IMF recipes and liberalized their capital and foreign trade transactions thoroughly, and as a result the state in these countries "choked to death a national manufacturing industry that had been constructed through decades of import substitution."[641] In the meantime while these nations were on the verge of becoming the 'newly deindustrializing' countries, the financial fraction of capital benefited from the new economic arrangements with the core countries and eventually emerged as the hegemonic force in the power bloc.[642]

There has been however some successful examples in the Third World, exemplifying the possibility for some countries in the periphery to accomplish what France has done in the past, i.e. to gear international pressures successfully towards the pursuit of developmental goals. The most spectacular example is South Korea, the only country in the Third World which in the recent years was able to move up the ladder in the international division of labor. In fact Koreans in the 1970's succeeded in

[641] A. Lipietz, "How Monetarism has choked Third World Industrialization," *NLR*, No. 145, May-June 1984.

[642] See C. Fortin, "The Political Economy of Repressive Monetarism: the State and Capital Accumulation in Post-1973 Chile," *op. cit.*

doing what France had achieved twenty years before, i.e. they transformed an economy firmly anchored to agriculture, small business and technological backwardness into a modern economy with large scale companies competitive in world markets in the export of manufactured products.[643] A close look to socio-political preconditions of successful industrial policy in Korea suggests that it was not one of laissez-faire development; planners played a central role in channeling resources toward a sector specific and export oriented industrialization strategy targeted at heavy industry through their pervasive control of the financial sector as well as trade policy and other policy instruments. The success of Korea in fact can provide ample material to the view that "the effective operation of markets in the Third World is too often associated with the presence of strong, interventive states, while market failure is associated with states that lack autonomy and bureaucratic capacity."[644] And my research on France proves that active state involvement in industrial affairs is not limited to the Third World, but many states in the West such as in France, Germany and Japan continue to combine state intervention and market orientation.[645] Consequently these states produce economic outcomes which are superior to those produced by the states in both sides of the Atlantic whose attempts at achieving the unfettered operation of the market have led to deindustrialization.

What unites successful examples of sustained development in the West and the Third World is then less the location of individual countries in international division of labor, as it is claimed by dependency theory, than the state capacity to pursue a coherent industrial policy. In this context I attempted to specify the preconditions of the crucial variable "state economic capacity" not only by distinguishing different components of it and the differing political constraints associated with each, but also by highlighting the necessity of the planning organization's insulation from clientelistic pressures as a precondition of successful development. Thus by characterizing the state as a constellation of institutions organized under a "core" or "hegemonic" apparatus, I was able to delve into the relatively unexplored issue of the operationalization of the state autonomy in social science literature.[646] More

[643] For a useful collection of essays on East Asian countries' development, see F.C. Deyo (ed.), *The Political Economy of the New Asian Industrialization*, Cornell University Press, Ithaca, 1987.

[644] P. Evans and J. Stephens, "Development and the World Economy," *op. cit.*, p. 749.

[645] For Japan, see C. Johnson, *MITI and the Japanese Miracle*, Stanford University Press, Stanford, 1982.

[646] Many useful suggestions are made by D. Rueschemeyer and P. Evans, "The State and Economic Transformation: Toward an Analysis of the Conditions Underlying Effective Intervention," *op. cit.*, on how to conceptualize and find indicators for the crucial variable of 'bureaucratic capacity'.

specifically, 'divisions within the bourgeoisie' and 'political pressures from below' were emphasized as crucial variables or necessary structural preconditions favoring greater autonomy. Yet it is possible that divisions within the dominant class would "lend to a capture of different parts of the state apparatus by different interests and result in a 'balkanization' of the state."[647] Thus the only sufficient guarantee that enhanced autonomy would not ensue in the 'balkanization' of the whole state apparatus is an organizational one: successful outcomes depend on the ability of the planning community to both subjugate the financial fraction of capital and bypass small and medium firms in the formulation and implementation of economic policy.

The view held by liberal economists and modernization theorists that entrepreneurial classes -- or the markets -- are the main engine of growth has been rejected by my comparative research. That is to say my empirical analysis indicated that to the extent that industrialists were rendered economically powerful in Turkey, their real interests increasingly lied in choking off further industrialization rather than promoting it. Thus my examination of ISI in Turkey does not support the neo-classical assumption that too much state interventionism has led to economic collapse. On the contrary, the achievement of a balanced and integrated industrial sector may require a different type of planning and government intervention, akin to let's say the one in Korea where ISI did not start with the consumer goods but with heavy industry. In addition, in Korea, a powerful Economic Planning Board which was insulated from political pressure "became the coordinator of interministerial economic policy; its minister chaired the cabinet as Deputy Prime Minister," and the state-society relations were such that "on taking office in 1961, President Park arrested nearly all leading businessmen and required them to build new plants and donate shares to the government."[648] Thus, in the light of the Korean example and concerning the future of development in Turkey, I am not suggesting that the country is necessarily doomed to backwardness, but I am claiming that planners may not be able to undertake a structural overhaul of the economy, if such an attempt takes place in the context of the existing socio-political parameters of Turkish capitalism.

[647] *Ibid.*, p. 64.

[648] Kemal Dervis and Peter A. Petri, "The Macroeconomics of Successful Development," *NBER Macroeconomic Annual 1987*, p. 237.

Neither do my conclusions suggest that the French planning community will be able to reproduce its privileged location in the state for good. On the contrary, it may well be that increasing interventionism of the state, irrespective of the ideology which informs it, renders the state "more clearly an arena of social conflict and makes its constituent parts more attractive targets for takeover."[649] Thus there is no future guarantee that French planners can expand indefinitely their power vis-a-vis private investors and hypothetically speaking it is possible to conceive of the formation of certain power blocs in the 'core' so inhospitable to planning that certain advanced countries might soon find themselves slipping downwards in the international economic ladder. In Korea for example there are signs that the success of industrial policy may be coming to an end because the state has gradually undercut the basis of its own autonomy by stimulating the growth of very powerful conglomerates, called chaebols.[650] Therefore it is possible that the instruments of developmentalist industrial policy which in the past enabled governments to apply policies at the level of particular industrial sectors and penetrate deep down to the level of the firm may no longer be available to planners. On the other hand, even in countries more developed than Korea, we discover features reminiscent of peripheralization: the development of informal sectors, increasing dismantling of the manufacturing sector, dual labor markets, and so on.[651] In short, development, not unlike underdevelopment, is not an immutable phenomenon, it can not and should not be taken for granted either by researchers or by the actors themselves.

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[649] D. Rueschemeyer and P. Evans, "The State and Economic Transformation: Towards an Analysis of the Conditions Underlying Effective Intervention," *op. cit.*, p. 69.

[650] P. Evans and J. Stephens, "Development and the World Economy," *op. cit.*, p. 751.

[651] See A. Portes and J. Walton, *Labor, Class and the International System*, Academic Press, New York, 1981.