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Integrating with the Global Market: The State and the Crisis of Political Representation

Turkey in the 1980s and 1990s

In the 1980s Turkey underwent a qualitative politicoeconomic transformation that has also shaped developments in the 1990s. The direction of this change, which can be described as a neoliberal shift from an import-substitution to an export-oriented model of growth, cannot be understood in isolation from the global politicoeconomic order. What is at play is a complex interrelationship among transnational capital, international financial institutions, domestic social classes, and the state.

To understand Turkey's neoliberal transformation, it is particularly important to look at the changing role of the state and at changes of its institutional structure, as well as of the configuration of social forces underpinning state power. Although Turkey has been ruled by different political regimes since 1980—by a military regime from September 1980 to October 1983, and then by civilian governments based on multiparty parliamentarism—the continuity of political economy is more striking than the shift of regimes. Central in this process was the marginalization of labor interests in favor of transnationally mobile and export-oriented capital.

The neoliberal political economy is rendered compatible with consensual political representation only with great difficulty. This is indicated by the fact that an authoritarian military regime made the implementation

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of structural adjustment possible in the early 1980s; and by the fact that the social contradictions of neoliberalism have created a legitimacy crisis, resulting in governmental instability in the 1990s.

This paper first explains the background to the shift to neoliberalism and the military coup in 1980. The second section outlines in some detail the attendant changing mode of state intervention in Turkey, indicating in particular that neoliberalism and "globalization" by no means equal a reduced role for the national state in social regulation. The third section discusses the social contradictions of neoliberalism and resulting crisis of political representation and legitimacy in the 1990s, leading to the rise of the Islamist Welfare Party. The paper concludes with some reflections on the consolidation of democracy in the country with particular reference to its relationship with the European Union.

The crisis of import-substitution industrialization and the search for a new economic strategy

The Turkish political economy of the 1960s and 1970s was characterized by interventionist, import-substitution industrialization (ISI) in a relatively liberal parliamentary democracy. The power bloc of this form of development and political democracy was underpinned by broadly based class alliances centered mainly on industrial capital geared to the domestic market, a growing working class, and the state bureaucracy. In accordance with the requirements of ISI for a protected market, the state acted as an agency mediating the relations between the domestic economy and the international economy through closely regulated external trade and foreign-exchange regimes. The state's legislating and institutionalizing collective labor rights and a social security system served to incorporate working-class interests as well as to expand the domestic market, thus benefiting capital as a whole.

The ISI model entered a structural crisis in the late 1970s. The crisis manifested itself in the form of severe balance-of-payment difficulties, high inflation, and a dramatic decline in capacity utilization (for ISI and its crisis in Turkey, see, e.g., Boratav et al., 1984; Ramazanoglu, 1985; Keyder, 1987, chs. 7–8; Barkey, 1990). The economic crisis was accompanied by severe political and social crises in the form of political polarization and civil strife.

Turkey's inability to pay its foreign debt and obtain new loans in the

international financial market put a strong pressure on the government to yield to the International Monetary Fund (IMF) and the World Bank. These international institutions demanded that Turkey open the economy to international competition, encourage foreign capital, liberalize trade, foreign-exchange regimes, and financial markets, and scale back the public sector. Around the same time, there was a profound shift in the opinion of big Turkish capital concerning the economic growth strategy and the role of the state in the economy. This shift shows important similarities to the policy demands of the IMF and World Bank. The Turkish Industrialists and Businessmen Association (TUSIAD), an interest organization representing big Turkish capital, started to call for opening the economy, adopting policies aimed at encouraging exports, and removing bureaucratic barriers to private initiative (Kazgan, 1988, pp. 340–343; Ulagay, 1987; Baskaya, 1986). From the viewpoint of Turkish big business, in the long run, opening up the economy would mean new sources of capital and joint ventures with transnational corporations within the context of the restructuring of the global economy, and in the short run, meeting the IMF and World Bank conditions would mean immediate inflow of urgently needed credits and foreign exchange. An alliance was thus formed around this neoliberal policy agenda between the international financial centres and Turkish big capital.¹ The policy proposals of the IMF and the World Bank as conditions for debt rescheduling and new loans served to provide further credence and justification for the position of Turkish big business, because they could easily claim that “there is no alternative.” At the same time, Turkish big capital internalized the policies prescribed by the international forces and presented them as their own, as opposed to being imposed from outside. The organic intellectuals of the Turkish business community, including some leading economists of the country, took up the cause of the outside-looking economic strategy on important platforms and in influential journals, such as the *Economic and Social Conference Board; Banking and Economic Review Journal* (Gülfidan, 1993, p. 85, n. 5). The prevailing trend toward market-oriented policies and liberalization in the world economy also strengthened arguments for the restructuring of the Turkish economy as demanded by large Turkish corporations and international capital.

One cannot expect the emergence of an alliance between the international financial centers and the dominant segment of Turkish capital

not to have an impact on the political balance in the country. The first effect was the fall of the social democratic government of the Republican People's Party (RPP) formed in January 1978. In its program, the RPP government proposed to encourage the Turkish export sector but placed priority on the development of those investment and intermediary industrial sectors that would decrease the Turkish economy's dependence on external sources. This meant the deepening of IS in capital-goods industries. The state was to assume more powers in the banking and credit sector so that credits could be directed into productive investment. The RPP also spoke of the creation of a "people's sector" alongside the state and private sectors. The RPP government, however, did not (could not?) have a "social democratic stabilization program" that could solve the problems of a severe foreign-exchange shortage and spiraling inflation and, at the same time, enjoy popular support. Without such a program, the RPP government could hardly gain the confidence of the Turkish business community and international capital.

Financial dependence on external sources and the urgent need for foreign currency compelled the government to sign a standby agreement with the IMF. The RPP government was reluctant, however, to comply with the IMF-prescribed austerity measures. More important, it refused to embrace the type of fundamental policy reforms that would launch the Turkish economy on a new course toward an outside-oriented growth model. As a result, external loans promised by the IMF and bilateral donors were very small (Kirkpatrick and Önis, 1991, pp. 11–12). Without adequate external credits, the RPP government was unable to counter the downward slide of the economy. As economic hardships as well as political turmoil were exacerbated, the RPP rapidly lost support among its constituency, mainly composed of the industrial working class, civil servants, and middle-class professionals. As its popular support waned, the RPP government also faced strong hostility from Turkish capital.²

In the by-elections of October 1979, the RPP's vote dropped sharply and the government promptly resigned. In November, the center-right Justice Party (JP) formed a minority government. Soon after coming to power, the JP government announced a comprehensive economic package, commonly known as the January 24 Decisions. This marked the official beginning of a long neoliberal transformation of the Turkish political economy. The January 24 Decisions included the quintessential IMF stabilization measures. But it was more than a

“stabilization program.” It aimed at a new regime of accumulation based on exports, an economy open to international markets, and a new economic role for the state (see Aren et al., 1986; Baskaya, 1986; Yesilada and Fisunoglu, 1992).

The package was received very favorably in the international centers of capital and the OECD governments. In June 1980, negotiations with the IMF resulted in a three-year standby arrangement, later to be extended another year. In March 1980, Turkey also signed an agreement with the World Bank to benefit from the new “structural adjustment loans” (SAL). In the agreement, the Turkish government agreed to very demanding conditions concerned with liberalizing trade and foreign-exchange regimes, deregulating the economy, opening all sectors to foreign capital, and scaling back the public sector (Kazgan, 1988, pp. 337–340; Kirkpatrick and Önis, 1991). For the first half of the 1980s, both the IMF and the World Bank became involved directly in Turkish policy making. After the agreements with these international organizations expired by the end of 1984, their presence continued to be felt in the making of Turkish public policies, this time not so much directly but more indirectly by shaping policy makers’ perceptions and preferences as to what was acceptable and viable. This entailed regular monitoring by the IMF and the World Bank of Turkish government policies and economic developments in the country. In an economy now more open to the global market forces, the “need” to maintain the confidence of transnational capital and the international financial institutions, and to keep the credit ratings of Turkey high in the international financial markets, would be a major factor shaping the mind-set of Turkish policy makers, and state policies.

The question of political regime and structural adjustment

While the conservative Justice Party government endorsed structural adjustment measures demanded by the international financial institutions and supported by Turkish big business, it was by no means clear that the government could effectively implement them. The new model of economic development could not command enough consensus either in civil society or in the state apparatus itself. There was a strong opposition in society centered on the labor-union movement.³ Within the state, a significant section of the parliamentary opposition—more particularly, the left-wing opposition—challenged it. Although it was

incapable of formulating a viable alternative, the opposition was strong enough to frustrate the implementation of the new economic strategy. The government's ability to implement policies was significantly constrained also because of its minority position and hence reliance on two smaller political parties. The Islamist National Salvation Party (INSP), whose support was indispensable for the JP government to remain in power, often threatened to withdraw its support, and attacked the government's policies for surrendering the country to the IMF and Western powers (see Cölasan, 1983; Birand, 1984). Furthermore, the state lacked "the capacity" to implement and enforce the required policies effectively.⁴ The institutional basis for the translation of the new economic strategy into implementation was largely lacking. A consistent pursuit of the open market, export-led development model would require institutional machinery different from what the inward-looking ISI model entailed. In brief, the existing political system became an impediment to the restructuring of the Turkish political economy toward a radically different course.

The military regime and the implementation of structural adjustment

In order to quell political and social disorder, the military overthrew the civilian regime and directly took over the administration of the state on September 12, 1980. The military junta immediately declared its commitment to the January 24 Decisions envisaging an open market economy and export-led development. It is ironic that the most "nationalist" apparatus of the state should support a politicoeconomic program that aimed to integrate the Turkish social formation fully into the world economy, and to subject it to the exigencies of the global market. The Turkish example makes a strong case that the military is not isolated from class relations and political and ideological struggles.

The Turkish military maintained "guarding the authority of the state" and "integrity of the nation" as a fundamental mission (Heper, 1985, pp. 95–96, 113–115). The perceived (and real) link between the economic crisis and the political civil disorder that had engulfed the country made it all the more important for the military to find a solution to the country's severe economic difficulties. The restoration and preservation of the authority of the state and of national integrity required both an urgent solution to the immediate economic problems

and a longer-term solution to the structural crisis of the economy. Given the particular nature of the crisis, no immediate solution seemed possible without the support of the Turkish business community and of the international financial centres. The military leaders also seemed convinced that there was no alternative solution that could lead the economy out of the crisis (Ulagay, 1987, p. 61). It is not argued here that the military intervened for the purpose of promoting the new economic policies. But the military regime made it possible to implement them effectively.

The military regime created a political-institutional context conducive to the restructuring of the economy toward an export-based form of accumulation. By closing down all political parties and dismantling the channels of political representation, by suppressing the labor-union movement and banning the Confederation of Revolutionary Trade Unions (DISK), by cracking down on the leftist movement, and by severely curtailing civil rights and freedoms, the military junta did not leave much scope for opposition to the new politicoeconomic model. The management of the economy was entrusted to a small team of neoliberal technocrats headed by Turgut Özal. Özal was the principal architect of the January 24 Package in his position as the undersecretary to the prime minister under the JP government just prior to the military coup. He was appointed by the military government as deputy prime minister in charge of economic affairs.

A new power bloc was formed that involved the entire bourgeoisie under the leadership of the dominant segment of big industrial/financial capital, the armed forces-turned-state administrators, and a group of technocrats who became the embodiment of “economic knowledge and expertise.” Its overall antilabor and procapital position won the military regime the political support of the capitalist class as a whole. “Class interests [of the bourgeoisie] . . . prevailed over the sectional and conflicting interests of its various sub-groups. . . . The internal divisions [were] secondary to the essential class position during this period” (Boratav, 1990, p. 225).

The task the military junta set itself was not merely to restore “law and order” but to reshape the entire political system and state–society relations. As will be explained later, the new political-institutional structures created by the military regime were to ensure the reproduction of the economic model and that of the authoritarian and exclusionary features of the restructured state beyond military rule. The

administration of the state was transferred from the military to a civilian government through a “guided” general election in November 1983.⁵ The neoconservative Motherland Party (MP), founded and headed by Turgut Özal, won the elections and formed the first postmilitary civilian government.⁶ The same party would also win the freely contested elections of 1987 and govern the country until October 1991 within a political regime based on multiparty electoral politics but “restricted democracy.” The predominance of Özal and of his party in Turkish politics in the 1980s ensured the continuation of neoliberal restructuring of the Turkish political economy.

Redefining the role of the state

The implementation of the new economic growth model would mean not a smaller role for the state but a major change in the nature and direction of that role.⁷ Concerning the bourgeoisie, the state was to implement policies and create institutions aimed at the restructuring of capital in favor of those segments able to compete in the global market and integrate with transnational capital. With respect to the working class, in order to facilitate the international competitiveness of Turkish exports, the state was to discipline organized labor. In a regime of accumulation based on production for export, in contrast to ISI, wages lost much of their functional importance for the economy as “purchasing power” and became primarily a production cost. In regard to the linkages between the Turkish social formation and the global economy, the role of the state would change from “the bulwark defending domestic social forces from external disturbances” to an “agency for adjusting national policies and practices to the dynamics of the world economy.” Robert Cox calls this process “the internationalization of the state” (1987).

Although this paper emphasizes the role of the Turkish state as the principal agency for the restructuring of the economy away from the inward-looking ISI to an outside-oriented strategy, one should be cautious about confusing the process and the means with the goal itself. The goal is a state that secures the rights of capital, both transnational and domestic, and can guarantee an institutional and political framework in which market forces can operate. But this state is largely devoid of “infrastructural power”⁸ and instruments necessary for intervening in the economy on the basis of principles other than that of market rationality. As the Turkish state acted as the main agency for

the neoliberal restructuring of the economy, it simultaneously dismantled some of the bases of its own infrastructural power essential for controlling or affecting economic parameters. The process was by no means smooth. It was interrupted by reversals and delays, especially in the area of financial deregulation and privatization. There were also frequent crises, with conjunctural economic cycles becoming shorter (Kazgan, 1988, p. 377). By the end of the 1980s, however, most outcomes of the state's neoliberal policies had become a structural aspect of the Turkish economy.

Neoliberal reforms in the Turkish economy since 1980

Liberalization of the imports regime

Import liberalization was achieved gradually by a shift from quantitative controls to tariffs and subsequent reduction of tariff rates. The main reason for the gradual removal of import restrictions was to give enough time to the manufacturing sector that had flourished behind protective walls to adjust to foreign competition (Kirkpatrick and Önis, 1991, p. 27). This aim was achieved to a large degree. As Boratav et al. (1995, p. 30) note, "gradual import liberalization did not produce serious upheavals at the industrial front although a chronic pessimism has prevailed within the industrial segment of the Turkish bourgeoisie up till the late 1980s." It should be noted that import liberalization initially took place outside Turkey's associate membership in the European Community. But, following Turkey's application for full membership in April 1987, tariff reductions became increasingly geared toward this objective and the realization of a full-fledged customs union with the Community by the end of 1995 (Senses, 1995, p. 54). With EU customs union becoming effective as of January 1996, all customs duties and quantitative restrictions on trade in industrial commodities with the European Union were eliminated, and the Turkish state is currently taking measures to adopt the common EU customs tariff rates vis-à-vis the third countries.

Export promotion

While the imports regime was liberalized, export orientation was adopted as the main priority in resource allocation. The Turkish economy's orientation was successfully transformed toward exportation. The share of exports in GNP rose from 4.2 percent in 1980 to

12.8 percent in 1988. After declining to around 8.5–9 percent in 1989–93, it increased again to 12.6 percent in 1995 (SPO, 1997, table 3.2). Most of the export growth was realized during the 1980s, however. The state played a crucial role in promoting the orientation of the economy towards exportation. It provided a wide range of incentives. Among these were generous tax rebates, tax breaks, low-interest credits, priority in the procurement of imported inputs and the like (Karluk, 1994, pp. 239–249; Kepenek and Yentürk, 1994, p. 286). The scheme of direct export subsidies in the form of tax rebates was gradually phased out after 1986. It was eventually abolished by the end of 1988. One reason for this was to avoid overstating export receipts or to prevent commonly known fictitious exports. Another important reason was pressure from Organization for Cooperation and Development (OECD) governments and the General Agreement on Tariffs and Trade (GATT), which made it clear that deviation from internationally dominant neoliberal norms would not be tolerated. The Turkish government sought to compensate for gradually lower tax rebate rates and later their elimination by the provision of increased financial incentives or indirect subsidies such as credits at preferential rates and subsidies for key inputs such as energy (Boratav et al., 1995, pp. 27–29; Senses, 1994, p. 58). The state also actively encouraged the formation of big foreign trade companies through various material incentives and legislation changes in order for the Turkish exporters to reap the economies of scale and penetrate international markets. Foreign trade companies were in essence subsidiaries of Turkey's large business conglomerates. It was these companies that reaped most of the benefits of substantial export incentives provided by the state (see Ilkin, 1991; Önis, 1992). The case offers a very good instance of the state supporting capital concentration and subsidizing domestic capital to increase its international competitiveness. This hardly fits the “free competitive market model” that constituted the central element of the official discourse.

The impressive export performance of the 1980s was based on two other crucial factors besides generous incentives and subsidies: suppression of wages and real exchange-rate depreciation (see Önis, 1993; Senses, 1990; Barlow and Senses, 1995; Boratav et al., 1995, pp. 27–29). This was so especially given that investment in technological improvements and new production techniques, which could lead to higher productivity gains, remained limited (Koray, 1994, pp. 227–228; Türel, 1993). With the full liberalization of the capital account,

leading to convertibility of the Turkish lira in 1989, the state's ability to use the instrument of exchange rate to promote exports became substantially restricted, however. Furthermore, Turkey's obligations under the World Trade Organization (WTO) resolutions and the EU customs union agreement currently make it very difficult for the Turkish government to increase export subsidies. As a result, wages and the relation of labor costs to productivity became all the more important for international competitiveness of Turkish exports (Boratav et al., 1995, p. 28).

While the economy recorded substantial export growth and manufactured goods came to account for the large bulk of total exports,⁹ the Turkish export-oriented development was marked by a serious shortcoming. This shortcoming is the heavy concentration of manufactured exports in several traditional, low-technology or natural-resource-based sectors such as textiles, apparel, iron, steel, and food processing (see Önis, 1993; Türel, 1993). The textile and apparel sector alone accounted for 36 percent of total exports in 1992–95 (calculated from SPO, May 1996, p. 62).

This situation has serious implications for the working class. The textile and apparel sector relies heavily on the use of low-wage, non-unionized labor (see Disk-Ar, 1993, pp. 66–71). Subcontracting some part of production to small workshops and home-based producers constitutes a large, significant part of the sector in Turkey (see Kaytaz, 1994). And small workshops and home-based producers in the sector mean non-organized, low-wage, and uninsured labor, especially female labor.

Liberalization/deregulation of foreign-exchange and capital markets

The state-controlled, fixed exchange-rate regime was gradually replaced by a market-determined exchange-rate regime in the 1980s. The process culminated in a system where exchange rates are determined by market forces. The central bank supervises the system and intervenes only through market operations. The capital account was gradually liberalized as state controls on the movement of money capital into and out of the country were removed in the 1980s (see Togan et al., 1988). The external liberalization of the capital account was completed with full convertibility of the lira becoming effective in 1989. Turkey's highly restrictive foreign direct investment regime also was progressively replaced by a highly liberal one. Major steps in

this direction were taken in the second half of the 1980s (see Erdilek, 1988; Önis, 1994).

Fundamental changes were made in the financial sector. Liberalization and deregulation in this sector were often interrupted by financial/bank crises, leading to the reestablishment of direct state controls, later to be removed. In July 1980, interest rates were deregulated. However, without first creating necessary institutions and mechanisms that would ensure an orderly functioning of liberalized financial markets without direct state intervention, interest rate deregulation soon resulted in a financial crash in late 1982. After the crash, the government reimposed controls on the money market and interest rates (see Inselbag and Gültekin, 1988). At the same time, the government set out to establish a juridico-institutional framework for financial markets to be liberalized later. This included, for example, the 1981 creation of the Capital Market Board equipped with important supervisory powers over the primary and secondary capital markets, and buttressing the supervisory authority of the central bank over the financial/banking sector. The Turkish case is a good example that the functioning of the market without direct state intervention and controls requires creation of new institutions and rules. After preparing the ground, in 1988 the government again allowed commercial banks to set interest rates freely. By the end of the 1980s, a transition had been accomplished from a system where interest rates were set by the state authorities to a system where they are determined by commercial banks. In the wake of the financial crisis in 1994, which resulted in the collapse of three small commercial banks, some restrictions on bank competition for deposits were introduced. But these were soon abolished. At the same time, the central bank increased its control over the financial system by extending reserve and liquidity requirements for commercial and investment banks and special finance institutions, and by tightening prudential regulations (OECD, 1995, p. 24; 1996, pp. 42–51). The aim was to increase public confidence in the system and to prevent similar conditions that led to the collapse of the three small banks in 1994.

Perhaps more important than the liberalization of the interest-rate regime was the introduction of new institutions and financial instruments with the purpose of encouraging the deepening and widening of the financial system. The state acted as the main agent in transforming the structure and instruments of the financial/money sector by legislating or creating institutions such as the Istanbul Stock Exchange (1985),

interbank money market in domestic currency (1986), foreign currency markets (1988), and the gold market (1989) (SPO, 1989, p. 93; Inselbag and Gültekin, 1988, pp. 134–135). These institutions aimed to facilitate the accumulation and circulation of capital and to allow it to move more easily and rapidly into activities that offer the highest returns and profits. This certainly enhanced the structural power of capital, more particularly of financial capital, in society.

Postponement of privatization

Privatization, which is still under way, has been an integral part of the neoliberal restructuring of the economy and of the functions of the state. To allow the economy to operate according to its “natural laws,” the state was to withdraw from production activities, and the ownership of public enterprises was to be transferred to private capital. Once privatization went ahead, it would act as an effective mechanism to prevent more interventionist economic strategies.

Privatization in the sense of transfer of the ownership of public enterprises to the private sector was delayed until the end of the 1980s because of political considerations. As Senses explains, “postponing more decisive steps towards privatization to a later stage reflected a tactical move on the part of policy makers. This, in a country with a long tradition in public ownership, was correctly identified as an issue on which they would face the strongest opposition” (1995, p. 56). He also notes that “the delay in privatization may also be attributed to ‘patronage politics’ with the State Economic Enterprises providing a significant and effective basis for influencing the prices of intermediate as well as final consumer goods—not to mention their role in providing jobs in a country characterized by very high rates of unemployment.” To this, it should be added that the public-sector workers have been highly organized, representing the most densely unionized segment of the labor force. As a result, they could be expected to lead a resistance against privatization that would inevitably affect them negatively. While sale of state economic enterprises (SEE) was postponed until the end of the 1980s, the MP government of November 1983–October 1991 introduced important measures to prepare the economic and political background for their subsequent privatization. Among the measures were deregulation of prices on products or services of public enterprises; removal of state monopoly on various goods and services

such as tobacco, electricity, and tea processing and packaging; elimination of tax, tariff, and credit privileges or exemptions of SEE; sale of revenue-sharing certificates for some public infrastructural projects in the mid-1980s; and increased use of subcontracting or outsourcing to the private sector of various public services and parts of production in public enterprises. These activities were accompanied by an ideological campaign to mobilize public support for privatization. In this campaign, SEE were heavily criticized for being inefficient and wasteful, and the growing fiscal deficit was attributed to their operating losses. After the ground was prepared, privatization slowly got under way toward the end of the 1980s and accelerated in the 1990s.

It should be noted that the center-right and center-left coalition of the True Path Party (TPP) and the Social Democratic Populist Party (SDPP) that replaced the MP government in November 1991 and remained in office until December 1995 initially emphasized reorganization and reform of SEE, though it did not reject privatization. This was a concession to the SDPP, which had strongly opposed privatization when in opposition. However, in the face of burgeoning public fiscal deficit, the government policy soon came to focus on privatization, not on reformation.¹⁰ All the subsequent short-lived coalition governments formed by various parties in 1996–97, including the Islamist Welfare Party (IWP), also adopted the policy of rapid privatization. The real motivation behind the recent privatization drive has been “mainly revenue considerations, i.e., the sustained presence of the fiscal constraint and to use privatization as a substitute to fiscal reform vis-à-vis the reluctance or inability to increase the tax burden of the bourgeoisie. This is also one factor behind the support which business has been extending to the campaign” (Boratav et al., 1995, p. 7).

In the 1990s there was strong opposition to privatization from the trade union movement. Yet trade unions were not able to form a unified front and lead a determined struggle against it. This was partly because they could not agree on what grounds to oppose privatization and what kind of alternative to propose. Furthermore, several trade unions affiliated with Hak-Is or Türk-Is participated in auctions for public enterprises scheduled for privatization in the mid-1990s. This seriously fractured the labor front. Especially given the concentration of the country's unionized labor in the public sector, and increased difficulties for organizing in the private sector,¹¹ privatization is a real threat to the trade-union movement. It means above all losing a large

base of union membership and relatively secure employment.

A significant obstacle to privatization came from within the state, the high courts. In the 1990s, the Constitutional Court annulled, on several occasions, several pieces of legislation that would allow the government to carry out fast-track privatization. This hindered, but did not halt, the program of rapid privatization. In its rulings, the Court specified substantive reservations concerning participation of foreign capital and privatization in sectors regarded as strategically important, such as telecommunication.¹² The Council of State (high administrative court) refused to clear many projects under the build-operate-transfer scheme since the scheme was first introduced in the mid-1980s. Reportedly, the Court has tried to limit participation of foreign capital in projects submitted for approval (*Financial Times*, April 2, 1997).

Despite such political and legal obstacles, privatization has so far gone a long way. From 1985 to August 1997, a total of 159 companies were included in the privatization portfolio. One hundred and twenty-one companies were privatized either via sale of shares or asset sale. In 102 of them, no state equities were left (Undersecretariat of Treasury, 1997). Privatization has recently focused on telecommunication and power stations.

In summary, the policies, policy instruments, and new institutions that were adopted or created by the state to promote and supervise the structural transformation of the Turkish economy further strengthened the position of capital as a whole in society, and institutionalized the dominance of financial capital and big corporations with an international orientation and/or linked to transnational capital. The policy-oriented transformations and institutional changes also served to bring the Turkish political economy into conformity with the restructuring of the global economy toward free capital mobility and easier flow of goods across borders.

Changes in the functions of the state

Posing the question of the role of the state only in terms of whether the neoliberal restructuring of the economy means a diminishing role for the state may lead to neglect of the crucial issue of the class nature of the state's new role. To examine this issue further, let us look at the changes in the specific configuration of the accumulation and legitimation functions of the state. By the legitimation function of the state, I

mean basically its social-welfare functions. One empirical way to investigate the issue is to analyze the composition of state expenditures.

The actual trends in the size of total public expenditures seem to contradict the dominant policy and ideology of the period. Although the dominant policy has been to reduce the weight of the public sector in the economy, the share of total public expenditures in GNP has tended to increase since the mid-1980s. As a percentage of GNP, total public expenditures declined from 25.2 percent in 1981 to 20.1 percent in 1984. Thereafter, it increased more or less steadily to 29.0 percent in 1991 during the rule of the neoconservative Motherland Party (Kepenek and Yentürk, 1994, p. 217). It further increased to 31.7 percent in 1993 under the coalition government of the TPP-SDPP. In the wake of an austerity package launched by the TPP-SDPP government in April 1994 in response to a financial crisis, total public spending was reduced to 26.1 percent of GNP in 1995. However, the following year it rose to 30.1 percent (*1995 Annual Program*, p. 73; *1997 Annual Program*, table III.25).

This situation is not as contradictory as it seems. During the 1980s, the increase in public expenditures was mainly due to a rapid rise in transfer payments to private capital in the form of export and investment incentives and because of surging interest payments on domestic and foreign borrowings (Celasun, 1990, p. 46; SPO, 1989, pp. 77–78). In the early 1990s, current expenditures, including wages and salaries, and spending on goods and services, tended to increase in proportion to GNP after they declined more or less steadily over the previous decade. The increase in wages was due to collective labor mobilization in protest of substantial wage/salary cuts over the past decade. But the increase in spending on public employees' salaries and other current expenditures including education and health services was arrested by an austerity package in 1994. However, transfer payments accounted for increasing portions of public expenditures in relation to GNP in the 1990s. The main reason for the expansion of transfer expenditures was foreign and domestic debt repayments and substantial increases in central government budget interest payments on domestic borrowing.¹³ Government budget interest payments as percentage of GNP consistently rose from 0.6 percent in 1980 to 3.5 percent in 1990 and to 9.9 percent in 1996. And the share of interest payments in total government budget expenditures increased from 2.9 percent in 1980 to 20.8 percent in 1990 and to 37.9 percent in 1996. In short, the main factor

behind the expansion of public expenditures was not social spending but a vicious circle of interest payments on domestic and foreign debt and further borrowing from domestic and international markets to pay interest and the principal. The government budget thus became a mechanism of transferring resources to finance/money capital.

It should be noted that there was no significant decrease in total public investments as a percentage of GNP until the mid-1990s. But their composition was restructured. Public investment in manufacturing was substantially reduced.¹⁴ This was a part of the policy of privatization of the SEE and of the withdrawal of the state from manufacturing activities. While it was sharply reduced in manufacturing, public investment was diverted markedly into infrastructure, energy and communication (see SPO, 1997, table 2.7). In other words, as it has been moving away from direct involvement in production, the state has directed its resources more toward the provision of infrastructure for private capital and of such "public services" that constitute a direct input into private-sector production and trade. State investment in such sectors as infrastructure, communication, and energy does not, of course, exclusively benefit business. These "public services" are used by society as a whole. As such, they receive popular support. Yet, unlike social welfare services, they do particularly benefit business and increase the value of capital or property.

An important development regarding public expenditures and revenues in the 1980s was the marginalization of the consolidated government budget,¹⁵ which is the main source of state spending on education, health, and social security. While total public expenditures in proportion to GNP tended to increase, the consolidated budget expenditures as a percentage of GNP tended to decrease until the early 1990s. They declined from 20.3 percent in 1980 to 16.9 percent in 1990 (SPO, March 1996, table 5.6). This is explained in terms of the period's neoconservative MP government's policy of directing public revenues and hence expenditures away from the consolidated budget through the creation of extra budget funds (EBF). A main reason behind this policy was to reduce the direct tax burden on corporations and to shift the total tax burden more onto consumers or the general populace. About two-thirds of the fund resources were in the form of taxes. More than 90 percent of this consisted of indirect taxes of a regressive nature (Orhan, 1994, pp. 246–247, 254). Although there were a number of EBF prior to the 1980s, their number and assets

expanded by leaps and bounds in the 1980s.¹⁶ The funds were not subject to the standard budgetary controls by the parliament and hence could not be scrutinized by the parliamentary or extraparliamentary opposition forces. This allowed the government considerable discretionary powers in the area of their revenues and expenditures.¹⁷ The funds were used by the MP government mainly as an instrument for transferring public revenues to big capital; for transforming the allocation of the country's resources into the export and services sector in accordance with the external rearticulation of the economy; for developing the capital and financial markets; and for investing in the infrastructure, transportation, and telecommunication sectors (see Oyan and Aydin, 1987, 1991).

The double-edged role of the EBF, however, should be pointed out. On the one hand, they were a source of various export incentives to firms. On the other hand, as a number of these funds derived revenues from surcharge on some categories of imports, they served to provide selective and less visible protection for specific domestic industries (Celasun, 1990, pp. 54–55). But this did not reverse or eliminate foreign-trade liberalization. Both nominal and effective rates of protection for Turkish industry were significantly reduced (see OECD, 1992, p. 81).

The EBF started running an expanding deficit in the early 1990s and thus caused increasing fiscal "disorder." This prompted the coalition government of the True Path Party and the Social Democratic Populist Party of November 1991–95 to incorporate 62, including the largest ones, of the existing 107 EBF in the central government budget in 1993 (Karluk, 1994, p. 41; Orhan, 1994, p. 233). But the funds continued to be financed mostly by inegalitarian indirect taxes.

The restructuring of the state and its class bias

The structural transformation of the Turkish economy in the 1980s and the state's active role in this process were associated with, first, an expansion of the state's authoritarian powers over civil society, and second, internal rearticulation of the state apparatuses that involved concentration and centralization of policy-making powers. The restructuring of the state apparatus and of its relation to society proved crucial for the implementation of the neoliberal economic strategy.

Although the military regime stayed in power for a relatively brief period, from September 1980 to December 1983, it effected fundamental changes in the politicojuridical system. It enacted 535 laws and 91

decree laws. "In addition to a new Constitution, Electoral Law and Political Parties' law, the legislation enacted by the military regime included laws regulating almost all fundamental aspects of politicoeconomic and social life in the country, such laws as pertaining to the judiciary, the police, martial law and emergency rule, universities, the Turkish Radio and Television Corporation, associations, public professional organizations, trade unions, collective bargaining and strikes, the press, the right to assembly and the like" (Özbudun, 1991, p. 41). All these laws were very restrictive in nature and imposed serious limitations on rights and freedoms associated with democracy. The new constitution set the basic rules of the game and the main politicojuridical framework, which at once constituted the context for, and a product of, power struggles of social forces. What was envisaged in the constitution was a "strong state" and a "depoliticized society." The emphasis was on the limits of the rights and freedoms that it recognized. In this respect, it fundamentally diverged from the 1961 constitution it replaced. The new constitution also reorganized the institutional configuration of the state apparatus. Most important in this regard were increased powers for the executive and relegation of the legislature to a secondary role. The constitution allowed the Council of Ministers to issue law decrees provided certain conditions. Relying on this provision, governments, especially the postmilitary Motherland Party government, made extensive use of decree laws particularly in the economic policy areas, thus bypassing the parliament.¹⁸

The postmilitary Motherland Party government, which was responsible for major neoliberal "reforms" in the economy, instituted a very centralized and concentrated form of policy making.¹⁹ Economic decision making was concentrated in the office of the prime minister surrounded by several key agencies. A set of new economic institutions was created and attached to the prime minister's office. It was these new institutions headed by appointed technocrats that assumed most critical powers and responsibilities in directing the neoliberal reforms. As soon as it came to power, the Motherland Party government dismantled the organizational structure of the ministries of finance and commerce to create a new undersecretariat of treasury and foreign trade within the prime minister's office in December 1983. This led to a significant decline in the powers of the two traditional ministries. The real motivation behind this move was to exclude from decision making the traditional bureaucrats in the ministries who believed in

interventionist, state-led development (Önis and Webb, 1994, p. 148). The undersecretariat was later divided by the TPP-SDPP government into the undersecretariat of foreign trade and the undersecretariat of treasury in December 1994. Both remained attached to the office of prime minister. The two organs continued to exert great influence in economic policy formation. The centralization and concentration of economic policy making was also assisted by two major policy forums that had been originally created either by the premilitary JP government following the launching of the January 24 Decisions or by the military government. These were the High Economic Affairs Coordination Council and the Money and Credit Committee. These policy forums included only a small number of key economic ministries, technocrats, and top state officials. In the words of Yavuz Canevi, the former governor of the central bank (1983–86) and undersecretary of treasury and foreign trade (1986–89), these institutions “were considered short-cuts to the long political decision-making process” (Canevi, 1994, p. 186).

The restructuring of the state apparatus was not only a matter of the creation of new institutions that were to assume the most critical responsibilities and functions geared to the requirements of the new political economy. Some critical economic agencies also went through a major transformation. The most notable example is the central bank. It became more independent of the political executive at the same time that its influence in economic policy making and implementation increased. Moreover, as Önis and Webb (1994, p. 150) note, “since the mid-1980s, the central bank has been the principal point of entry into the government for economists favoring neoliberal policies and a base for disseminating their ideas.” Another dimension of this process, however, was the decline of those state institutions embedded in the interventionist, import-substitution model of development of the 1960s and 1970s. The most important example is the State Planning Organization (SPO). The SPO was the principal center of economic policy formation and implementation in the pre-1980 period. It was responsible for making and enforcing five-year development plans. The SPO was increasingly relegated to a less important role during the 1980s. In 1991, it lost some of its most important responsibilities to the Treasury and Foreign Trade Undersecretariat.

Several students of Turkish political economy here pointed out that the centralization and concentration of policy powers during the 1980s served to insulate economic policy making and implementation from

political pressure and societal interests. And the policy insulation was a crucial factor behind “the successful” implementation of neoliberal economic reforms (see, e.g., Heper, 1990; Önis, 1991; Öncü and Gökce, 1991). However, most of these authors ignored the class bias of the restructuring of the state or the issue of unequal access by capital and labor to the new centers of public decision making. Throughout the 1980s, labor was denied access to, and could not exert any influence over, the government at the same time that the executive’s powers were strengthened and expanded at the expense of the parliament. Business did not enjoy “institutionalized” participation in public policy making during the period. Yet, big capital, which stood to benefit most from the new economic strategy, enjoyed direct access to the principal centers of policy making. Furthermore, the business associations or big businessmen could often intervene, at the level of top civil servants, in the process of policy implementation, as opposed to the policy-making stage, in order to modify a particular unfavorable policy decision (Gülfidan, 1993, pp. 76–82). Organized labor did not and does not have the power to enjoy such a privilege.

The decline of those state institutions embedded in the ISI model of development and the rise to prominence of new state agencies were another dimension of labor’s exclusion from the policy-formation process. Organized labor enjoyed institutionalized participation in the making of five-year development plans in the specialized committees of the State Planning Organization during the 1960s and 1970s. With the transition to the new economic model, five-year development plans became virtually inconsequential, although they were not officially abandoned.²⁰ Organized labor thus lost an important platform from which it could participate in economic policy making. At the same time, it could not gain access to those newly created or reorganized state apparatuses that became the main center of policy making and implementation.

The neoliberal authoritarian state and interventionist labor-relations policy

The marginalization of labor representation in the state was accompanied by its disciplining in the economic sphere. The disciplining of organized labor was not left to the market forces. It was accomplished through direct political means that aimed to shift the balance of power markedly against labor and in favor of capital. In its capacity as the

maker and enforcer of law and public policies as well as in its role as the biggest employer in the country, the state was at the center of this process. The disciplining of labor entailed not only direct state intervention in labor–capital relations, but also extensive juridification and bureaucratization of the industrial relations system through new legislation and a variety of other measures. The restrictive trade unions law that was enacted by the military regime in 1983 still remains in effect without major changes. This points to the irony of the era during which the official discourse and policies revolved around the principle of “free-market economy” and “liberalizing the economy.” The apparent irony is not really an irony. As Polanyi argued about half a century ago, “The road to the free market was opened and kept open by an enormous increase in continuous, centrally organized and controlled interventionism” (Polanyi, 1957, p. 40, quoted in Evans, 1992, p. 46). In Turkey in the 1980s, “centrally organized interventionism” was applied against organized labor to control and weaken it²¹ (see Önder, 1995; Sakallioğlu; 1991; Koray, 1994; Güzel, 1996). This was actually the other side of labor’s expulsion from the political process and marginalization of its representation in the state. The state further expanded into the realm of labor relations itself in order to exclude organized labor from the policy-formation process in the state apparatus, and to deprive it of the power to exercise political pressure on the state. One significant outcome of this was drastic decreases in real wages. Only in 1989 and the beginning of the 1990s was the working class able to gain real wage increases through collective mobilization. Besides workers, civil servants whose salaries are unilaterally determined by the government also suffered great deterioration in their economic position (see *1995 Annual Program*, pp. 204–205; Petrol-İs, 1995, pp. 245, 388).

The organic crisis of legitimacy in the 1990s

Neoliberal principles continue to shape today’s Turkish political economy. But this reflects “a moment of dominance,” not “a moment of hegemony.”²² The Turkish economy’s integration with world capitalism in a subordinate position has gone very far. The capacity of the state and domestic social forces to pursue a project incompatible with the globally prevailing neoliberal norms has been substantially weakened as a result. As this dominant policy model continues to generate socioeconomic inequalities in the country, it provokes social and politi-

cal conflict and countertendencies. The following section discusses the social contradictions of neoliberalism and resulting legitimacy crisis in 1990s' Turkey.

The collapse of the Motherland Party's "hegemonic project": Toward governmental instability

While relying on the restrictive politicolegal structures inherited from the military regime in implementing its structural adjustment policies, the neoconservative MP was initially able to mobilize considerable electoral support among subordinate classes (see A. Ayata, 1993). Özalism, the Turkish version of Thatcherism, offered a new vision to large masses. This new vision was based on the contradictory articulation of the ideas of market liberalism and competitive individualism with the ideology of conservative nationalism that amalgamated elements of Turkish nationalism and Islamism (Tünay, 1993). The MP enjoyed the support of virtually the entire business community after it won the 1983 elections. Different factions of the bourgeoisie shared the view that the MP was the indisputable representative of capital interests, and that there was no alternative to it (Boratav, 1991, p. 77).

The "hegemonic project"²³ formulated by the MP as the principal representative of capital interests on the political stage began to unravel toward the end of the 1980s. This was as a result of, first, increased mass discontent with its policies, with corresponding mobilization of labor to win back its rights, and second, intensified conflicts of interest within the capitalist class. The MP government claimed its economic policies would improve the economic position of the popular segments of society, if they would only be patient for a while, but those very policies resulted in their impoverishment. In particular, workers, public servants and peasants/farmers suffered great deterioration in their income. There was substantial redistribution from these subordinate interests to capital (see Özmucur, 1992). But not all segments of capital benefited equally.

Countermobilization by labor

Gradually overcoming its earlier pacification by repressive state measures, the working class engaged in collective actions at the end of the 1980s and in the early 1990s. There was an eruption of official and unofficial strikes and other forms of nonviolent labor actions (see Ministry

of Labor, 1996; Petrol-Is Yearbooks, 1989–95). Workers demanded not only higher wages and better working conditions but also democratization. The dialectical outcome of the state's further expansion into labor–employer relations to discipline organized labor was its becoming a central, nationwide locus for labor struggles. In trying to defend labor interests under mounting pressure from their rank and file, trade unions were compelled to launch a struggle against the government and the restrictive labor laws as well as individual employers or corporations.

The redefinition of the state's role had a substantial adverse effect on public servants. In addition to considerable deterioration of their income, public servants experienced important transformations concerning their career patterns and expectations. State employment largely ceased to be a channel of upward social mobility and a source of social prestige, granted that this does not equally apply to high-ranking positions. Besides, in a society where access to the newest consumer goods and services became the primary criterion of status, loss of income also means loss in social status or prestige. Given that they were unorganized, public servants' initial reaction to their worsening conditions took mainly individualistic forms such as working less efficiently, slowing down work, and even taking bribes. Such forms of resistance impaired the capacity of the state to implement policies at the bureaucratic mass level. But this situation also had a negative impact on the general public's opinion of public servants.

In 1990, public servants began to establish trade unions for the first time since they were stripped of their short-lived right to unionize in 1971. From the early 1990s on, the various forms of mass actions organized by the unions of public servants became increasingly more militant in nature, defying the legal restrictions. These actions included several general strikes in the mid-1990s. The main demands of public servants and their unions were for recognition of the rights to collective bargaining and to strike, and improved salaries and working conditions. Some of these unions have also been quite vocal in their demands for improved democratic, human rights and freedoms.²⁴ In the 1990s, class struggle in Turkey, thus, was increasingly reproduced within the state apparatus.

Intensified conflict of interest among segments of capital

From the perspective of functional positions in the circulation of capital, the major segments of Turkish capital are financial, commercial,

and industrial. These segments are, of course, not strictly distinct; in some cases, such as big holding companies, they are integrated (for details, see Boratav, 1991). But the functional division is still economically and politically meaningful.²⁵

Available studies suggest that it was financial/money capital—particularly, the banking sector and a small group of big rentiers—that benefited most from the neoliberal transformation of the economy. Industrial capital fared worst in the redistribution of surplus among the segments of the bourgeoisie. Although industrial firms enjoyed expanding profits (albeit far less than banks) from 1980 on, they could not retain a large portion of them as a result of transfers to banks in the form of high interest payments on credits (see Yeldan, 1994, 1995; Boratav, 1990, 1991).²⁶ This situation was primarily owing to very high nominal and real interest rates following the internal/external liberalization of the money/capital markets. The government's increasing use of short-run, high-cost bond financing of the budget deficit in the domestic market in the late 1980s and 1990s, instead of taxing capital income more effectively, also contributed to high interest rates. High interest rates were the main target of criticism by industrialists of economic policies during the 1980s and 1990s.

At the same time, however, industrial firms tended to divert their funds away from industrial activities and into assets with short-run return.²⁷ This means that their investment behaviors were increasingly affected by expectations of quick gains in the context of increased opportunities for speculative gains in liberalized money/capital markets, rapid diversification, and proliferation of financial instruments. The diversion of resources away from productive sectors is a cause for alarm for the Turkish economy since it is in the production process that surplus value is created. Industrialists themselves often complained about this shift toward a “speculation/rent economy” and neglect of industry (see, e.g., *Istanbul Sanayi Odasi Dergisi*, May 1994, pp. 53–58).

Failure of the promise of a new social settlement and the rise of political Islam

The neoconservative MP was voted out of office in the October 1991 elections. But no political party won enough votes to form a majority government. The MP's hegemonic project had collapsed, but none of the opposition parties was able to offer a new alternative vision that could mobilize broad popular support. The political party system became fragmented.

The elections brought to office a coalition of the conservative TPP and the SDPP, which emerged from the elections as the biggest parties on the right and the left. As the major opposition parties during the late 1980s and early 1990s, both parties had attacked the inegalitarian consequences of the MP government's structural adjustment policies, one from the left and the other from the standpoint of the traditional right. They had promised social justice and egalitarianism to those interests that had been marginalized in the process of neoliberal reforms. The formation of the center-right, center-left government coalition and its program represented an attempt at a new political and social settlement. This settlement was to be inclusive of subordinate interests. In accordance with the two parties' electoral platforms, the government promised increased distribution to workers, public servants, and agricultural producers, who were decisive in the defeat of the MP, and improvement of the social welfare state. Democratization was also a key aspect of the government program. The coalition government, however, did not foresee any major changes in the economic strategy. It accepted the neoliberal reforms effected over the past decade (*TPP-SDPP Government Programs*, November 1991, July 1993).

Without major revisions in the neoliberal economic strategy, the promised new social settlement failed to materialize. The set objective of improving the social welfare functions of the state immediately encountered fiscal constraint. The government's reluctance or inability to carry out a major tax reform to make the highly inegalitarian taxation system more equitable and at the same time to generate more tax revenues made it impossible to overcome the fiscal constraint. In December 1993, some important changes were finally made in the tax system in order to generate more tax revenues to reduce the expanding budget deficit. The most important component of the tax reform was an increase in the effective rate of corporate tax, which had been substantially lowered through myriad exemptions over the previous decade (see OECD, 1994, pp. 59–60; 1995, pp. 43–44). But the tax reform did not go far enough in the face of strong opposition from capital. Furthermore, it came too late to prevent the financial crisis in early 1994.

The crisis took place as a result of a run on the Turkish lira following the decisions of major American credit-rating agencies to lower Turkey's debt rating in the face of the country's expanding foreign trade and current account deficits as well as fiscal deficit (see Önder,

1997). The crisis was a strong manifestation of the instability of the neoliberal economic strategy in Turkey. The government was compelled to adopt an austerity and structural adjustment package to deal with the financial crisis in April 1994. The April package included a major overhaul of the social security system, accelerating privatization, and closing down a number of loss-making SEEs, in addition to wage cuts and reducing public spending. The burden of the stabilization program fell heavily on wage and salary earners (see Önder, 1997). Since the IMF's approval of the program was essential for Turkey to be able to return to international financial markets, the government immediately entered negotiations with Fund officials. The IMF approved the April package, but only after the Turkish government agreed to strict performance targets (Yesilada and Barria, 1995, pp. 32–35). This led to a fourteen-month standby agreement in July 1994. Turkey thus came full circle: from the 1980 standby agreement that marked the beginning of the neoliberal restructuring of Turkish economy to the 1994 standby agreement that aimed to overcome the conjunctural crisis of Turkish neoliberalism by further deepening it. The promised increased distribution to labor was clearly sacrificed to the requirements of capital accumulation in an internationally dependent, open economy.

The social democrats had to take the lion's share of blame for this because they had been the principal critic of the existing economic order during their opposition years; and redistribution constituted the focus of the party's economic program. Sharing responsibility for tough austerity measures and structural adjustment policies, the SDPP (or the Republican People's Party, as it was renamed in February 1995) alienated its principal constituencies and antagonized the trade-union movement. Not only did Turkish social democrats fail to offer a viable alternative economic strategy, the party also largely lost its credibility as a main critic of the existing order. As the social democrats lost their credibility, the Islamist Welfare Party became a major political force, successfully tapping into growing discontent with the existing order. The IWP promised social and economic equality as well as Islamic values and institutions.

There was an eruption of labor actions in protest of the IMF-backed austerity and structural adjustment program. Public-sector employees responded to the wage-freeze policy with mass demonstrations and spreading strikes. Strikes in the public sector reached a record level in

the wake of the austerity package (Ministry of Labor, 1996, p. 56). Amid large-scale strikes and mounting labor unrest, the RPP pulled out of the coalition in September 1995. Although it returned in November following the failure of the minority TPP government to win the parliament's vote of confidence, or to form a coalition with the MP, that was only to carry the country to an early election in December. The collapse of the coalition and an early election resulted in abandonment of the IMF-backed austerity package.

In the elections, the RPP's vote dropped sharply. It received only 10.7 percent of the vote, half of its share in the 1991 elections. While the other major center-left party, the Democratic Left Party, increased its vote from 10.8 percent to 14.6 percent, this could not make up for the drastic fall in the RPP's support. The result was a significant decline in the overall vote for the left. There was also a decline in the overall electoral support for the center-right, however. The Islamist Welfare Party came in first place with 21.3 percent. This was the first time in modern Turkish history that an Islamist-oriented party became the biggest party and won that many votes.

Political crisis

The election results failed to produce a parliamentary majority or to break the political stalemate. Governmental instability was to dominate Turkish politics during 1996–97. Major business associations pressed for a government coalition of the two major center-right parties.²⁸ An MP-TPP coalition was the most likely coalition that could carry on with the austerity and structural adjustment policies. Besides, the WP's radical discourse of "just economic order," turning Turkey's orientation away from the West, aligning instead with the Islamic world and canceling the customs union agreement with the European Union, perturbed the business community, especially the Istanbul-based big bourgeoisie, which is "pro-Western in its views, business ties and life-style" (S. Ayata, 1993, p. 66).

Unlike in the 1980s when the MP was the preeminent political party on the right, the political representation of the bourgeoisie was divided in the 1990s. Although the two major center-right parties had become more alike in economic and political orientation, they continued to be major rivals. The MP and the TPP finally entered a government coalition several months after the elections. But the coalition collapsed only

three months later, dashing the hopes of business. This paved the way for the Islamist Welfare Party to come to office in a coalition with the TPP. To be able to come to office, the WP moderated its Islamist discourse and agreed not to include in the government program any elements of its economic platform coined as "just economic order." While it respected private ownership and profit, the WP's just economic order was opposed to an interest-based financial system (Erbakan, 1991; Welfare Party).

The Islamist-led government was not able to stay in office for long because of pressure from the military. The prosecular military was alarmed by the ruling WP's efforts to please its constituency by promoting Islam in public space, tolerance of fundamentalist activities, and strengthening of Turkey's relations with Islamic countries, including Iran. The army regards itself as the guardian of the secular traditions of the modern Turkish state. On February 28, 1997, senior generals issued a list of demands to the government in a meeting of the National Security Council. The demands were concerned with curbing increasing Islamist activities in political and public spheres (see Turkish newspapers, March 1–2, 1996). The military sharply stepped up its pressure in the following months as the government refrained from implementing its demands. This created one of the most serious crises in recent Turkish political history. The chief public prosecutor filed a suit with the Constitutional Court, asking the dissolution of the WP on the grounds that it violated the constitutional principle of secularism.²⁹ Prosecular social opposition to the government hardened, too. Major business associations (excluding the Islamist MUSIAD) and major trade-union organizations also joined the opposition and demanded the government's resignation (*Milliyet*, June 6, 7, 1997; *Hürriyet*, May 18, 21, 22, 1997). It should be noted that, although prosecular forces in society find the military's commitment to secularism reassuring, a military regime would not enjoy large public support in today's Turkey.

Under mounting pressure, the Islamist-led government was compelled to resign on June 18, about a year after it came to office. This put an end to the political crisis for the time being. But the factors responsible for the crisis remained unresolved. A new prosecular government coalition was formed at the end of the month. It was put together by the Motherland Party, the Democratic Left Party (DLP), and the small splinter center-right Democratic Turkey Party (DTP).

The government was supported by the RPP from outside. The new government received strong support from the prosecular segments of society—the military, business, and trade unions. As of now, it is not clear how long the coalition will last. Although the normal election is not due until 2000, the three-party coalition is not likely to survive until then. It is not clear what the next election will bring. The Islamist movement and the WP remain a formidable political force. The division between Islamists and secularists has widened further. This creates great political and social instability.

Democratization and Turkey's relations with the European Union

The resurgence of Islamist revivalism has great significance for Turkey's efforts to become a full member of the European Union. No other case has raised and is likely to raise the civilizational question for the European Union to the extent that the Turkish bid for full membership has. Turkey's "Europeanness" is a topic of intense debate in Turkey as well; Islamist forces argue for forging stronger ties with the Islamic world, as opposed to "the West" (generally undifferentiated), and challenge modern Turkey's traditional commitment to "westernization." However, the issue of the rise of Islamist revivalism is Janus-faced from the perspective of Turkey's relations with the European Union. On the one hand, it may give further credence to the arguments of those in Europe who do not view Turkey as part of Europe. On the other hand, a definite no from the European Union to Turkey's inclusion in the expansion process is likely to increase anti-European sentiments and to strengthen the position of Islamist groups.

The question of whether Turkey is a part of Europe in terms of civilizational, cultural identity will surely play a role in the EU officials' decision to include or indefinitely exclude Turkey in its expansion process. And the issue of immigration is a central component of this question. In the Luxembourg summit of December 1997, the European Union announced the first and second groups of candidates for EU membership. Turkey was not among them. The EU decision infuriated the Turks. The prevailing feeling among the Turks was that the Europeans applied double standards. In reaction to Turkey's exclusion from both the first and the second groups of candidates, the Turkish government decided to cut off "political dialogue" with the European Union until the European Union formally declared Turkey a candidate. Turkey–EU relations rapidly deterio-

rated. In the meantime, the European Union made some gestures toward Turkey to improve relations. These gestures included inviting Turkey to the newly created European Conference and issuing statements emphasizing that the European Union is open to Turkey. Although the Turkish government welcomed these gestures, it reaffirmed its earlier decision not to enter so-called political dialogue or to participate in the European Conference unless Turkey was formally included in the expansion process. For their part, EU officials and representatives of the major European governments are still trying to come up with a formula that will satisfy the Turkish government and that will not meet with the Greek veto.

A main barrier to Turkey's inclusion in the European Union is its poor record of democracy, as often noted by the European Union and member governments. Substantial democratic reforms in the politicojuridical structures had officially been placed on the Turkish public agenda by the TPP-SDPP coalition following the 1991 elections. Accordingly, a number of significant amendments were made to the constitution with a view to democratizing it in July 1995. The amendments also included the removal of some restrictions on trade unions (for a brief review, see *The Economist*, July 29, 1995). Nevertheless, they fell far short of what was necessary to remove many of its restrictive articles. Further democratization is still on the public agenda. There has been strong pressure from civil society for the improvement of democratic rights and freedoms. Vocal public demand for "a clean, transparent state" is an integral part of the broad-based support for democratization in mid-1990s' Turkey. This is in reaction to the conditions created by the very contradictions of the political structure instituted in the early 1980s. The insulation of policy making and implementation from popular scrutiny, attenuation of democratic accountability, and restriction of democratic participation created favorable conditions for corruption in the political and administrative organs of the state. The severity of the situation reached an unprecedented level in the late 1980s and 1990s. Corruption charges involved senior politicians and state officials. The political system has become delegitimated in the eyes of the general public. The public has channeled its discontent with the existing political system primarily into support for a "clean, transparent state" through democratization.³⁰

Besides the strong pressure from within, an international factor that exerts great influence in Turkish politics in the direction of democratization is relations with the European Union.³¹ The goal of joining the

European Union currently enjoys broad-based support in Turkey. The political parties of both center-left and center-right, business, and trade unions are strongly in favor of full membership. The principal opposition, on the other hand, is composed of the Welfare Party and the Islamist segment of the bourgeoisie, which advocate an Islamic Economic Community as an alternative to the European Union (Eralp, 1993, pp. 205–207). Improving Turkey's chances of inclusion in the European Union is one important reason why Turkish business currently extends support to democratization. Turkey's indefinite exclusion from the EU expansion process will remove this significant international democratizing influence.

In today's Turkey, the consolidation of democracy and improvement of democratic rights and freedoms are intimately connected to three main legitimacy problems: (1) improving the socioeconomic position of subordinate interests; (2) the ethnic Kurdish question; and (3) reaching mutual understanding between pro-Islamist forces and prosecular forces. The proposed connection is not meant to be unidirectional. It is mutual. In other words, while the resolution of these problems creating the legitimacy crisis is crucial for the consolidation of democracy, democratization will also strengthen the voice of subordinate interests in the political process, and may help find a peaceful solution to the Kurdish problem. The issue of democracy and Islamist forces is much more complicated, however. Not all Islamist groups are committed to democracy, although they benefit from democratic rights in extending their influence in the public sphere.

While Turkey's inclusion in the European Union is expected to help the consolidation of democracy much as it did in the cases of Spain, Portugal, and Greece, it will also mean deepening neoliberalism, unless there is a major shift in the shape the European Union takes as a result of countersocial political struggles. The quandary is that the neoliberal strategy continues to create socioeconomic inequalities and to marginalize large numbers of people in Turkey. Nonetheless, despite the weakness of the EU's social dimension compared with its economic dimension, the Social Charter is still far above the existing Turkish regulations. Turkey's membership in the European Union is thus expected to improve labor rights and standards. Furthermore, the Turkish economy is already closely immersed in the EU economies. The bulk of Turkish trade and investment relations is with the European Union. The realization of a full-fledged customs union as of

January 1996 further opened Turkish industry to competition from the European Union, without, however, giving Turkey access to the benefits available to member countries.

Conclusion

This paper has analyzed the role of the state in the neoliberal restructuring of the Turkish economy since 1980. It has argued that the state was the principal agency in this process. It identified two integral elements of the state's role in the restructuring of the economy: (1) internal rearticulation of state apparatuses that involved centralization and concentration of economic policy-making powers and insulation of economic institutions from popular scrutiny; and (2) marginalization of labor interests in the policy process and disciplining of organized labor in the economic sphere. But these two elements of the state's new role have also become a source of its delegitimation.

As the neoliberal economic strategy results in widening inequalities, it creates a crisis of legitimacy and political representation. This raises the question of the sustainability of neoliberalism in a political context of consensual representation in Turkey. In view of the fact that there is now strong, broad-based support from civil society for further democratization, and given Turkey's goal of becoming a member of the European Union, authoritarianism is precluded as an "option." Then, a central question in this regard is the possibility of channeling mass discontent into support for a credible alternative economic program that includes subordinate interests. A socioeconomic order may persist not necessarily because it receives "active popular consent," but also because there appears to be no credible alternative. This reflects the present-day situation in Turkey. The further integration of the Turkish social formation into global capitalism in a dependent position has substantially weakened the capacity of domestic social and political forces to pursue a project in direct conflict with internationally dominant economic norms. To be viable, an alternative project has to recognize "the limits of the possible" in the shorter term without, however, abandoning the objective of changing "the limits" in the longer term.

Notes

1. In October 1978, a group of Turkey's leading businessmen visited the United States. The mission was led by the TUSIAD president. They had meetings

with senior officials of the IMF and the World Bank, the Federal Reserve Board and the Carter administration, as well as the top executives of six commercial banks having business relations with Turkey. They exchanged views on the economic situation in Turkey and solutions for it (Gülfidan, 1993, p. 88; Birand, 1984, pp. 100–101). This points to the complex nature of the relationship between Turkish big business and international financial centers during the period.

2. In May and June 1979, TUSIAD ran a campaign of advertisements against the Ecevit government in major Turkish newspapers. In the ads, TUSIAD blamed the government for aggravating the crisis (Arat, 1991, p. 140; Gülfidan, 1993, p. 91).

3. The Confederation of Revolutionary Trade Unions (DISK) took the lead in opposing the January 24 Decisions. The number of strikes and workers involved in strikes reached a record high in 1980 (see Ministry of Labor, 1996). Other forms of labor actions, including factory occupations, became increasingly frequent. For a brief review in English of the Turkish trade union movement up to the early 1980s, see Isikli (1987).

4. The term “state capacity” problematizes the translation of state policies into effective implementation (see Evans, Rueschemeyer, and Skocpol, 1985). For the incorporation of the term into the Marxian approach to the state, see Jessop (1990). For an insightful use of the term with respect to structural adjustment in the Third World, see Haggard and Kaufman (1992).

5. The National Security Council composed of five senior generals had the authority to veto any founding members of political parties without giving any reasons. By exercising this authority, the generals prevented a large number of newly founded political parties from contesting in the election, including the Social Democratic Party, the True Path Party, and the Islamist Welfare Party, which later became the major players in Turkish politics. Three political parties—the Nationalist Democracy Party, the Populist Party, and the Motherland Party—were allowed to participate in the elections. The first two were actually artificial creations encouraged by the military rulers (see Ahmad, 1984; Yesilada, 1988).

6. Although it had the approval of the military rulers, the Motherland Party indeed did not fit the generals’ two-party system plan. It was not the party that the military rulers preferred. The favored was the Nationalist Democracy Party led by a retired general. Since it was an artificial creation, the NDP did not survive long after the transition to the civilian regime.

7. For a similar argument with respect to the role of states in advanced capitalist societies in the process of economic globalization, see Panitch (1994).

8. Mann (1993, p. 59) distinguishes between infrastructural and despotic powers of the state. The former basically refers to the state’s logistic ability and institutional capacity to regulate social relations and to implement decisions throughout the realm.

9. The share of manufacturing in total export increased from 36.0 percent in 1980 to 87.5 percent in 1995 (SPO, March 1996, p. 29; May 1996, p. 63).

10. Although the SDPP came to agree to the policy of accelerating privatization, this policy came under attack from some of its own high-profile members. A prominent deputy from the party, Professor Mûmtaz Soysal, led an antiprivatization campaign, challenging privatization legislation and implementations at the courts. This caused conflicts within the party as well as between the two coalition partners.

11. Many of the trade union leaders interviewed by the author in the summer of 1996 emphasized increased hostility of private-sector employers toward unionization. Since the late 1980s, employers have increasingly resorted to subcontracting as a means of deunionization.

12. The Constitutional Court repealed a governmental decree enabling privatization of the telecommunication section of the Postal, Telegram and Telephone in 1993. The court also annulled some articles of Law no. 4107 of May 1995 dealing with privatization of the telecommunication company in February 1996. It finally upheld the amended law in January 1997, clearing the way to privatization in telecommunication. But it required that the state retain 51 percent of the shares. The court repealed the Privatization Law of May 5, 1994, in June 1994 (see Constitutional Court Decision 7.7.1994, *the Official Gazette* no. 22047, September 10, 1994). It upheld the new law passed in November 1994, which took into account its recommendations.

13. This analysis relies on the figures for the composition of public expenditures as a percentage of GNP provided in SPO (1989), the 1992 Annual Program, the 1995 Annual Program, the 1997 Annual Program (SPO, 1997, table 5.2; Orhan, 1994). One needs to be careful when analyzing Turkish public expenditure statistics in relation to GNP because, in some sources, the pre-1992 figures are based on the old GNP series according to which the size of GNP is about 30 percent lower than the new GNP series calculated according to a new method by the State Institute of Statistics. The figures for the ratio of public expenditures to GNP given in this paper use the new GNP series.

14. The annual average share of manufacturing in public fixed investment was 23.2 percent in 1975–79. It consistently dropped to 19.4 percent in 1980–84, to 7.9 percent in 1985–89, and 4.4 percent in 1990–95 (SPO, 1997, table 2.7).

15. Consolidated budget includes central government budget and annexed budget institutions such as universities.

16. Revenues accumulated in the funds expanded from 1.3 percent of GNP in 1981 to over 11 percent in 1990. This amounted to more than half of total public revenues (Oyan and Aydin, 1991, pp. 121, 125).

17. The legal structure of the EBF easily allowed their abuse. There is no doubt that the funds were often used for mainly political purposes—that is, to establish clientelistic relations with strategically located businessmen and corporations in order to maintain their political support (Oyan and Aydin, 1987).

18. According to *Petrol-Is Yearbook* (1989, pp. 375–377), from 1971 to the September 12 military takeover, only thirty-five decrees were enacted. From the time it came to office in November 1983 to 1989, the Motherland Party government passed over three hundred law decrees. Although, upon coming to power, the TPP-SDPP government of November 1991–December 1995 promised to limit the issuing of decrees, it often passed decrees having the force of law on privatization.

19. The following explanation draws on Heper (1990), Önis (1991), Önis and Webb (1994), Öncü and Gökce (1991), Sunar and Önis (1992).

20. The last five-year development plan was adopted in 1995. It is effective for the period of 1996–2000. Its role is more to forecast than to enforce specific targets. The plan is available at www.dpt.gov.tr.

21. Besides the new restrictive trade union law inherited from the military

regime, the MP government first created a Public Sector Collective Agreements Coordination Committee headed by a minister of state and composed of a number of state officials and public employers' representatives in 1984. The committee served to establish centralized governmental control over collective bargaining in the public sector. Its role was taken over by newly created public employers' associations after 1987.

22. Gill (1997, p. 5) uses these phrases to describe the status of international neoliberalism.

23. Jessop (1990, pp. 207–211) defines hegemonic project as a nationwide project that articulates certain particular interests of subordinate classes to the long-term interests of the dominant class (fraction) asserted as general interest.

24. The Confederation of Public Employees' Unions (KESK) is especially active in this regard. For its activities and demands, see its First General Convention Report, August 16–18, 1996, Istanbul (in Turkish). For public servants' collective actions, also see the *Petrol-Is Yearbooks* (1990–96).

25. The largest private banks are owned by holding conglomerates with diversified activities including industrial and foreign trade. But there is a large group of industrial firms without banks or other financial institutions of their own. This group includes big industrial companies as well as small and medium-size companies.

26. The average share of interest payments in value added of private firms among the largest five hundred industrial companies was 35.1 percent in 1982–86 and 30.8 percent in 1987–92 (*Istanbul Sanayi Odasi Dergisi*, September 1989, p. 47; September 1993, p. 58).

27. According to the results of the Istanbul Chamber of Industry's annual survey of five hundred biggest industrial firms, the share of nonindustrial revenues in total profits amounted to 52.9 percent in 1996 (*Milliyet*, September 3, 1997). This ratio averaged 25.0 percent during 1984–89 and 41.0 percent during 1990–93. It reached 54.6 percent in 1994 (Senses, 1995, p. 65, n. 32).

28. Following the announcement of the election results, TUSIAD issued advertisements in major Turkish newspapers urging the MP and the TPP to join their forces (*Cumhuriyet*, December 27, 1995, p. 9).

29. The Constitutional Court announced its ruling on the Welfare Party case on January 16, 1998. It outlawed the party on the grounds of the violation of the constitutional principle of secularism. The banning of the WP further alienated the Islamists and delegitimated the state in their eyes. Welfare Party politicians founded a new party, called the Virtue Party, to replace the WP shortly before it was closed down. The Islamist movement remains a formidable political force. Democratic resolution of the question of how far Islamism should be permitted in the public sphere depends to a significant extent on the position the new Virtue Party pursues. The party leadership so far has tried to project a more moderate image than its predecessor, yet the party ranks include individuals whose respect for the secular nature of the state and liberal democracy is highly suspect.

30. For example, large masses carried out simultaneously across the country a protest action in the form of turning lights off for a minute every evening during the entire month of February 1997. The action was called "one-minute darkness for continuous brightness." It took place in the wake of an incident that caused increasing public suspicions of the existence of links between the mafia, security

forces, and some politicians. The primary demand raised in the protest action was "clean, transparent state" (see Turkish newspapers from February 1997).

31. For instance, the goal of ensuring the European Parliament's approval of a Turkey–EU customs union in its voting in December 1995 significantly helped speed up the process of amending the constitution. Similarly, the very restrictive Anti-Terror Law was amended in a more liberal direction in November 1995, shortly before the European Parliament's approval of the customs union. And the current MP-DLP-DTP government is giving the EU governments promises to improve human rights as a part of its diplomatic campaign before the EU makes its decision on Turkey's application in December.

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