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SOCIAL STRUCTURE OF ACCUMULATION IN TURKEY (1963 – 2015)

Osman C. Icoz

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SOCIAL STRUCTURE OF ACCUMULATION IN TURKEY (1963 – 2015)

A Dissertation Presented

by

OSMAN CAN ICOZ

Submitted to the Graduate School of the
University of Massachusetts Amherst in partial fulfillment
of the requirements for the degree of

DOCTOR OF PHILOSOPHY

September 2018

Economics

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SOCIAL STRUCTURE OF ACCUMULATION IN TURKEY (1963 – 2015)

A Dissertation Presented

by

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DEDICATION

To the memory of İsmail Arı

(aşk olsun sana çocuk...)

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I am deeply grateful to my advisor David Kotz. This dissertation would not have been possible without his guidance and support. He is an *excellent* scholar of Marxian political economy, and I have learned a lot from him. I would also like to thank my committee members, James Heintz and Dan Clawson, for their insightful comments and valuable feedback.

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Finally, I wish to thank my parents and my sister. I am indebted to them for their love, support, and encouragement throughout my academic journey.

ABSTRACT

SOCIAL STRUCTURE OF ACCUMULATION IN TURKEY (1963 – 2015)

SEPTEMBER 2018

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This dissertation analyzes capitalism in Turkey during post-1963 period from social structure of accumulation (SSA) theory perspective. The SSA theory is a theory of interaction of institutions and capital accumulation over long run. This dissertation will be the first book length study on Turkey using SSA Theory approach. It will enrich the SSA literature by adding a case of Turkey, which is a developing country; and hence it will be another example that SSA framework can be extended outside of US.

I observe two different SSAs during the period of interest. The first one is Import Substitution Industrialization (ISI) SSA from 1963 to 1980, which I named after

dominant economic policy of the era. Turkey had experienced a military coup d'état in 1960, and a new constitution had been established in 1961, which had shaped most of the political and economic institutions, as well as the ideology, of the time. Related with these, the first five-year development plan, which was effective by the very first day of 1963, changed Turkish economy significantly. Chapter 3 presents features of ISI SSA, along with factors that played role in construction, working, and demise of ISI SSA.

The second SSA is Neoliberal (NL) SSA from 1980 to 2015. There was a military coup d'état that took place in September 1980, which had dramatic effects on the institutional environment in Turkey. More importantly, in January of the same year, a new set of neoliberal economic policies was put in effect that brought some important changes to Turkish economy. Chapter 4 analyzes features of NL SSA. There are two important phenomena during NL SSA period that deserves in depth analysis: Islamization and highly volatile growth during 1990s. Islamization has been an important part of the ideology of NL SSA in Turkey. Chapter 5 discusses effects of Islamization on both labor-capital and within capital class struggles. Then Chapter 6 presents an econometric model that provides evidence for positive relationship between private investment growth volatility and political instability. This chapter argues that political instability, due to rapidly changing governments, can be one of the reasons of high volatility in gross domestic product growth rate during NL SSA period.

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LIST OF ABBREVIATIONS

(some are abbreviated in Turkish)

ADF	Augmented Dickey–Fuller
AKP	Justice and Development Party
ANAP	Motherland Party
AP	Justice Party
CAB	Current Account Balance
CBRT	Central Bank of Republic of Turkey
CHP	Republican People’s Party
DİSK	Confederation of Progressive Trade Unions
DP	Democrat Party
DSP	Democratic Left Party
EU	European Union
EUCU	European Union Customs Union
EY	Ernst & Young
FFDP	First Five-Year Development Plan
FTZ	Free Trade Zone
GDP	Gross Domestic Product
GFCF	Gross Fixed Capital Formation
GNP	Gross National Product
HAK-İŞ	Confederation of Turkish Real Trade Unions
HTP	Health Transformation Program
IMF	International Monetary Fund

IS	Institutional Structure
ISI	Import-Substitution Industrialization
J24D	January 24 Decisions
KPSS	Kwiatkowski–Phillips–Schmidt–Shin
MD	Ministry of Development
MESS	Turkish Employers' Association of Metal Industries
MÜSIAD	Association of Independent Industrialists and Businessmen
NATO	North Atlantic Treaty Organization
NL	Neoliberal
NSC	National Security Council
OECD	Organization for Economic Co-operation and Development
PA	Privatization Administration
PBAT	Participation Banks Association of Turkey
PP	Philips-Perron
RP	Welfare Party
SDR	Special Drawing Rights
SFH	Special Financial Houses
SME	Small and medium size enterprises
SOE	State-Owned Enterprises
SPO	State Planning Organization
SSA	Social Structure of Accumulation
TEH	Turkish Economic History
TİP	Workers Party of Turkey

TİSK	Confederation of Turkish Employers Unions
TKP	Turkish Communist Party
TPE	Total Payment to Employees
TÜRK-İŞ	Confederation of Turkish Trade Unions
TurkStat	Turkish Statistical Institute
TÜSİAD	Turkish Industry and Business Association
TVA	Total Value Added
UK	United Kingdom
US	The United States
WB	World Bank
WHO	World Health Organization

CHAPTER 1

INTRODUCTION

Capitalism, as a historical mode of production, has some defining features which have been observed in all capitalist economies hitherto; such as, wage-labor relation, production for profit, commodity production, and accumulation drive. On the other hand, capitalism hasn't had a single and even path of development across time and space. The rate of capital accumulation has showed ups and downs. Capitalist countries experience stable (and sometimes even rapid) accumulation for a period of time; but the rate of accumulation slows down (and can even go negative) at other times, and hence stagnation and long-term crises occur. There are several schools of thoughts in Marxian political economy, which have studied these issues. Social Structure of Accumulation (SSA) Theory is one of the main approaches in this tradition¹.

In this dissertation, I analyze capitalism in Turkey during the post-1963 period from an SSA perspective. SSA Theory is a theory of the interaction of institutions and capital accumulation over the long run. According to SSA theory, capitalist economies need a set of interrelated institutions in order to have stable capital accumulation and high profit rates². These institutions that constitute a social environment favorable for capital

¹ The other important approach is Regulation Theory. Kotz (1994a) provides a detailed discussion about the similarities and the differences of these two schools of thoughts.

² This interpretation of the SSA theory can be found in Wolfson and Kotz (2010). On the contrary, the original form of the SSA theory necessitates not only stable but also *rapid* accumulation for a new SSA. That original theory experienced some difficulties in defining the post-1980 period. After the break of the post war SSA (late 60s, early 70s) and a period of crisis that followed it (mid and late 70s) in most parts of the capitalist world, a new institutional structure, called neoliberalism, was created. Its most complete form was first observed in the United States (US) and in the United Kingdom (UK) during early 1980s, and then it immediately became a dominant institutional form over the capitalist world. Wolfson and Kotz (2010) argue

accumulation are called social structures of accumulation. An SSA consists of institutions (economic, political, and cultural) that *significantly* affect the capital accumulation process.

SSA theory explains the accumulation cycles as follows: An SSA creates stability and predictability for long-run investments of capitalists, which lead to a long period of stable accumulation and high profit rates. It creates this favorable environment by regulating class conflicts, intra class relations and competition, and assuring growing markets. But, in the meantime, this long period of stable accumulation and high profit rates undermines the ability of the SSA to any longer promote stable accumulation, by creating contradictions in the accumulation process, contradictions in the SSA, and contradictions in the relation between accumulation and the SSA. These contradictions will lead to a long period of relative stagnation and instability; which then eventually leads to collapse of the SSA. So the crisis phase can be defined as a period in which the SSA becomes an obstacle to accumulation. This can be either because of breakdown of institutions or a shift to obstructing accumulation. Without a new SSA, capital accumulation cannot proceed normally again. On the other hand, it is also possible that a new SSA will not arise. Only if a new SSA is created, will the accumulation cycle start again from the beginning.

neoliberalism cannot be regarded as a new SSA if one follows the original form of the SSA theory, since there was no significant rapid accumulation during the neoliberal era. They compare growth rates of gross domestic product (GDP) for neoliberal period (1979-2007) and the crisis period of the post-war SSA, and observe that the growth rates were not significantly different. On the other hand, neoliberalism is obviously not a part of the post-war SSA since “it constituted a new, coherent, institutional structure”. By taking these observations into account, they offer a reconceptualization of the SSA theory. In its new form of the theory, an SSA does not necessarily promote *rapid* growth; but it needs to promote *high profit rates and stable accumulation* by stabilizing the class contradictions.

1.1 What can be learned by SSA Theory approach?

Although this dissertation will be the first book length study on Turkey using SSA Theory approach, there are many studies that analyze different aspects of economic and social history of Turkey. Therefore, an immediate question to ask is, what are the advantages of SSA Theory over standard economic theories? What does SSA Theory enable us to learn from history of Turkey? Similarly, what would be missing if SSA approach were not used? I argue that there are two important features of SSA Theory that make it distinct. First, SSA Theory provides a theoretical framework on relations between institutions and capital accumulation. Second, it emphasizes the importance of class struggle in pace of capital accumulation. I will briefly explore these two points in the following two paragraphs.

How can expansion and stagnation phases (long swings) of capitalist economies be explained? In general, other theories have so far focused on a set of economic factors to explain this phenomenon, and have considered the other (social and institutional) factors as accidental/external. On the other hand, as stated by Kotz (1994b), “the crucial innovation offered by the SSA approach is that the wide range of causal factors are not viewed as accidental or external.” According to SSA Theory, in addition to economic factors, those social and institutional factors are also governed by laws of motion. In addition, it worth to emphasize that SSA Theory cannot be reduced to a theory that only focuses on the role of institutions in capital accumulation, because it offers more than that. It states that each new set of institutions (a new SSA) brings a stable accumulation and high profit rates, and when those institutions stop working effectively, then a period

of stagnation will follow. In other words, it is the dynamic and dialectical relationship between institutions and capital accumulation that makes SSA Theory unique.

The statement that Marx and Engels put at the beginning of Communist Manifesto³, “the history of all hitherto existing society is the history of class struggles”, has been central to Marxian Political Economy. It is impossible to eliminate class conflicts from capitalist societies, as they are natural products of capitalist relations of production and exchange. SSA Theory provides a valuable theoretical link between existing class conflicts and capital accumulation. In order for an SSA work effectively (to promote capital accumulation and profit making), it needs to stabilize class conflicts. Moreover, the role of class struggle in SSA Theory is not limited to the period that an SSA works effectively. After demise of an old SSA, character of a new SSA, if it emerges, will be determined by the relative power of different interest groups, the most important of which are labor class and capitalists. This central role of class struggle is the other feature of SSA Theory that makes it a more powerful theory than other economic theories.

In my analysis of history of capitalism in Turkey since 1963, I always refer to these two important pillars of SSA Theory, role of institutions and class struggle in capital accumulation. I present a careful analysis of how different institutions played a role during different phases of two SSAs. In addition, the relative powers of labor and capitalists in class struggle during construction, consolidation and demise periods of two SSAs are also central to this dissertation.

³ See Marx and Engels (1969).

1.2 Note on time period & structure of the dissertation

Why are 1963 and 1980 two important years to label as the starting points of two different SSAs in Turkey? First, Turkey had experienced a military coup in 1960, and a new constitution had been established in 1961, which had shaped most of the political and economic institutions, as well as the ideology, of the time. Related with these, the first five-year development plan, which was announced in 1962 and became effective by the very first day of 1963, changed the Turkish economy significantly. Secondly, as to 1980, there was a military coup that took place in September 1980, which had dramatic effects on the institutional environment in Turkey. More importantly, several months before the coup, a new set of economic policies was put in effect⁴, which brought some important changes to Turkish economy. These two events can, therefore, label the starting point of another SSA in 1980. Furthermore, my periodization of these two SSAs is also consistent with the literature on Turkish Economic History (TEH).

In the next chapter, I will present a review of related literature, and also list contributions of this dissertation to existing literature. Then, in the following two chapters, I will analyze the Turkish economy using SSA Theory framework for the period from 1963 to 2015. There have been two different SSAs within the period of interest: import substitution industrialization (ISI) SSA (1963-1980) will be analyzed in Chapter 3; and the neoliberal (NL) SSA (1980-2015) will be analyzed in Chapter 4. Then, in chapter 5, I will discuss the effects of Islamization on the NL SSA in Turkey. As Turkey has been experiencing an increasing Islamization in both social and economic life

⁴ Known as ‘January 24th Decisions’, which passed on 24th January 1980. See chapter 4 for details.

especially since late 1990s, this chapter can be considered as the role of ideology and religion in working of a particular SSA. One of the important features of the NL SSA in Turkey is that annual growth rates of gross domestic product (in real terms) show high volatility, which is actually a puzzle since a more stable pattern is expected if NL SSA works effectively. Chapter 6 offers an econometric model that suggests an explanation to this phenomenon. Then, Chapter 7 will conclude with key findings of this dissertation. Appendix, including supplementary figures/tables and also data calculations, and bibliography sections can be found at the end.

CHAPTER 2

LITERATURE REVIEW

This chapter includes a review of the literature that is related to this dissertation. The first section includes a summary of important studies on origins of the SSA Theory, along with some later studies that brought theoretical and empirical developments. The second section includes studies that apply SSA theory framework to analyze cycles of accumulation in different countries. In chronological order, I will discuss *strengths and weaknesses* of important studies in this group, after a brief description for each. Then, the next section includes works on Turkey related to this dissertation. Specifically, I will discuss major studies on TEH and on Islamization in Turkey (related to class conflicts). Finally, the last section summarizes contributions of this dissertation to the literature (i.e. what gap or gaps exist in the literature that the dissertation intends to fill).

2.1 Literature on SSA Theory⁵.

The first appearance of the SSA Theory can be dated as late 1970s, mostly by the works of David Gordon, Michael Reich, and Richard Edwards. The origins of the theory can be briefly described by three studies. Firstly, Gordon (1978), by examining the long cycles and the economic crisis in US, concluded that “the current crisis [of postwar period] probably represents ... the dissolution of one set of institutions and the beginning

⁵ The list of studies listed here does not cover all studies on the SSA theory; but include those that are directly related with this dissertation. For instance, I skip some studies that incorporate macro modeling to analyze an SSA in US (see Bowles et. al. (1983) and (1986), for instance) and studies on specific institutions from SSA framework (see Wolfson (2013) on finance, Carlson et. al. (2010) on criminology, for instance). McDonough et. al. (2014), which collected the most works on SSA theory so far, includes a much broader reference list than the one I present here.

of a struggle between capitalists and the rest of us over the basis upon which a reconstitution of institutions will take place.” He, then, defined this ‘set of institutions’ as ‘social structure of accumulation’ and gave its several characteristics. Secondly, a few years later, Gordon (1980) provided a more detailed framework for the SSA Theory, which he mentioned as “rigorous theoretical foundation for a theory of stages of accumulation.” He listed the institutions necessary for stable accumulation into four logical categories (along with the names of institutions in parentheses): i) agents of accumulation (corporate structure); ii) motors of accumulation (the structure of competition, the structure of class struggle); iii) systemic requirements for accumulation (the structure of monetary system, the structure of the state); and iv) the requirements for individual capital accumulation (the structure of natural supply, the structure of intermediate supply, the social family structure, the labor market structure, the structure of labor management, the structure of final consumer demand, the financial structure, the structure of administrative management).

Last but not least, Gordon et. al. (1982) formulated SSA as institutions that “*directly and demonstrably* condition capital accumulation”. Although *all* institutions can potentially affect the accumulation process to some extent, an SSA does *not* include *all* institutions in the society. In other words, institutions that have weak effects on the accumulation process cannot be considered as parts of an SSA. According to them, capital accumulation does not proceed without a stable and favorable external environment. As to *general* institutional features of this environment, Gordon et. al. (1982) listed the system ensuring money and credit, the pattern of state involvement in the economy, and the structure of class struggle. As to *specific* institutional features,

following Marx's concept of the circuit of capital (M-C-C'-M'), they divided the capital accumulation process into three steps⁶. The first step (M-C) is the collection of necessary inputs, the institutions of which are system of natural resource supply, intermediate goods supply, and labor supply. The second step of accumulation (C-C') is the production process. The top management structure and the organization of the actual labor process are the two institutions that are specific to this step. Finally, in the selling process step of accumulation (C'-M'), Gordon et. al. (1982) listed *at least* three institutions: the structure of final demand, the structure of inter-capitalist competition, and the sales and marketing system. McDonough et. al. (2014), argue that with the publication of Gordon et. al. (1982), the "SSA theory both reached its definitive formulation and a wider academic audience."

After stating three main studies about the origins of the SSA Theory, I will now go through some theoretical and empirical developments in the theory. Kotz (1987) provides answers for several questions; such as how an SSA supports accumulation, why the expansion and the contraction phase end, why long waves are long. According to Kotz (1987), SSA approach "breaks with the view that only narrowly economic phenomena can influence the accumulation process in a significant and systemic way." It is, therefore, possible to link historical developments together and analyze them. On the other hand, he also argues that the original version of the theory has several ambiguities and potential problems, most of which are about the role of institutions. McDonough (1990), by analyzing the resolution of crisis in US economic history, argues that the

⁶ See volume II of Marx and Engels (1967) for a detailed explanation of circuit of capital. Also, see Kotz (2017) for a discussion on Marxist roots of the SSA Theory.

organizing principle in the construction of each SSA is different. For instance, the new monopoly capitalist SSA (which was built at the beginning of 20th century) “was organized around the construction of one powerful central institution – the monopoly corporation.” On the other hand, the postwar SSA of the US included several powerful institutions “each consistent with the others, none obviously dominant.” Then, he concludes that it is difficult to predict the character of each SSA in advance, since the organizing principle of each is unique.

Another work that discusses important theoretical issues is Lippit (2005). By using evidence from US and Japanese history, Lippit attempts to address the following three questions: i) what accounts for the structural integrity of an SSA? ii) why do SSAs take a long time to form, and, once formed, why do they tend to persist?, and iii) why do SSAs collapse, and how are new ones formed? As to the first question, Lippit argues that institutions of an SSA form an integrated structure since “each institutional component of a given SSA is shaped in part by all of the other institutional components (and, in its turn, contributes to shaping each of them).” Secondly, the reason for the long time needed for the construction of an SSA, according to Lippit, is because “new institutions are typically formed through process of intense social conflict interacting with changing external conditions.” And since this process “is inevitably a drawn-out affair”, SSAs, once established, tend to persist. As to the third question, Lippit claims that changes in institutions, which once contributed to construct an SSA, then contribute to undermining it; and the internal contradictions of those institutions weaken the SSA. Collapse of an SSA is then followed by intensive social struggles. These struggles, along with

exogenous conditions and historical contingency, may create a new SSA; although there is no guarantee that a new SSA will emerge.

In a later study, Wolfson and Kotz (2010) offer a reconceptualization of SSA theory to “make SSA theory more persuasive and more consistent with the historical evidence.” They first state that an SSA does *not* necessarily promote a rapid accumulation, contrary to original form of the SSA theory that necessitates rapid capital accumulation. An SSA, by stabilizing class contradictions, needs to promote high profit rates and stable accumulation; but it may or may not provide rapid accumulation. The other important contribution of Wolfson and Kotz (2010) is their classification of SSAs into two types, as liberal SSA and regulated SSA. There are five dimensions along which these two types of SSA differ: i) the way that labor-capital conflict is temporarily stabilized, ii) the role of the state in economy, iii) within-class conflict of capital, iv) within-class conflict of labor, v) dominant ideology. Moreover, Wolfson and Kotz (2010) argue that, although these two types of SSAs may differ in their behavior about capital accumulation, they have a common point: “both types tend to promote high profitability during the period when they are working effectively.”

2.2 Literature on SSA of a country⁷

- Strain and Grant (1991): As being one of the earliest works on application of SSA framework to a country outside US, this study analyzes the SSA in Canada between 1945 and 1988. The main strength of the study is that it is well-structured. It clearly

⁷ The list here does not include studies on US. I focus *mostly* on developing countries.

points out the “fundamental attributes” of the post-war SSA in Canada and the reasons why the SSA entered its demised period during late 1970s. It uses several measures of profit rate in its analysis of the post-war SSA period. Moreover, it includes a detailed discussion of how class conflicts were stabilized, which is central to SSA Theory. Data on strikes and cost of job loss are presented effectively to support the paper’s claims on class conflicts.

- Natrass (1992): This paper analyzes the apartheid period in the South African economy by using the concepts of regulation school and SSA theory. It concludes that there is little evidence for the existence of a regulation/SSA in South Africa during the apartheid period; since, she argues, the manufacturing net profit rates and shares fell steadily over the period. By identifying trends in profit-rate series (decomposing series into several component) for different periods, it attempts to explore underlying institutions in these periods. However, detailed discussion of profit rate series is not well supported by institutional history. It looks like a more of a typical empirical study on rate of profits (and only in manufacturing sector) than a study using SSA framework that should include both empirical and historical analysis in detail.
- Mihail (1993): This article examines the two contrasting phases of the industrial capital accumulation in postwar Greece. It argues that the first phase can be explained by the emergence and consolidation of the Greek social structures of accumulation, and the second phase corresponds to demise of the same SSA. Empirical and historical aspects of this paper are well-balanced. The econometric model, at which rate of profit is dependent variable, includes several predictors related to class struggle that is central to SSA theory. As stated in the conclusion section of the paper,

- it shows that applicability of the SSA theory can be extended to developing countries, which had been, until 1990s, used only for developed countries.
- Hamilton (1994): This study develops a model based on SSA theory; and shows how the social variables (class struggle between labor and capital, intra class competition of capitalists, state intervention in economy) explain the growth of real wages, prices, and productivity in Jamaica between 1972 and 1987. It does, however, not use important building blocks of SSA theory in its analysis. As stated by Kotz et. al. (1994), “SSA framework brings politics, ideology, and culture into the heart of the theory of economic growth and crisis.” Although the econometric models include many important predictors related to capital accumulation and class relations, the results are not supported by historical/institutional analysis of Jamaican economy and politics, which is a significant weakness for a study using SSA framework.
 - Melendez (1994): This study explores the postwar expansion and crisis in Puerto Rico using macro-modeling within SSA theory framework. It shows that the erosion of key institutions, which allowed the long-term expansion of the 1950s and 1960s, was the main reason of crisis during 1970s. Its emphasis on class struggle in empirical analysis of the period is the main strength of the paper. Solid empirical work would have been more powerful if the political and economic history of Puerto Rico had been presented in more detail.
 - Jeong (1997): This article applies the SSA theory to South Korea in order to explain Korea's economic boom from 1960s to late 1980s and its structural crisis during 90s. It successfully performs its main task, which is to explain economic boom and the economic crisis using SSA framework. Broad discussion of political history and

institutions, along with analysis of several important macroeconomic indicators, are strengths of this article. The pace of class struggle during the period is also well documented.

- Heintz (2002): This study explores the institutional factors behind the crisis of capital accumulation in South Africa in the 1970s and 1980s; and concludes that there is empirical support for a social structure of accumulation interpretation of the performance of the South African economy. The strength of this article is that it successfully shows a causal relationship between decline in the stable institutional environment (that is necessary for an SSA to work effectively) and the accumulation crisis, by using an econometric model. It uses an “index of political unrest” as a proxy variable for institutional stability, which is calculated by principal component analysis of three indicators of unrest. In chapter 6 of this dissertation, I calculate a similar index for political instability in Turkey.
- Harriss-White (2003): This study examines the working of the Indian economy using SSA framework. In ten chapters, this study provides both empirical and historical analysis of Indian economy, along with in-depth discussions of class, gender, and religious issues from SSA theory viewpoint. According to McDonough (2010), Harris-White’s study marks a kind of milestone for SSA theory since “it was only the second book-length publication by someone other than the founders of the approach and the first book-length treatment to deal with an area outside the United States.”
- Salas (2010): This article analyzes the Mexican economy in a relatively long period from 1921 to 2007. Its strength is empirical side; as it presents data series on several economic indicators that span whole period; and trends in data support the author’s

arguments well. Moreover, it provides a list of institutions that were parts of SSAs during the period. On the other hand, although it clearly lists the important institutions, the analysis is not broad enough to provide a deep understanding. For instance, it states that “the long wave of 1930–80 consolidated and sustained itself on the basis of a diverse series of institution”, but then discusses each of those institutions in a paragraph only. A more detailed discussion of institutional history would make this paper better.

- Pfeifer (2010): This study explores the features of the regional SSA in the Arab world by focusing on three countries (Egypt, Jordan, and Kuwait). It well documents not only common social assumptions and structures that all three countries possess, but also variations within the regional SSA. In addition to empirical analysis of growth and accumulation, it also discusses the state-capital and capital-labor relation within the region, and regional integration in terms of economic relations in a great detail. This complete analysis of three SSAs in relation to each other ends with a section of prognosis for building a new SSA, which summarizes the latest events in the region under the light of SSA theory.
- Akyol (2010): This study, which is an unpublished paper presented at a conference, attempts to analyze the post-1980 period of Turkish Economy using the SSA framework. Despite having a few good points, this paper has significant flaws. First, major changes (both political and economic) during the construction period of the NL SSA are listed without a discussion of increasing labor militancy and violent street clashes during late 1970s. It is hard to understand the construction of the NL SSA in Turkey without a proper discussion of the events in late 1970s, which then led to the

coup d'état in 1980. Second, the paper includes some discussion of financial liberalization and liberalization of foreign trade, but the third pillar of neoliberal economic policies, privatization, is completely ignored. Although the level of privatization was not significant until 2000s, legal regulations for privatization started during 1980s. Third, it is good that the author divides the NL SSA period into three phases as 1980-88, 1989-94 and 1995-2001. On the other hand, this periodization does not fit the economic and political history of Turkey well. In chapter 4 of this dissertation, I offer an alternative periodization for the NL SSA period in Turkey: 1980-89, 1989-2002 and 2002-2015. Fourth, although the title states that this is “an essay for post-1980”, and the paper is dated as 2010, the coverage (data series and discussion) ends in 2001. The features of AKP governments periods (post-2002) from SSA perspective are, therefore, absent. Last but not least, discussion of ideology, which has an important role in construction and working of an SSA, is another important feature that is missing in this paper.

2.3 Literature on Turkey

2.3.1 Turkish Economic History (TEH)

The reference book for TEH, which is in the curriculum of most economic history classes in Turkey, is Boratav (2013). Boratav, who is a leading Marxist economist in Turkey, analyzes the history of Turkish Economy from 1908 to 2009 in that book. The book combines the empirical data on Turkey with a qualitative analysis of several different periods. Among the other studies, Kafaoglu (2004) analyzes the 1958-1980 period of Turkish economy, and Ekzen (2009) discusses the 1946-2008 period mostly by

focusing on the relations of Turkish governments with the capitalist system and global institutions (such as IMF and WB). In a relatively recent study, Pamuk (2014) analyzes a very broad period (last two centuries) of Turkish economy, mostly from an institutional perspective.

The class struggle between capital and labor is an important part of SSA Theory; and any study on SSA that lacks a discussion of between and within class relationships cannot be considered as a proper work. Class relations in Turkey have been analyzed in several studies so far⁸. Boratav (2004) analyzes several issues such as the properties that can be used to differentiate classes in Turkey, the mobilization between classes, the similarities and differences in ideology and politics among different classes. In another book, Boratav (2005) focuses on a specific period (post 1980s); and analyzes the relationship between capital and labor in terms of income distribution, and the role of the Turkish state in class struggle. Ozan (2012) analyzes the relationship between capitalists and the state during late 1970s, and also explores the role of class struggle during the same period. Bugra (1994) provides a broad analysis about the relationship between the bourgeoisie and the state in Turkey, by analyzing the factors that shape business activity. Among more recent studies on class struggle, Savran (2011) is worth to mention, as it presents a detailed history of class struggles in Turkey between 1908 and 1980.

⁸ In this paragraph, I focus on the literature on class relationships from a general perspective. The studies listed here do, therefore, not include sociological studies on specific professions in Turkey. As examples on these types of studies, see Kose and Oncu (2002) for a study on engineers, and Sener (2008) on managerial class.

Another group of literature on TEH is the one that analyze specifically the neoliberal period of Turkey; hence, are related to the NL SSA part of my dissertation⁹. Onis and Senses (2009) briefly summarize the main turning points in the neoliberal (post-1980) era of the Turkish economy. According to them, the most critical turning point is “the decision in August 1989 to open up the capital account completely,” which they consider as a premature decision. The economic system of Turkey, therefore, became fully exposed to forces of financial globalization; but it was not ready to deal with these forces. As a result, the Turkish economy “became heavily dependent on highly volatile short-term capital flows with costly ramifications.” Ozturk (2012) analyzes the agricultural sector in Turkey during the neoliberal era. He argues that the two main effects of neoliberal policies on agriculture are “diminishing agricultural support and privatization of the public institutions from where to obtain agriculture inputs and buy the agricultural products.” Also, it has been more difficult for small farmers to survive in neoliberal era with respect to previous periods. On the role of Turkish state in neoliberal era, a recent study of Onder (2015) provides a detailed analysis. She argues that the role of the state did not decrease with neoliberal policies. By excluding the organized labor from the political process, the state has worked more in favor of capitalists at the expense of social welfare¹⁰. Boratav (2016) analyzes the effect of neoliberalism on Turkish

⁹ This paragraph includes the literature on neoliberalism in Turkey. Studies on neoliberalism can roughly be divided into two groups, those that analyze neoliberal period in a specific country and those that study neoliberalism in general. As several examples for the latter, see Harvey (2005), Dumenil and Levy (2004) and (2011).

¹⁰ What Onder refers here as ‘the role of the state’ is its political role, not the economic role of the state, as the latter has decreased. Starting with the new economic policy in January 1980 and continuing with the privatizations during 90s, the state has appeared less in the economic area relative to pre-1980 period. On the other hand, political actions in favor of capitalist class have indirectly showed its effect on the economic domain through class struggle.

bourgeoisie; and argues that AKP ruling after 2002 was “welcomed by all segments of bourgeoisie since it immediately and fully committed itself to the neoliberal model.” In addition these studies, there are also a few books that consist of articles on neoliberalism in Turkey from a broad perspective. For instance, Savran and Balkan (2002) includes articles on economy, society, and gender during the neoliberal period in Turkey. In a more recent study, Ozbay et. al. (2016) consists articles on effects of neoliberalism on various issues in Turkey, from urbanization to healthcare, and to environment.

2.3.2 Islamization & Class Conflicts

Turkey has been experiencing an increasing Islamization, and effects of this on class relations have been studied by several scholars so far. Bugra (2002a) analyzes the effect of Islamization on labor-capital conflict through a comparative analysis of The Confederation of Turkish Real Trade Unions (HAK-İŞ) and The Association of Independent Industrialists and Businessmen (MÜSİAD). As she argues, “both organizations derive their organizational strength from the rise of political Islam.” The businessmen in MÜSİAD, according to Bugra, think that Islam serves both ideological and economic functions. For those businessmen, MÜSİAD provides a good networking and cooperation opportunity by the help of which they can violate workers’ right since they believe that they are acting according to the Islamic principles of fair treatment. On the other hand, HAK-İŞ is used to keep workers away from being a member of other ‘more radical’ and ‘leftist’ labor unions. In addition, Duran and Yildirim (2005) provide a detailed analysis of HAK-İŞ, by focusing on its place within Islamic movement and labor class in Turkey. Although both MÜSİAD and HAK-İŞ are Islamists organizations,

according to Duran and Yildirim, their views on worker-employer relationship are different and reflect their class positions.

Karagoz (2014), in a short essay about the relationship between Islam and neoliberalism in Turkey, states that in workplaces where the employer and the workers consider themselves as parts of religious brotherhoods, “workers have been prevented from taking industrial action as it is argued that it disrupts productivity and implies a lack of social harmony, undermining the Islamic social vision.” On the other hand, Karagoz argues, workers are not been treated any better by Muslim employers than they were treated by the secular bourgeoisie in the past. In addition, a recent book by Balkan et. al. (2015) includes several articles on relationship between Islamic capital and neoliberalism, which explore how Islamism in Turkey as a political ideology has been utilized by the conservative bourgeoisie in order to establish hegemony over labor class since 1980.

The rising Islamization has affected not only capital-labor conflict, but also conflicts within capital. Karatepe (2013) analyzes the within capital conflict aspect of Islamization on the construction industry in Turkey. According to him, there are clientelistic networks between AKP (Islamic party which has run the government since 2002) and certain bourgeois fractions. These networks “favor certain capital groups that are ideologically close to Islamic/conservative politics” in several ways. For instance, the construction companies in the network, Karatepe argues, are subject to loose regulative constraints in their business relative to the constraints that other companies in construction sector are subject to; and they can obtain more favorable contracts than other

firms when doing business for the state. Another study that analyzes the effect of Islamization on within capital conflict is Atasoy (2009), which shows how capital has been realigned by the Islamic politics of AKP. Atasoy analyzes the issue by focusing on the divergence of interest of two big business associations; the Turkish Industrialists' and Businessmen's Association (TÜSİAD) representing secularly oriented big business, and MÜSİAD representing Muslim business interests. Although most members of MÜSİAD were the owners of small and mid-sized enterprises (most of which were located in small cities in Anatolia) in the past, starting at mid-80s, "the more successful pro-Islamic groups have already entered the ranks of big capital." And this tendency has increased rapidly during the AKP governments period. On the other hand, TÜSİAD's historical connections with the secular state have "kept it out of the AKP's cross-class alliance", while MÜSİAD is central to that alliance with its clear Islamic political orientation¹¹. Among other studies on rise Islamic capital, Adas (2009) focuses on structure of Islamic Holdings companies, and presents how Islamic network, which depends on trust based on Muslim brotherhood, has helped those companies to raise capital.

2.4 Contributions to existing literature

Why is this dissertation important, and what will be its contribution to the literature?

- As McDonough (2010) argues, one of the major critiques of SSA theory is that it has focused too narrowly on the US experience. The wide availability and high

¹¹ In addition, Keyman and Koyuncu (2005) compare those two business associations, TÜSİAD and MÜSİAD, by their views on modernity.

quality of the data on US might have played a role in this. This dissertation will enrich the SSA literature by adding a case of Turkey, which is a developing country, and hence it will be another example that SSA framework can be extended outside of US.

- Although there are lots of studies on Turkish economy, there is only one paper that attempts to use SSA framework, Akyol (2010). But, as stated in the previous section, it has many flaws, and covers a limited period of time. By offering a strong and book-length analysis of two SSAs from 1963 to 2015, this dissertation will be a significant contribution to literature on Turkey. It will bring a new (SSA) perspective to the economic and political history of Turkey.
- The NL SSA of Turkey shares some common features with NL SSAs of other countries, such as privatization and domination of labor by capital. On the other hand, national NL SSAs can have some features that are unique to that particular country. Islamization is a unique feature of Turkish NL SSA, which deserves a separate chapter to analyze. By presenting the effects of Islamization on labor-capital and within capital conflicts, which are central to SSA theory, this dissertation will contribute to the SSA literature.
- According to SSA theory, stable investment pattern requires a stable government structure. The econometric model offered in chapter 6 of this dissertation builds a relationship between political instability and investment volatility during the NL SSA in Turkey, which will be an important contribution to SSA literature. Moreover, by estimating political instability index using a tree-based classification method (random forest), this dissertation will also contribute to the

literature on estimation of political instability¹², since application of machine learning techniques to problems in social sciences is a very recent phenomenon.

¹² There are two main approaches in the literature for estimating political instability, which will be discussed in section 6.2.

CHAPTER 3

IMPORT SUBSTITUTION INDUSTRIALIZATION SSA (1963-1980)

3.1 Background

Based on the specific path on Turkish capitalism, the regular periodization of US (and also Western) capitalism, as post-war regulated SSA and the neoliberal period, does not fit to the Turkish case. Turkey did not attend the World War II, and it has a different path of development than other Western capitalist countries. After established in 1923, The Republic of Turkey had been a single-party state until 1945, where the Republican People's Party (CHP) had been the only political party. Multi-party electoral regime was accepted in 1945, and the Democrat Party (DP) came to power in 1950. The economy during the period that starts in mid 40s and ends in early 60s was highly dependent on agriculture. Pamuk (2007) calls this period as agriculture-led growth period.

DP was supported mostly by big landowners and rural peasantry. Adnan Menderes, the head of DP and the prime minister for 10 years from 1950 to 1960, was also a big landowner. On the other hand, that period also witnessed the rise of the industrial bourgeoisie, whose interests was not in line with the dominant agricultural bourgeoisie¹³. In addition to within class conflict between agricultural and industrial sects of bourgeoisie, some conservative and reactionary politics of DP increased the tension between the state bureaucracy (both civilian and military, most of which were supporters of CHP) and the DP government. Moreover, pro-American politics (i.e. sending troops

¹³ See section 3.2.1 (subtitle 'capitalists') for more on the nature of this within class conflict between different factions of bourgeoisie.

to Korean war in 1953) of DP was not welcomed by university students and intelligentsia. So, due to a set of economic and political reasons, there had been a social unrest and student protests during the late 1950s. These events then led to a military coup in May 1960. Savran (2002) defines the historic significance of the 1960 coup as “the adaptation of political and legal superstructure to the needs of the transition from predominantly agrarian and commercial process of capital accumulation to one based on industrial capital.”

3.2 Construction

Most economic indicators had worsened during the second half of 1950s, including GDP growth (Figure 3-1), trade balance (Figure 3-5), and inflation (Figure 3-8). The crisis had reached its peak in 1958 when external debt had reached to unsustainable levels. In the very same year, Turkish Lira had been devalued by more than 200% with respect to US dollar. Three important events during early 1960s (coup d'état in 1960, a new constitution in 1961, and finally the first five-year development plan in 1963) opened a new period in Turkish political and economic history. I call the period that started in 1963 with the first five year development plan (FFDP) and ended in 1980 with the coup d'état as 'Import-Substitution Industrialization (ISI) SSA', since the dominant economic policy of the era was import substitution industrialization. It is clearly stated in the FFDP that economic policy makers chose ISI as a development strategy, which had mainly two aims: to reduce imports and to industrialize. Before evaluating ISI SSA in terms of economic performance, I will first discuss the construction of ISI SSA in the following two sub-sections.

3.2.1 Class Struggle and the Role of State

According to SSA theory, different interest/political groups play role in construction of a new SSA. Since the defining characteristic of the state is ‘monopoly on violence’, those groups who have the state apparatus have much higher chance to win the battle against other groups. That is why different interest/political groups contend for the state. Below is a discussion of positions/roles of the army, the capitalist class and the labor class during the construction period:

3.2.1.1 Army

1960 coup was organized by young army officials in a non-hierarchical way, without the consent of the top officials of the army. In the political side, those army officials, who organized the coup, argued that DP government had been away from the founding ideology of the Republic of Turkey (Kemalism) by being reactionary and conservative. The prime minister of the time (Adnan Menderes) and two other ministers were executed after the coup. In terms of economics, one of the major criticisms of previous DP government, as Pamuk (2007) argues, was “the absence of any coordination and long-term perspective in the management of the economy.” That is why the military regime immediately established the State Planning Organization (SPO) in September 1960. There is also another point, argued by Amelung (1988), that DP government’s general disregard of the army’s material welfare, especially of junior officials, was also a reason for dissatisfaction within army ranks. Although there is no available data on wages of army officials for that period, this argument seems reasonable, since the dramatic

increase of inflation during late 1950s might have caused real income losses for wage earners within state bureaucracy (both military and civilian).

3.2.1.2 Capitalists

DP government had favored agricultural capitalists and merchants over industrial capitalist during 1950s. The agriculture was still dominant sector in 1950s and the country was highly rural. Agricultural areas were major sources of voting power, and the Prime Minister Menderes, who was also a big landowner, did not want to lose this political support. On the other hand, new industries started to emerge during 1950s, and hence industrial capitalists were increasing their role in the economy. But they couldn't find enough state support for their increasing needs of resources. As stated by Milor (1990), the state "via its control of the financial system, sought to channel resources to retail trade and agriculture, which received the *lion's share of credits* at the expenses of manufacturing industry." In addition to lack of enough credit from the state, industrial capitalists also had a difficulty in finding foreign exchange to support their needs of importing raw materials and intermediate goods. Foreign exchange resources were controlled by the state, and were mostly used in mechanization of agriculture (i.e. importing tractors and trucks). Due this "political allocation of scarce resources" during DP governments, as stated by Keyder (1988), the new economic policy of imports substitution industrialization and establishment of SPO were also supported by the industrial capitalists, who wanted state support for industrialization and protection of the domestic market. In addition, both the state bureaucracy and intelligentsia were also

supporters of industrialization as a development strategy, as they thought that Turkey couldn't be a developed country without a strong industrial sector.

Although the other factions of the bourgeoisie (big farmers and wealthy merchants) realized that they were losing power against the industrial capitalists after the coup, they did not actually resist this transformation towards a different economic model. Because, as Milor (1990) argues, by using the capital they accumulated during 1940s and 1950s, most of these rich farmers and merchants, “were eager to invest in new industrial ventures to fill the gap created by the restrictions on the import of many consumer goods.” So, we can conclude that the ISI SSA was constructed by alliance of the industrialist capital and the state bureaucracy, without any opposition from other factions of the bourgeoisie

3.2.1.3 Labor Class

The Turkish labor class cannot be considered as a significant political actor during early 1960s, when ISI SSA was being constructed, as it was really weak both in streets and in the parliament. The labor class organizations had been considered as illegal for several decades before the coup in 1960. During 1938-1946 period, any organization that based on *class interests* (such as labor unions, working class parties) had been forbidden by the law. Unionization had become legal in 1946, but strikes had continued to be illegal until 1961. Moving from a single-party political regime to multi-party regime had taken place also in 1946. Then, several socialist/leftist political parties were founded, but none of them was effective as the state oppression continued during 1950s. Under a more liberal political environment provided by the 1961 Constitution, which removed the ban

on strikes and brought more political freedom to all people in the country, labor unions and leftist political parties started to flourish during 1960s¹⁴.

The strongest organization of Turkish labor class during 1960s was The Workers Party of Turkey (TİP)¹⁵. It was founded in 1961 by twelve labor union leaders. TİP was a socialist political party that included both Turkish and Kurdish socialists. It first appeared at the 1965 election at which it got 3% of the total votes and obtained 15 (over 450) seats in the parliament. It didn't have any impact on the construction of ISI SSA, since the effective period of TİP was only the second half of 1960s¹⁶. Another strong labor organization of the ISI SSA era, Confederation of Revolutionary Labor Unions (DİSK) was founded in 1967, and hence did not exist during the construction period of ISI SSA. It would, therefore, be reasonable to conclude that the labor class was not represented as an interest group during the construction period.

3.2.2 International/External Factors

During the second half of the 1950s, the Turkish economy was not doing well; and this led DP government to look for some foreign credit. Foreign creditors, as Milor (1990) argues, were suspicious whether their money will be used effectively, since the

¹⁴ See section 3.4.1 for a detailed discussion of 1961 Constitution.

¹⁵ TİP was the only labor organization during early 1960s with a significant support from working class. Turkish Communist Party (TKP), another important leftist party in Turkish history, was not effective during 1960s, since most of its leaders left Turkey during 1950s due to wide arrests. Although TKP and TİP have some differences in ideology, TKP leaders, those both within Turkey and abroad, supported TİP during 1960s.

¹⁶ TİP was banned just after military memorandum in 1971. Although it was reopened in 1975, it wasn't effective during late 1970s and afterwards.

economic policies of DP government seemed irrational to them. Lack of any feasible plan made it difficult to find foreign credit. So, in addition to internal pressure from industrial bourgeoisie for a coordinated and rational economic policy, there was also a external pressure from foreign creditors. To overcome this difficulty, in 4 April 1960, the Dutch economist Jan Tinbergen, along with his assistant Jan Koopman, was invited to Turkey to initiate the organization for planning the economy. In other words, invitation of Tinbergen was a response of DP government to internal and external pressures. By inviting Tinbergen and his assistant, DP government tried to show that it was working towards a more rational economic policy to meet the demands of rising industrial bourgeoisie and of foreign creditors. Nevertheless, this did not prevent the coup in the next month. There are two reasons why the coup took place; even the DP government intended to move towards a planned economy. First, this invitation was actually too late, as dissatisfaction from economic policies of DP government within industrial capitalists had been going on for several years. The last minute movement did, therefore, not seem convincing enough, and seemed as just an attempt to prevent approaching coup d'état¹⁷. Second, as stated previously, in addition to economic problems, there was also a political issue since the secular army was highly unhappy with the reactionary politics of the DP government.

The invitation of Tinbergen then led to the establishment of SPO in September 1960. So, Turkey received some external help to formulate economic policies of the ISI

¹⁷ Although many people find military coups as surprising, it has not been unexpected for the state bureaucracy. At all military interventions in Turkish history, most state officials were aware that 'something' was coming. So, DP government officials were also aware that 'something' would come from the military if they didn't change their economic policies and reactionary politics.

SSA during its construction. On the other hand, the significance of the external factors during the construction of the ISI SSA should not be exaggerated. It is not reasonable to argue that international institutions (such as IMF and WB) played a significant role as they played in the construction of the next, neoliberal, SSA for two reasons. First, as we divide forces into internal and external during construction of an SSA, the internal forces were more significant in the construction of the ISI SSA than they were during the construction of the NL SSA. ISI as a development strategy was mostly an internal motive, which came mainly from national industrial bourgeoisie and the state bureaucracy¹⁸. On the other hand, the advocates of neoliberalism at IMF and WB were

Table 3-1: IMF Stand-by Agreements (in thousand SDR¹⁹ dollars, 1960-1979)

Facility	Date of Arrangement	Amount Agreed	Amount Drawn
Standby Arrangement	19-Jul-79	250,000	230,000
Standby Arrangement	24-Apr-78	300,000	90,000
Standby Arrangement	17-Aug-70	90,000	90,000
Standby Arrangement	1-Jul-69	27,000	10,000
Standby Arrangement	1-Apr-68	27,000	27,000
Standby Arrangement	15-Feb-67	27,000	27,000
Standby Arrangement	1-Feb-66	21,500	21,500
Standby Arrangement	1-Feb-65	21,500	0
Standby Arrangement	15-Feb-64	21,500	19,000
Standby Arrangement	15-Feb-63	21,500	21,500
Standby Arrangement	30-Mar-62	31,000	15,000
Standby Arrangement	1-Jan-61	37,500	16,000

Source: IMF database

¹⁸ Although the *motive* towards ISI is internal, the *idea* of ISI was not an invention of Turkey. As a development model, ISI strategies were already common in some parts of the world, especially in Latin America, during 1950s and 1960s. This can be considered as one of the reasons why national industrial bourgeoisie and the state bureaucracy chose ISI as a development strategy.

¹⁹ According to info on the website of IMF, “the currency value of the SDR (Special drawing rights) is determined by summing the values in US dollar, based on market exchange rates, of a basket of major currencies (US dollar, Euro, Japanese yen, pound, and Chinese renminbi).”

highly active in the construction of NL SSA in Turkey. Second, the amount of IMF loans during the construction of ISI SSA was relatively lower than they were during the construction of the NL SSA. If we compare the percent ratios of total amount of loans *drawn* during the first five years of both SSAs to average GDP of Turkey (in US \$) during the same period, we will get approximately 0.5% for ISI SSA and 1.7% for NL SSA²⁰.

3.3 Economic Performance

This section includes two parts. In the first part, GDP growth performance of the ISI SSA will be analyzed. Then, in the second part, other economic indicators of the period will be presented.

3.3.1 GDP growth rate

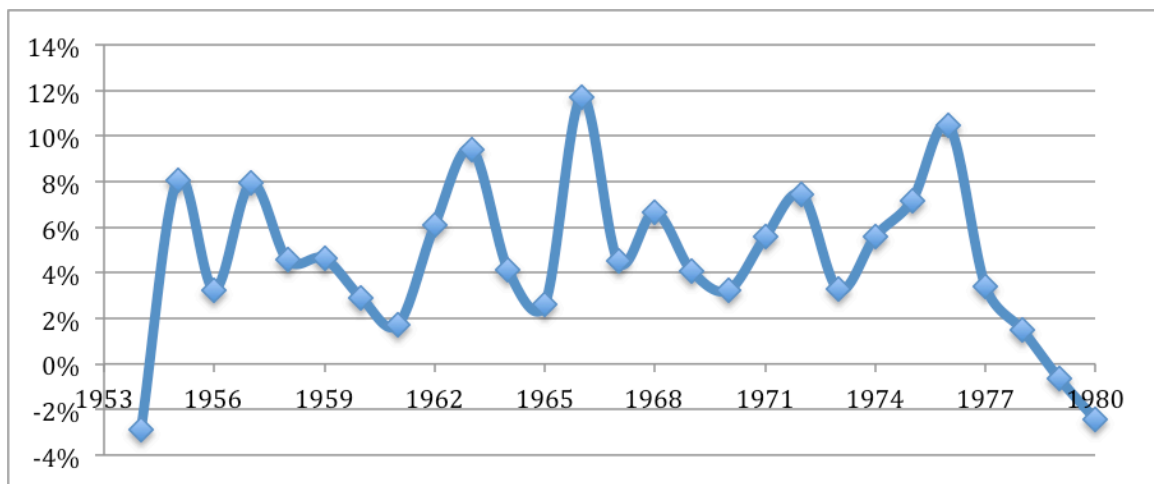
The most important economic indicator, which my analysis of two SSAs in Turkey depends on, is the real GDP growth rate. Before going through analysis of real GDP growth pattern, it would be better to explain why I am using real GDP growth in analysis of an SSA. Since the ‘A’ in SSA refers to accumulation, one may wonder why GDP growth rate is analyzed, rather than capital accumulation. The most important reason is that GDP growth rate series are *more easily available and probably of higher quality* than capital accumulation rate series²¹. In addition, economists usually use the

²⁰ See Table 4-5 for data on IMF agreements during the NL SSA period.

²¹ Lack of quality and limited availability arguments are true for capital stock series of Turkey too. Especially for pre-1984 period, series of capital stock, and also of some other economic indicators, are either missing or of poor quality. Nevertheless, I constructed capital accumulation series in manufacturing sector for 1973-2003 period using the capital stock and investment data

GDP growth rate to indicate the vigor of economic expansion, which is also a common practice in SSA literature. Starting with early works of Gordon and his co-authors, scholars have used annual GDP growth rates in their analysis. For instance, the analysis of Gordon et. al. (1982) depends on average annual percentage growth rates in real outputs of several capitalist countries. The figure below shows the annual growth rate of GDP during the ISI SSA period:

Figure 3-1: Annual real GDP growth rate (1954 - 1980)



Source: MD (2015)

A new SSA should lead to faster GDP growth than in the preceding crisis period. In order to check this, we can compare annual average growth rate (*not* average of annual growth rates) for two periods; 1957-1962 (crisis period of the previous SSA) and the later period until 1976 (at which demise of ISI SSA started). As presented in Table 3-2 below, while the former crisis period had shown 3.97% average annual growth, the latter period had 6.10%. This striking difference is a strong evidence for that a new SSA was

provided by Saygili et. al. (2005). Please see Figure A.1 that includes capital accumulation data for manufacturing. The figure is not presented in the text as the calculated capital accumulation rate *does not seem reasonable*, and hence is not a part of my analysis of two SSAs in Turkey.

constructed. Also, we can label the demise period of the ISI SSA depending on the data on GDP. Real GDP growth rate experienced a decrease starting in 1976, and the average annual growth for 1976-1980 period is less than 0.5%, which is far below the average growth of the previous period. So 1976-1980 can be labeled as the demise period of ISI SSA.

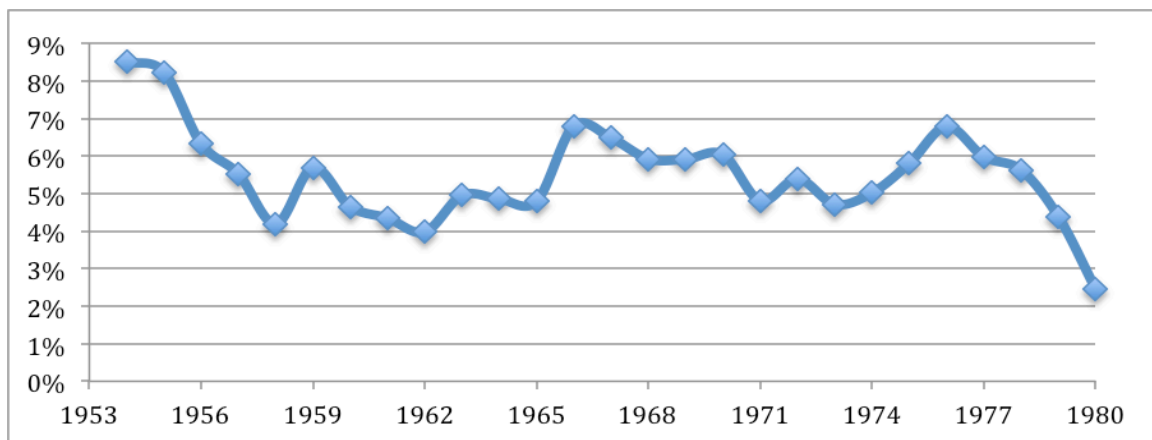
Table 3-2: Annual real GDP growth rates for different periods

Period	Average GDP Growth
1957-1962	3.97%
1962-1976	6.10%
1976-1980	0.44%

Source: Own calculations from MD (2015)

Another property that a new SSA is expected to bring is a stable accumulation pattern during its construction and consolidation period. On the other hand, the GDP growth for the 1963-1976 period, as presented in Figure 3-1 above, does not show any stable pattern. To overcome this volatility, and hence to have a better understanding of the GDP growth pattern of the period, we can look at moving average of the same data:

Figure 3-2: 5-year moving average of annual real GDP growth rate (1954 - 1980)



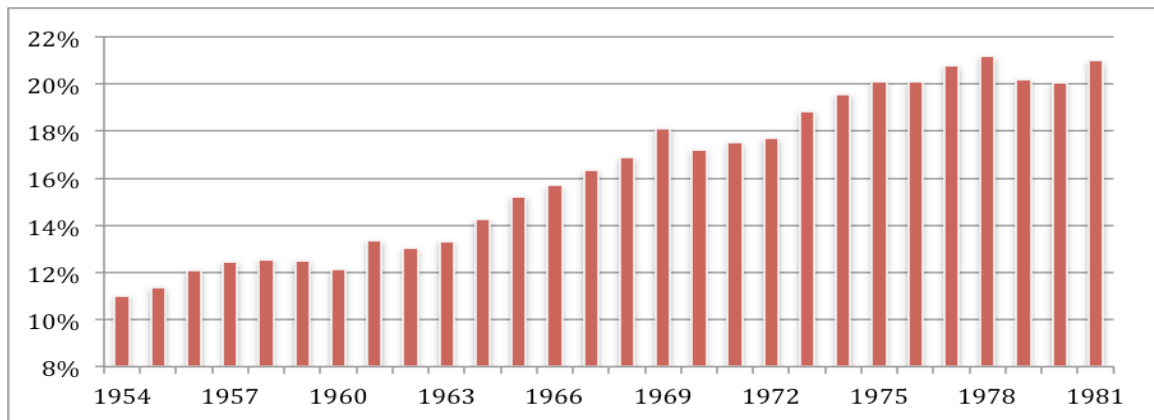
Source: Own calculations from MD (2015)

The above figure suggests ISI SSA was successful to stop an almost steady decline in (smoothed) GDP growth that had lasted for a decade before its construction. Then it brought a stable accumulation for the period from 1963 to 1976. It can, therefore, be argued that after established in early 1960s, the ISI SSA worked effectively until 1976. In addition, the moving average GDP growth data also suggests that the 1976-1980 period can be labeled as the demise period of ISI SSA.

3.3.2 Other economic indicators

Two main aims of the import substitution industrialization are to industrialize and to reduce dependency on imports. In the meantime, with increasing domestic production, it is also desired that exports will increase. We should check the available data to evaluate ISI SSA in terms of these two aims.

Figure 3-3: Percent share of industry sector in GDP (1954-1980)

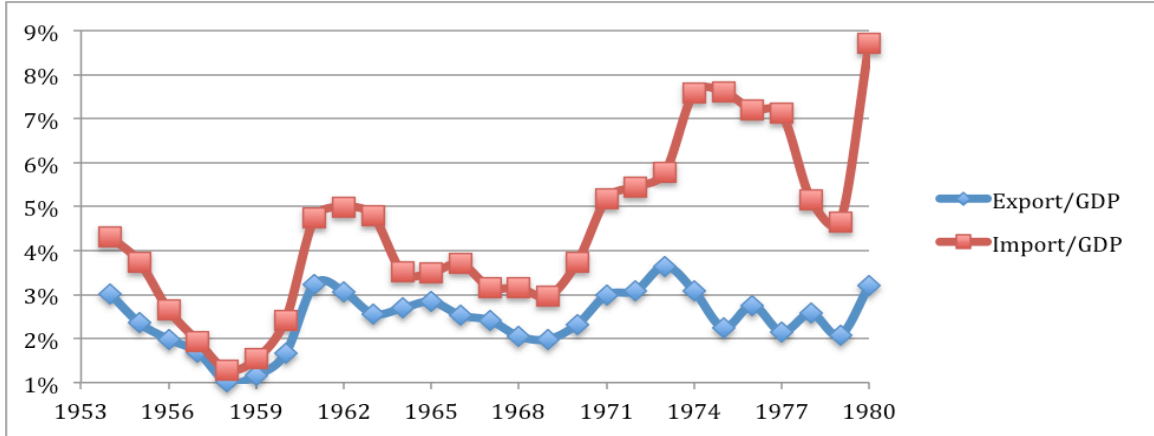


Source: Own calculations from sectoral GDP values in Atiyas and Bakis (2014)

The share of industry in GDP had stayed more or less at a constant level several years before the construction of ISI SSA, but then we see an increasing pattern starting at 1963, and continued until 1978, with only a single year of decline (in 1970). So, in terms

of industrialization, ISI SSA can be considered as successful. On the other hand, ISI SSA did not show a similar success in reducing imports, as the following figure suggests:

Figure 3-4: Percent share of export and import in GDP (1954 – 1980)

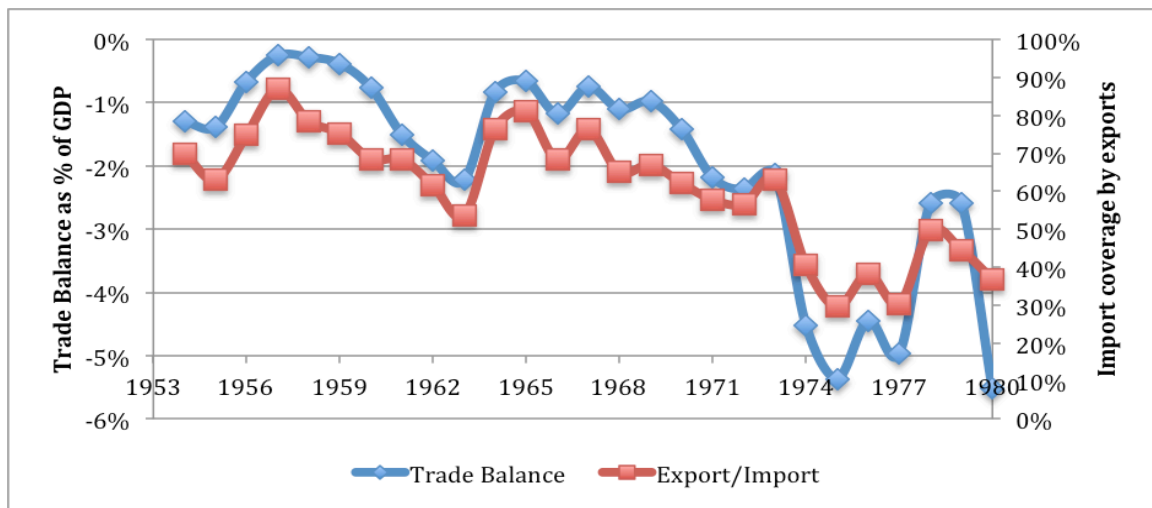


Source: TurkStat (2013) and MD (2015)

Two conclusions can be achieved from the above figure on export and import shares. First, the role of the foreign trade in Turkish economy during the ISI SSA period was not significant. Average export share in GDP was around 2.6%, and average import share was around 5.2%. The data for post-1980 period will be presented in the next chapter, but it would be helpful to present some future values also in here to better understand the role of foreign trade. The export and import shares increased to 6.5% and 11.1%, respectively, in 1990; and to 15.6% and 25.3% in 2010. The term that is obtained by adding the shares of import and export in GDP is used as a measure of openness of an economy. We can, therefore, conclude that the openness of Turkish economy was low during the ISI SSA. Second, although it was expected that ISI SSA improve the balance of trade, as one of its aims is to reduce imports, this was not the case in Turkey. Exports seem to move with imports until 1970, but then we see an increasing gap until the final years of ISI SSA. Two measures can be used to analyze the magnitude of this gap

between the imports and exports, share of foreign trade balance (exports-imports) in GDP, and the coverage of imports by exports, both of which are presented in the figure below:

Figure 3-5: Trade balance as % GDP and import coverage by exports (1954 – 1980)



Source: TurkStat (2013) and MD (2015)

The above figure suggests that Turkey experienced trade deficit during the whole ISI SSA period, but share of the deficit in GDP was not so large and ranged mostly between 1% to 5%. Although the deficit corresponds to small percent of GDP, it is clear that early 1970s witnessed a shift in the trend, and the trade balance became worse. As expected from increasing trade deficit figures, export/import coverage ratio fell from average of 75% during the first decade of ISI SSA to very low levels during 1970s. It can be argued that ISI SSA, although increased the share of industry in GDP during the period it worked effectively, did *not* succeed in improving foreign trade measures. Moreover, ISI SSA during its demise period from 1976 to 1980 performed badly also in terms of foreign trade, in addition to low levels of annual GDP growth rate.

Why did ISI SSA fail to reduce imports during 1970s? As stated by Boratav (2013) and Nas (2008), this was due to capital (investment) goods requirement for industrialization. In other words, increasing share of industry in GDP came with its import cost. There are two main reasons of why increasing industrialization led to increasing cost of imports. First, growth of capital good industries were not sufficient enough to match with growth of intermediate good industries, and hence the share of capital goods in total manufacturing value added decreased during the ISI SSA period. In order to maintain an increasing trend in industrialization, lack of growth in capital goods was, to some extent, compensated by imports.

Table 3-3: Percent share in total manufacturing value added

Year	Consumption Goods	Intermediate Goods	Capital Goods
1963	71.1	20.5	8.4
1980	49.9	42.6	7.5

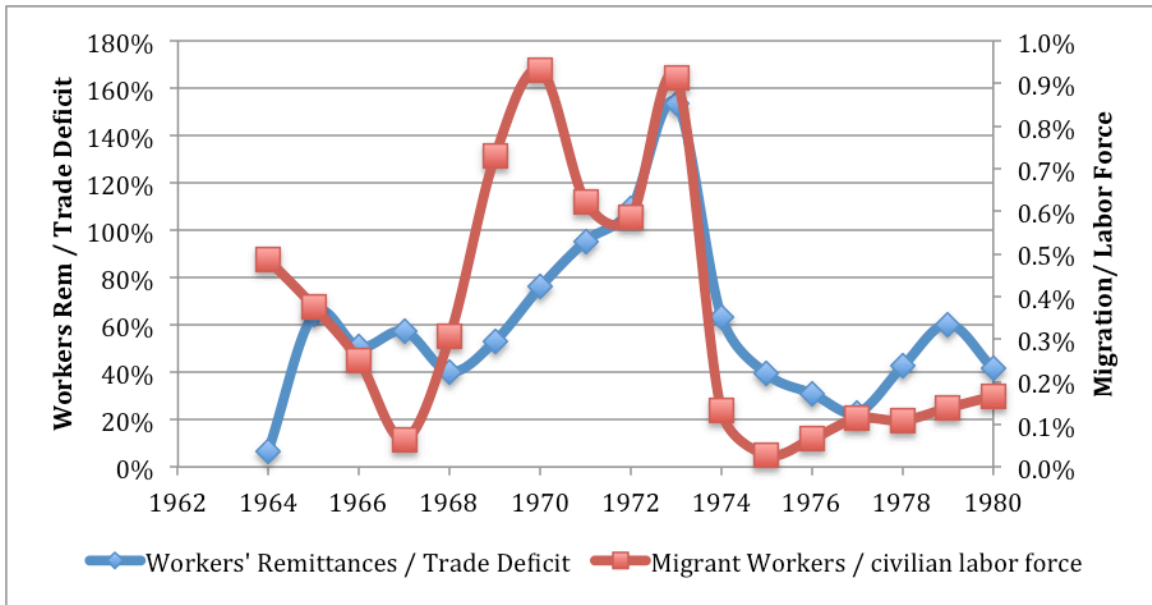
Source: Boratav (2013)

Second, relatively low prices of oil during 1960s did contribute to the steady increase of industrialization during 1960s; and dependency on imported oil increased during the very same period. However, as the price of oil increased dramatically in 1973, industry's dependency on oil reflected itself in increasing import costs during 1970s. A sharp increase in import share in GDP from 5.8% in 1973 to 7.6% in 1974 (Figure 3-4) does clearly reflect this effect.

Since the coverage ratio (exp/imp) decreased to low levels during the late years of ISI SSA, one can wonder how this increasing trade deficit was financed. As some European countries experienced a shortage of labor supply, Turkey experienced labor

outmigration to those countries starting at early 1960s; and significant majority of those workers went to Germany. As presented in the figure below, the money that these workers provided, also known as workers' remittances, was the main source of financing the trade deficit during the ISI SSA.

Figure 3-6: Workers' remittances and migrant workers (1964 - 1980)



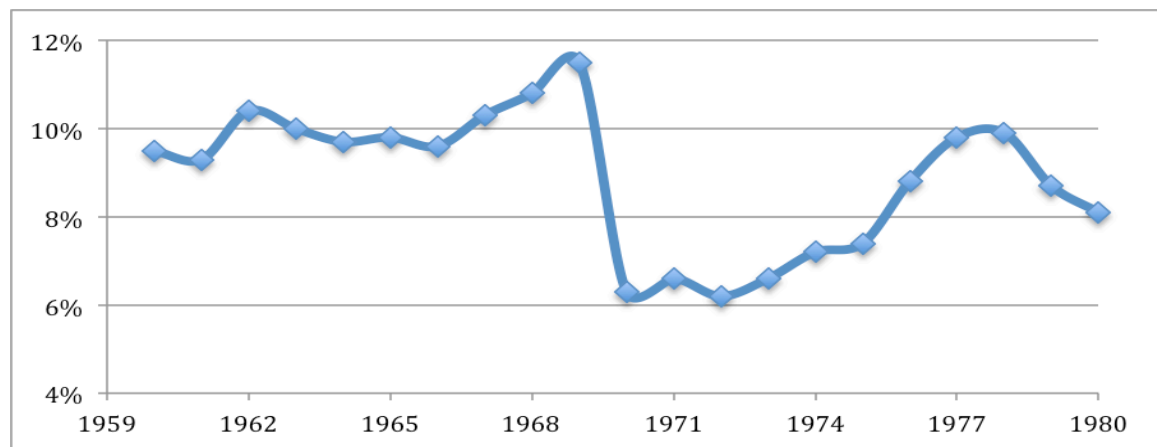
Source: Artukoglu (2005), OECD database, and TurkStat (2013)

As the above figure suggests, trade deficit until 1973 was mostly financed with workers' remittances, even more than 100% for some years. Although the percent share of migrated workers in total civilian labor force (presented in the right vertical axis) seems low, one should keep in mind that the numerator (number of workers out-migrated within that year) in the ratio is a flow variable. Hence, on the average, 0.4% of Turkish labor force migrated to Europe (mostly to Germany) every year during the ISI SSA period, which became a major source of financing the trade deficit until 1973. On the other hand, the workers' remittances were not enough to cover increasing trade deficit

after 1973; and the foreign exchange shortage became one of the reasons of the demise of ISI SSA.

Two other important macroeconomic indicators of the era that can be used to evaluate ISI SSA are unemployment and inflation rates.

Figure 3-7: Rate of unemployment (1960 - 1980)



Source: OECD database

First thing to note about the data on unemployment presented above is that the sharp decline in 1970 seems highly suspicious. As the official statistics for unemployment is not available for pre-1988 period, the most plausible explanation of very sharp decline in 1970 would be a measurement error or difference in methodologies used by different sources²². Since the series for before and after 1970 look separately

²² Although the data sources are explained in detail in Appendix, something needs to be mentioned about unemployment rate figures before going through the analysis. TurkStat (the official data provider) database includes unemployment rate statistics only for post-1988 period. There are two other sources for unemployment rate for ISI SSA period: OECD database and the tables provided by Bulutay (1995). The unemployment rate series provided in these two sources seem very consistent (in terms of both level and the trend) for 1970-1980 period, but differ significantly for 1960-1970 period. In Figure 3-7, I used OECD series for two reasons. First, the series provided by Bulutay (1995) shows very low unemployment rates for 1950-1960 period, which does not seem convincing. Second, in a recent study, Elgin and Kuzubas (2012) also uses

reasonable, we can compare unemployment rates within these periods, *not* across them. It is, therefore, not meaningful to comment on average unemployment rate during 1963-1976 period, at which ISI SSA worked effectively. But, a comparison between 1970-1975 period and the crisis period of ISI SSA (1976-1980) can provide an insight. As the table below suggests, average rate of unemployment was much higher during the crisis period the ISI SSA than the previous six-years period. 6.7% average unemployment rate during the first half of 1970s increased dramatically to 9.1% on average during the crisis period.

Table 3-4: Average unemployment rate for two periods during 1970s

Period	Average unemployment rate
1970-1975	6.70%
1976-1980	9.06%

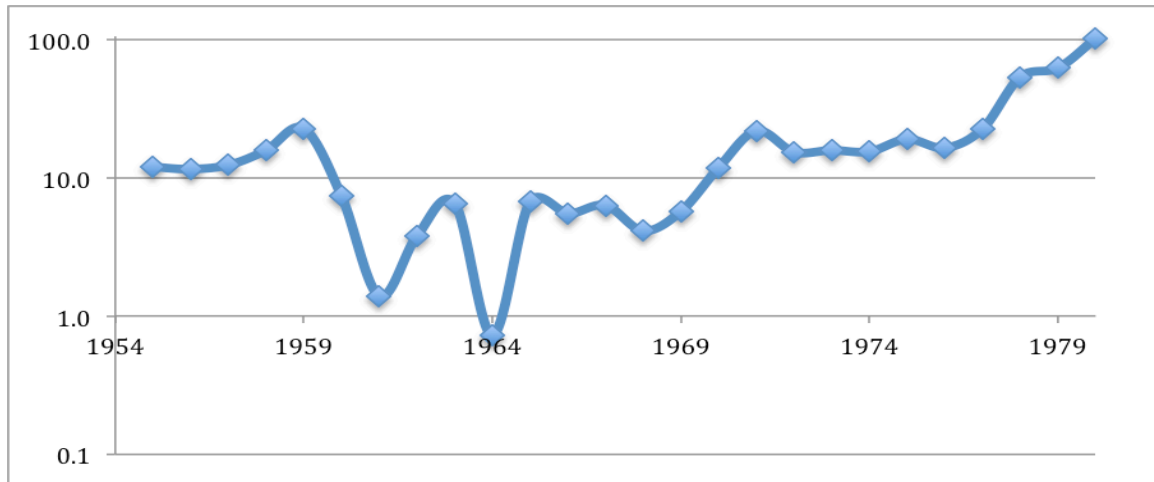
Source: Own calculations from OECD database

In terms of inflation rate, effective and demise periods of the ISI SSA differ significantly, as presented in the following figure and the table. The ISI SSA was successful in keeping the rate of inflation at relatively low levels during the period that it worked effectively (1963-1976), for which the average rate of inflation was 10.9%. Except for one year (1971), the rate of inflation was always lower than 20%, even much lower for the first six years of ISI SSA. Also, based on the real GDP data, 1976-1980 period is previously labeled as the demise period of ISI SSA; and the data on inflation is also consistent with this periodization. Starting at 1976, the rate of inflation showed a dramatic increase during the demise period. The average rate of inflation of the demise

historical unemployment series. Although they don't present the whole data series for unemployment rates in their paper, I contacted with them and requested their data set. The unemployment data they use is highly consistent with OECD series.

period was 57.3%, which was much higher than the average rate of inflation during the period that ISI SSA worked effectively.

Figure 3-8: Rate of inflation on log-scale (1954 - 1980)



Source: Own calculations from TurkStat (2013)

Table 3-5: Average annual rates of inflation for different periods of ISI SSA

Period	Average inflation rate
1963-1980	20.4 %
1963-1976	10.9 %
1976-1980	57.3 %

Source: Own calculations from TurkStat (2013)

3.4 Features

In the previous section, economic performance of the ISI SSA was evaluated in terms of several important economic indicators. Those indicators have so far been analyzed by many scholars working on TEH in different contexts. What this dissertation will bring as a contribution is to understand the factors that gave rise to those economic indicators from SSA theory viewpoint. It would, therefore, be helpful to remember the definition of SSA: institutions that constitute a social environment favorable for capital

accumulation. So, this section will answer the following question: what were the defining features of the favorable environment during the period that the ISI SSA worked effectively? More specifically, what were the set of (political, economic, cultural) institutions that constituted this favorable environment?

3.4.1 Political and Economic Institutions, and Role of The State

Three important factors, all of which were effective in working of ISI SSA, are the following: 1961 constitution, establishment of SPO and first three development plans, and the 1971 military intervention.

3.4.1.1 1961 Constitution

1961 Constitution, which was introduced after the May 1960 coup d'état and is the second constitution after the 1924 Constitution, was the main law of the ISI SSA period, and stayed effective until 1982. Although it was changed in 1982, it has still been accepted by some scholars as the most democratic constitution of the Republic of Turkey has ever had²³. It brought important changes with respect to the previous constitution of 1924, established new institutions, and hence affected the social, economic, and political life in Turkey significantly. As stated by Boratav (2013), the economic developments of

²³ Moreover, Kongar (2006) argues that the 1961 Constitution can be considered as the most democratic constitution among all the current constitutions in the world. It may sound paradoxical that the 1961 constitution, which was introduced after a military coup, is considered as a democratic constitution, let alone the most democratic one. As stated in section 3.1, the May 1960 coup was a reaction to conservative and reactionary politics of the DP government. The coup was organized by the young army officials *without* the approval of the top of the army. The ideology of the coup was considered as left-Kemalism, which is a left faction of the founding Kemalist ideology. The coup is, therefore, considered as a type of 'revolution' by some (currently, most supporters of CHP and several left-wing parties); but, on the other hand, is considered as 'bloody coup' by some others (currently, most supporters of AKP and all other conservative parties).

the post-1962 era took shape within the political and legal framework that 1961 Constitution created. The complete analysis of the 1961 Constitution is out of scope of this dissertation, but it is worth to mention several properties of the constitution that were significantly effective in working of the ISI SSA. First, according to the 1961 Constitution, one of the responsibilities of the state is planning of economic development. In order to do this, the constitution established the SPO, which was the most important economic institution of the era. Detailed discussion of SPO will be provided in the next part.

Second, the Constitution brought principle of separation of powers, and established the Constitutional Court to supervise the laws accepted by the parliament. In addition to political aspects, in terms of economics, the establishment of the Constitutional Court and the principle of separation of powers were signals to capitalist entrepreneurs (both national and foreign) that the rules of the game were set, cannot be easily changed, and will be supervised by high juridical institutions. This was an important change in relations of the capitalist class with the state. During the 1950s, there had been a single party (DP) government in Turkey. DP had won successive elections and obtained a huge legislative power in the parliament, and had sometimes exercised this power *not* in conformity with the Constitution²⁴. To run a business, capitalists had had to keep good relations with the DP. In some cases, the personal relationships with the Prime Minister Menderes had been the only determinant whether a capitalist enterprise can get a support from state, or whether its operations are banned via legal or illegal

²⁴ ‘Violation of the Constitution’ was the main reason why Prime Minister Menderes was tried and executed after the coup.

ways. The Constitutional Court and the principle of separation of powers were, therefore, powerful institutions in limiting the legislative power of the governments and removing the ambiguity in investment decisions. They were, therefore, important parts of the ‘favorable environment for capital accumulation’ in which the ISI SSA worked effectively.

Third, 1961 Constitution brought more political freedom, and stated, for the first time, that political parties are indispensable elements of democracy. Moreover, it also stated that all people have right to have political meetings and to organize marching, without having permission beforehand²⁵. These developments immediately led to foundation of Workers Party of Turkey (TİP) in 1961 by Marxist workers and intellectuals, and also to foundation of Turkish Confederation Of Employer Associations (TİSK) in 1962 by several big capitalists. Several other organizations (both labor’s and employer’s) were also founded during the late 60s and 70s in the liberal political environment provided by the new Constitution. What was the importance of these organizations in ISI SSA? Until 1960s, there was a common perception among Kemalists (people who believe in the founding ideology of Turkey) that Turkey is an unprivileged and classless society²⁶. With increasing number of class organizations, as Bugra and

²⁵ I interpret this change as relieving the pressure on society that had been created by previous DP government. It must be noted that there were always limits on the extent of the liberal political environment created by the new constitution. For instance, although it is the most democratic constitution among all the constitutions (both previous and later) of Turkey, socialist/communist propaganda was still considered as a threat. By creating *relatively* more liberal political environment, 1961 constitution relieved the pressure on society, which would have led to more radical changes if had not been relived.

²⁶ According to Parla and Davidson (2004), this perception of classless society is due to ‘solidarist-corporatist’ character of Kemalism. According to them, “Kemalism’s ideological character is best understood not in terms of liberalism or socialism, but in terms of corporatism”.

Savaskan (2014) argue, “the ideological affirmation of Turkey as a classless society would become increasingly less credible.” As classes were represented by increasing number of political parties and working organizations, economic policies of the era were discussed and implemented by larger and more diverse segments of the society, at least until the military intervention in 1971. Moreover, labor class was able to increase its organizational power under this more liberal political environment. As will be discussed in the class conflict section below, increasing strength of the labor class led to significant increase in real wages. This rise in wages was a critical factor for having sustainable domestic demand, which import substitution industrialization was highly dependent upon.

3.4.1.2 SPO and The Development Plans

Lack of long-term perspective on economy of the previous DP government was considered as an important problem for national economy by most state officials (both military and civilian), which then gave rise to need for an institution for planning. As explained previously, although the *idea* of planning emerged just before the coup, it was *materialized* after the coup, thanks to 1961 Constitution. Three development plans were made during the ISI SSA period: The First Five Year Plan (1963-1968), The Second (1968-1972), and The Third (1973-1977)²⁷. Although development plans have still been made by SPO, economic planning lost its importance after the first two plans. On the other hand, the first two development plans were effective during initial years of the ISI SSA, and hence SPO can be considered as an important institution for most of the period

²⁷ The fourth plan (1979-1983) includes last two years of the ISI SSA period, but it couldn't be applied due to civil unrest and then the coup d'état during those years.

at which ISI SSA worked effectively. Moreover, although SPO mainly concerned with the public sector, the private sector was also highly affected by decisions of SPO. As argued by Pamuk (2007), private investment projects had to have approval from SPO when they wanted to benefit from “subsidized credit, tax exemptions, import privileges and access to scarce foreign exchange.”

According to Kucuk (1971), there were three important aims in the first and the second development plans: i) to increase the national income and its growth rate, ii) to increase employment level, and iii) to decrease dependency on foreign resources, and having better current account balance (CAB). The planners thought that the main limiting factor to achieve these aims was low levels of savings, which had to be increased. In order to evaluate these development plans in terms of their aims, the following table presents data for the first and the last years of the three planning periods.

Table 3-6: Some economic indicators for the first three planning periods

	DS/GNP	Employment	CAB/ GDP	GDP growth	
1960	16.0%	78.1%	-0.7%	1957-1962	3.97%
1963	15.1%	75.3%	-2.1%	1962-1968	6.46%
1968	21.1%	69.6%	-0.9%	1968-1972	5.06%
1972	21.4%	67.7%	0.0%	1972-1977	5.94%
1977	20.4%	65.4%	-3.9%		
DS: Domestic Savings. CAB: Current Account Balance Employment: Civilian employment as % population 15-64					

Source: Own calculations from MD (2015) and OECD database

The data in the table above suggests that the first five year plan worked well in terms of average annual GDP growth rate; as the average growth of 3.97% during the crisis period before the construction of a new SSA increased significantly to 6.46%, on

average, during the first five year plan period²⁸. On the other hand, the development plans didn't succeed in terms of employment level, as it became slightly worse during all three planning periods²⁹. As to domestic savings, the first plan was successful, whereas the improvement in savings during the second planning period was negligible and there was a slight worsening during the third plan period. Finally, in terms of current account balance, first two plans worked well, while the third did not. In sum, the planners of the first two development plans achieved their aims in terms of GDP and CAB, but not in terms of employment. On the other hand, none of the three aims was achieved during the third planning period.

3.4.1.3 1971 Military Memorandum and The Interim Government

In early 1970, the Justice Party (AP) government, with the support of some CHP members, changed several laws about unionizations and labor strikes, which brought lots of difficulties for unionization, and also limited the rights of workers of going for a strike. The working class didn't welcome these changes. Many labor unions, which were members of Confederation of Progressive Trade Unions (DİSK)³⁰, organized protests in

²⁸ The first five-year plan was approved on 21 November 1962 by the Grand National Assembly of Turkey (also known as parliament), and was officially announced on 3 December 1962. It is, therefore, reasonable to choose 1962 as a base year for comparison of growth rates.

²⁹ However, when judging plans on their effect on employment, one should keep in mind that the data on employment/unemployment seem to be of low quality for the ISI period, as discussed previously.

³⁰ DİSK was founded in 1967 by several labor unions that were previously members of Confederation of Turkish Trade Unions (TÜRK-İŞ). Those labor union leaders who founded DİSK were leftists, and some were also socialists. DİSK had very close relationships with socialist party TİP during 1967-1971 period. As TİP was shut down in 1971 by the interim government, DİSK supported CHP during 1970s. The role of DİSK was important in severe class struggle period of 1970s, as it was a place where radical labor movement organized during that

different cities, and the biggest one took place in Istanbul during 15-16 June 1970 with participation of tens of thousands of workers. The workers fought with the police forces, and several of them were killed. Then, due to this labor uprising, martial law declared for two months, union executives were arrested and trialed. According to Savran (2002), this martial law can be considered as the prelude to the military memorandum in 1971. There is a famous quote told by then the top commander of the army that best summarizes the view of the state and its armed forces on these bloody labor protests: “social awakenings had surpassed the economic developments.”³¹

On March 12th of 1971, the top commanders of the Turkish army declared a memorandum, and forced the AP government to resign due to social and economic unrest. As stated by Ahmad (1977), the commanders wanted “the formation, within the context of democratic principles of a strong and credible government, which will neutralize the current anarchical situation...” The army did not abolish the parliament, and did not ban the political parties, although it is usually the case after military interventions. After the resignation of the AP government, an interim government was established, which was run by Nihat Erim, a politician who just resigned from CHP to be a neutral prime minister as per request of the army. Erim formed a kind of technocratic government, and stayed in power until the elections in October 1973. What were the roles of these events in working of ISI SSA? As explained in the next part, the main reason of declaration of military memorandum in March 1971 and the following operations of the

period. DİSK was banned by the military regime in 1980 and stayed so until 1992. It is currently one of the biggest labor union confederations in Turkey, along with TÜRK-İŞ and HAK-İŞ.

³¹ See Savran (2002) for this quote.

interim government was to stabilize the class struggle, which started to intensify in those days, by suppressing militant labor class.

In fact, the interim government was successful in pushing down wages in 1972 and 1973, which had been increasing since the beginning of the ISI SSA (see Figure 3-9 in the next sub-section). TIP was shut down, and its leaders were arrested. Moreover, the government attacked leftist labor unions and student organizations violently. Militant left-wing workers and radical students were arrested and tortured, and also three student leaders were executed in May 1972 after a short trial. On the other hand, except for a few years after the memorandum, these attempts couldn't achieve a permanent success, and the class struggle continued to intensify. The class struggle then reached at a level of almost civil war during late 1970s, which became the *major reason* of the demise of ISI SSA.

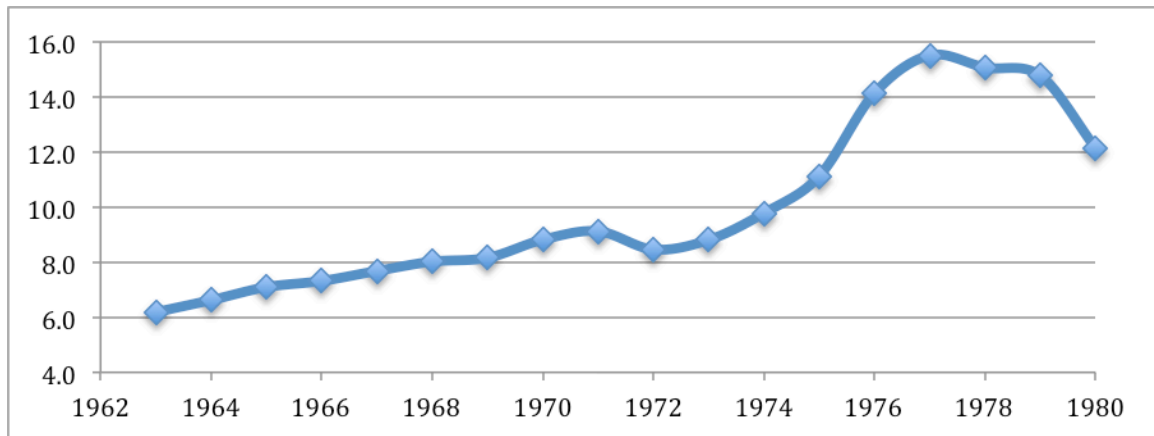
3.4.2 Stabilizing Class Conflicts

An SSA creates favorable environment for capital accumulation by stabilizing the class conflicts. These types of conflicts include not only the struggle between labor and capital, both also conflicts within labor and within capital. On the other hand, during the ISI SSA period, within class conflicts were not significant enough to affect the working of the SSA. As stated by Kotz (2015), there are two ways that labor-capital conflict can be stabilized under capitalism: “compromise between the two sides, or through capitalist domination of labor sufficiently great that labor has little ability to defend its interests.” During most of the period that ISI SSA worked effectively, there was a labor-capital compromise. Although this compromise temporarily weakened in 1971 as the capital

attacked on labor class to dominate it during the interim government period, this attempt for domination didn't persist too long. On the other hand, this temporary attack of capital led to intensification of class struggle during late 1970s, which eventually led to the demise of the ISI SSA. Then, after the demise of the ISI SSA, the domination of labor by capital became possible be under the next (neoliberal) SSA.

According to Marxist Theory, the class struggle is the most important determinant of wages of workers. As labor class becomes more powerful in class struggle relative to capitalists, they can get more in wage bargaining. So, the data on real wage (Figure 3-9) and on the labor share (Figure 3-10) in manufacturing sector are useful to understand the pace of labor-capital conflict during the ISI SSA.

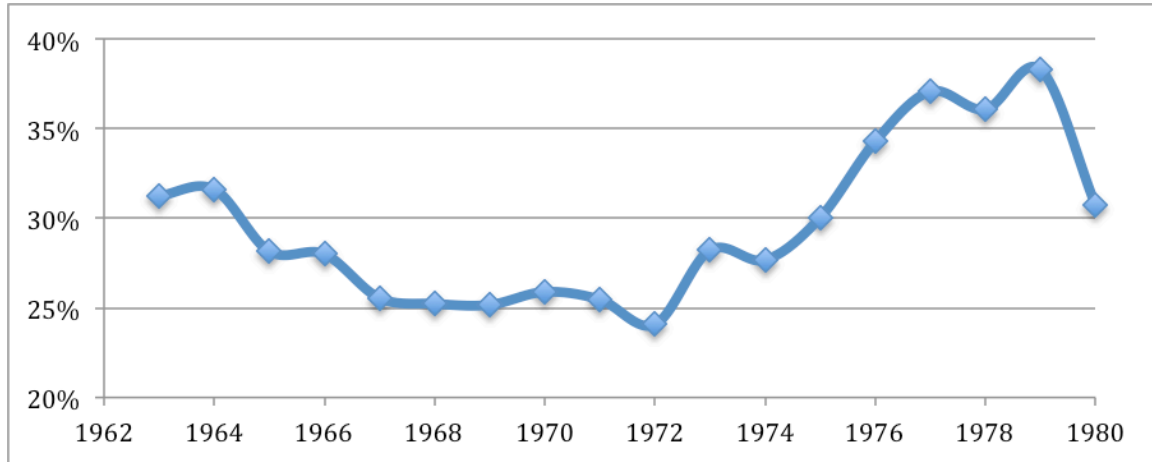
Figure 3-9: Average real wage in manufacturing in thousand 1960 TL (1963 - 1980)



Source: Own calculations from TurkStat (2013)

Since the labor-capital compromise was weakened in 1971 by the military memorandum and the following interim government, class struggle during the period that ISI SSA worked effectively (1963-1976) can best be analyzed in two sub-periods.

Figure 3-10: Labor share in manufacturing (1963 – 1980)



Source: Own calculations from TurkStat (2013)³²

- 1963-1971 / Labor-capital compromise: There was an increase in real wage during this period, with an average annual rate of almost 5%. This increase in real wage is consistent with the Marxist theory on class struggle, as Turkish labor class started to organize in labor unions, thanks to the liberal environment that the 1961 Constitution provided. Moreover, the labor class was also radicalized during late 60s with the help of radical student movements around the world at that time. As to capitalists, increasing real wages did not create any problem during this period for two reasons. First, ISI industrialization of Turkey mostly depended on the demand in domestic market, since the share of exports in GDP, as presented previously in Figure 3-4, was not significant. The wages were, therefore, the major source of having sustainable demand for the goods that capitalists produced. Second, although real wages were increasing, share of labor decreased during this period, from 31.3% in 1963 to 25.5%

³² This figure on labor share also suggests a decrease in the rate of profit in manufacturing during late 1970s. Profit rate series, which is available for 1970-2000 period, shows that 16% rate of profit in 1975 decreased to 12% in 1978. The data on rate of profit is presented in the next chapter (Figure 4-3), since majority of the available data belongs to the NL SSA period.

- in 1967, and then stayed almost at a constant level until 1971. So, as capitalists were having increasing share of value-added, they were okay with increasing wages.
- 1971-1976 / Unsuccessful attempt to dominate labor: The labor class was successful in keeping labor share from falling during late 60s, and also real wage continued to increase. Organized labor class in alliance with the radical student movement of late 60s was a serious threat for capitalists' long-term benefits, as they started to come up with more radical demands. After huge labor protests in June 1970, the capitalists realized that it was hard to reverse this radicalization process by *legal* ways, and hence they welcomed the armed forces of the state apparatus in March 1971 (military memorandum). On the other hand, they only succeeded for a very short time period during the oppressive interim regime. There were only temporary decreases in real wages and the labor share. Moreover, despite these attacks of capital, it should be noted that class struggle did not reach at a level to cause ISI SSA to collapse during this period.

Is there any evidence that the capitalists work for the military memorandum? Although there is no legal document of relationship between the capitalist and the junta, or a clear declaration from any major capitalist, several events and quotes from the era can be considered as evidences. First, the capitalists were aware of the rising militant labor class movement, which gained momentum during June 1970 protests. This view of capitalists was also shared with the top army official of the era, Memduh Tagmac, as his famous quote, which was previously stated, clearly presents: “social awakenings had surpassed the economic developments” (see footnote #31 for a source). Second, some big capitalist declared just before the military memorandum that they were not happy with

the economic policies of the government. For instance, one of the top capitalists of the era, Vehbi Koc (founder of the Koc Group, the biggest capitalist holding company in Turkey currently) stated just before the 1970 memorandum that “we thought the government, which came to power in October 1969, was going to bring economic stability and fast development. But current developments showed that we were mistaken”³³. Actually, there is another interesting relationship between these two people, general Tagmac and capitalist Vehbi Koc. According to Dunder (2006), Vehbi Koc wanted to give a car as a gift to Tagmac after his retirement in 1972, as acknowledging the general’s *valuable services to Turkey*, but Tagmac didn’t accept this gift since he cannot drive.

3.4.3 Role of Ideology

Ideology facilitates emergence of new institutions, and hence has an important role in construction and working of an SSA. The dominant ideology that gave rise to 1961 Constitution, which led to foundation of SPO and then to construction of the ISI SSA, was left faction of Kemalism, named after the founder of the republic Mustafa Kemal Ataturk. There are six principles of Kemalism³⁴: republicanism, nationalism, populism, reformism, secularism and statism. It is the last one, *statism*, which is directly related to economic ideas and institutions of ISI SSA. Scarcity of capital during early years of the republic (1920s and 1930s) was the main reason why Mustafa Kemal had emphasized the role of state in the economy. When private enterprises do not have

³³ See Demirel (2012) for this quote in Turkish.

³⁴ Six arrows in CHP’s logo represent these six principles.

enough capital to invest in some sectors, the state should take an active role. Even planning during early years of ISI SSA was not a new phenomenon for Turkey, since there had previously been a short period of time (1932-1939) during which economic planning had been applied. According to Ataov (1960), “Turkey was the second state after the Soviet Union to apply” economic planning.

The economic policy of this ideology is also similar to third world developmentalism; improving and protection of national industry is the key point. In order to have a well-established national industry, there are mainly two things to be done. First, a national bourgeoisie, with sufficient wealth to make big investments, must be created. Second, in establishing very big industries, where national bourgeoisie is not strong enough to finance, the state must take an active role. In terms of social classes, national *class harmony* is more important than class antagonisms. So, bourgeoisie and labor class must cooperate, rather than struggling, to achieve national prosperity. It is, therefore, not surprising that the class conflict was stabilized by labor-capital compromise during the period that ISI SSA worked effectively.

As stated previously, 1961 Constitution created a more liberal political environment, by the help of which several left-wing labor class organizations were founded during the 1960s. Although the ideology of the era opened some space for left-wing organizations, that space was strictly limited in two dimensions. First, defending workers’ right was okay but demanding socialism/communism was a serious problem. The two articles of the Turkish penal code of the era (141 and 142) stated that working for or making propaganda of a society on domination of one social class by the other

(refers to proletarian dictatorship), or attempting to abolish a social class (bourgeoisie) was strictly forbidden. These two *anti-communist* articles were widely applied to the cases where left-wing people were trialed and prisoned during 60s and 70s. Second, violation of the Turkish national integrity could be a reason for banning leftist labor or student organizations. This was mostly applied to the cases where left-wing people supported rights of the Kurdish population³⁵.

Secularism was also a part of the ideology during the ISI SSA period, and the army considered itself as the guardian of the secular nationalist state. As mentioned previously, conservative and reactionary politics of the DP government was one of the important motivations behind the coup in 1960. Furthermore, during the later period, the army did not hesitate to declare its views on domestic politics when it perceived a threat to the secular nationalist character of the state. Despite the liberal political environment created by 1961 constitution, communism and ethnic politics (Turks vs non-Turks) were always seen as severe threats to the state by significant majority of top army officials.

3.4.4 International/External Factors

Foreign relations of Turkey during the ISI SSA period were dominated by the Cold War politics. After being a member of North Atlantic Treaty Organization (NATO) in 1952, Turkey was in strong alliance with the West (US and capitalist part of Europe), since Turkey's unique geopolitical position was important for the West. As stated by

³⁵ Kurdish identity has always been an issue for the republic, and it was strictly forbidden to talk about it during 1960s. Actually, this is related to *nationalism* feature of Kemalist ideology. The definition of *Turkish* identity has been defined in all constitutions so far as those who are citizens of The Republic of Turkey. So, no matter which ethnicity one belongs, if a person is a citizen of Turkey, she is *Turkish* by the law. In the current 1982 Constitution, it is defined in article 66.

Savran and Balkan (2002), “the West regarded Turkey as no more than a beachhead against the Soviet threat and progressive movements in the Arab world”; and “its rabid anti-communism surpassed even that of US and led to an unquestionable loyalty.” This political position during the Cold War brought an easy economic support to Turkey, which was effective in working of the ISI SSA. If, for some reason, the capitalism in Turkey had not worked, Turkey would have experienced a socialist revolution by the effect of the Soviet Union. So, in order to keep Turkey in their (West) side of the Cold War, it had to be supported both economically and politically. Boratav (2013) argues that this favored position of Turkey made it easy to find foreign credit during the ISI SSA period. On the other hand, easy foreign credit increased dependence on imports, and caused negligence of exports, which then led to high levels of current account deficit, especially in the post-1973 period of the ISI SSA.

Although Turkey had good relations with the West due to its unique geopolitical position during the Cold War, there was a single event that can be considered as an exception to this: The US government put an embargo on arms sales to Turkey in 1975, which was then lifted in 1978. There were two reasons of this embargo. First, Turkish government lifted the ban on growing opium poppy for medical purposes on July 1st of 1974, which was against the US policy on drugs. And, in the very same month, on July 20th, Turkey invaded Cyprus, despite disapproval of the US government. Although these were important conflicts in Turkey’s foreign relations of the era, they did *not* have a direct negative effect on working of the ISI SSA. It may even be argued that the US embargo had a positive effect, as Turkey realized the importance of having a national

defense industry; and then an important national company that produces technical equipment for Turkish armed forces, ASELSAN, was founded in 1975.

3.5 Demise

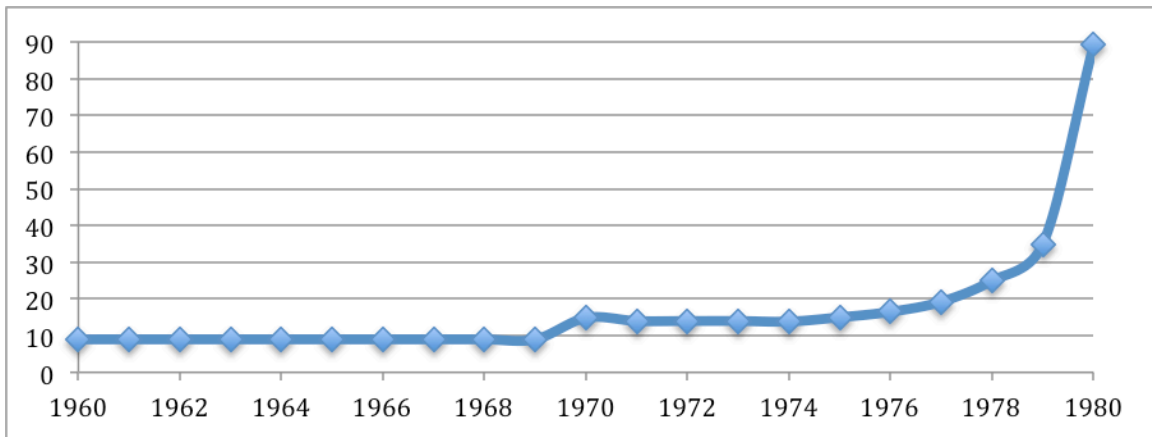
In previous section, 1976-1980 period was labeled as the demise period of the ISI SSA with having an average annual real GDP growth rate of 0.44%. This section explores the reasons that caused the ISI SSA to demise.

3.5.1 Economic Indicators of the Demise

Although the ISI SSA brought an average of 6.10% annual GDP growth during 1962-1976 period, the last four years' (1976-1980) growth performance, 0.44%, was far worse than the previous period (Table 3-2). In addition, foreign trade performance of the economy had not been well since the beginning of the ISI SSA (Figure 3-4 and Figure 3-5). Trade deficit was mostly financed by workers' remittances until 1974, but then those remittances became insufficient to cover increasing deficit (Figure 3-6). Furthermore, as can be seen from Figure 3-11 below, the US\$ / Turkish Lira exchange rate, which had been stable until 1970, was adjusted by 65% devaluation in 1970 (change in exchange rate from 9 in 1969 to 14.85 in 1970). Several more devaluations were also made during demise period of the ISI SSA. The government of the period aimed to increase exports to cover imports by devaluating Turkish Lira. On the other hand, these devaluations of Turkish currency did not help as expected, and the major problem of economy during 1970s was lack of enough resources to finance the increasing current

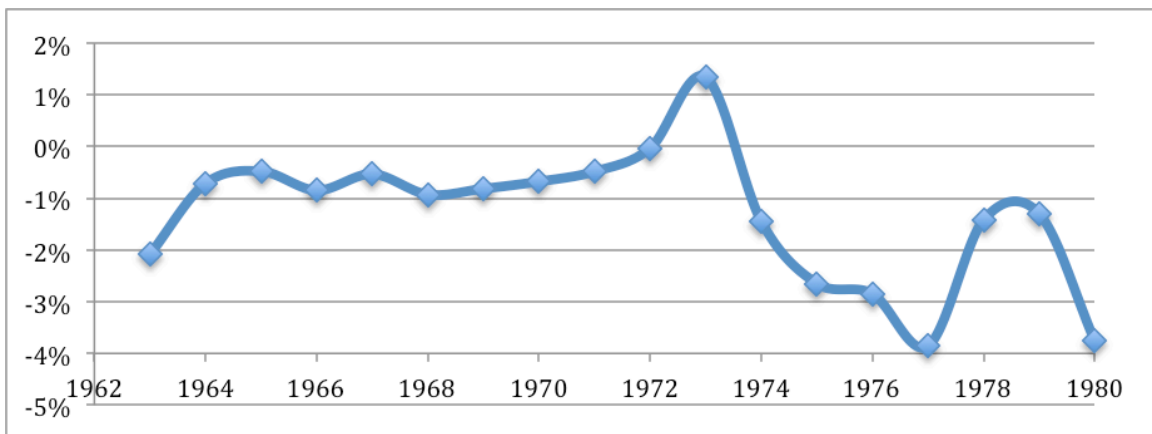
account deficit, which had been more or less stable until 1972³⁶. As can be seen from Figure 3-12 below, current account balance as percent of GDP decreased from 1.34% in 1973 to -3.85% in 1977. Despite temporary improvements in the following two years, the final year of the ISI SSA witnessed a current account deficit of -3.76% of GDP.

Figure 3-11: Exchange rate, US \$ / TL (end of year values, 1960 – 1980)



Source: CBRT database

Figure 3-12: Current account balance as % GDP (1963 – 1980)



Source: MD (2015)

³⁶ Data on foreign exchange reserves would be good to present here, but the data provided by the Central Bank of the Republic of Turkey (CBRT) does not cover pre-1987 period.

Increase in oil prices due to 1973 oil crisis hit Turkish economy as well, which led to increase in price level, as oil was a major input in most sectors. Rate of inflation, which had been almost stable at reasonable levels during the 1963-1976 period, increased dramatically during the demise period (Figure 3-8). Share of industry sector in GDP, which had increased from 13% in 1963 to 20% in 1976, did not change during the demise period of the ISI SSA (Figure 3-3). In sum, due to lack of finance to cover increasing current account deficit, very high levels of inflation, stagnating industry sector, and very low growth rates, the Turkish economy experienced a structural crisis during late 1970s. These problems in the economy, combined with intensifying class struggle during late 1970s, led to final collapse of the ISI SSA in 1980.

3.5.2 Role of class struggle in demise

The most important feature of an SSA is to stabilize class conflicts, in which the ISI SSA of Turkey performed really badly during the second half of 1970s. If the class struggle in Turkey had not been intensified during late 1970s, the economy would have been fixed without the collapse of the ISI SSA. The class struggle took a form of bloody street clashes between left-wing and right-wing people, especially after 1977. Majority of the capitalists were okay with this social and political unrest, although they didn't openly declare it. The reason is this: Militancy of labor class increased during late 1970s, and the workers became stronger than they were in 1960s. To stabilize the class conflict, if the capitalists had tried labor-capital compromise as they did in 1960s, they would have had to give an increasing share of the pie to the now stronger labor class than they agreed to give previously. Because, there was an increasing trend both in real wages (Figure 3-9)

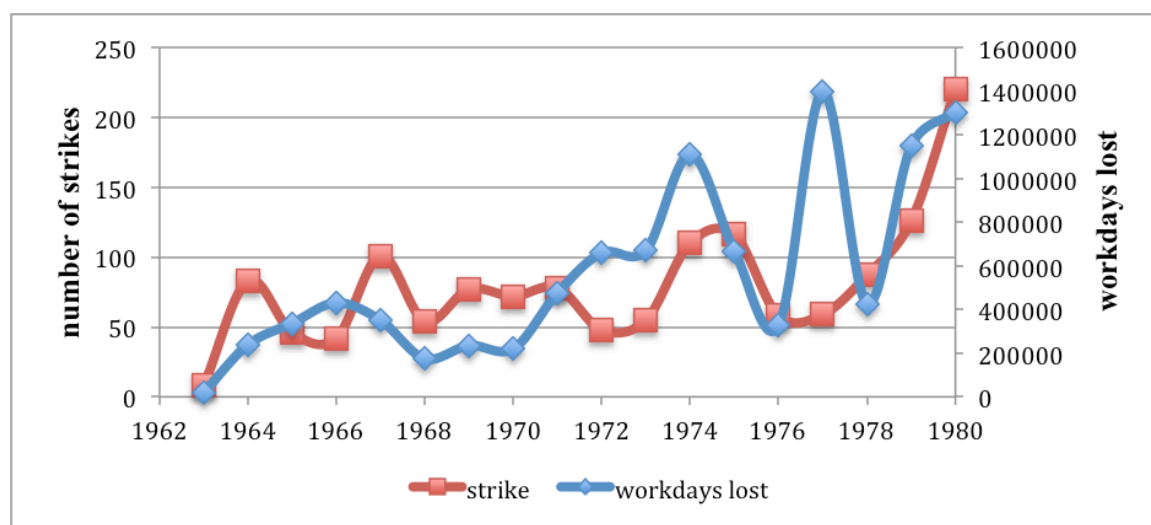
and the labor share (Figure 3-10) during 1970s, except for the final year of the ISI SSA. So, the other way of stabilizing the class conflict, total domination of labor by capital, under a new (neoliberal) SSA seemed much more advantageous for the capitalists than fixing the ongoing crisis by a new deal based on compromise with the militant working class.

As explained in section 3.4.2 the capital already had an *unsuccessful* attempt to dominate the labor class after the military memorandum in 1971 and during the following interim regime period. So, a new regime they wanted had to be crueler to labor class than governments of the time, which can only be established by a violent coup d'état. The *anarchy* in the streets seemed like a good excuse to interrupt parliamentary democracy and to suppress the militant labor class violently, and hence the labor class could not oppose neoliberal policies. As Boratav (2005) argues, without any cooperation of capitalist class, crisis management in capitalism cannot be possible. He states that the capitalist class, despite all attempts of the governments, *refused cooperation* to overcome the crisis of late 1970s, since they wanted the crisis to deepen further and hence to give rise to a new SSA.

The premise of my argument on unwillingness of the capitalist class to stabilize intensified class conflict of late 1970s by labor-capital compromise is the increasing militancy of the labor class during those years. What are the economic and historical evidences that can support this premise? The strength of the labor class shows itself best in the data on average real wage and on labor share. As presented in Figure 3-9 and Figure 3-10, there was a steady increase in both series for 1974-1977 period, which

followed by a slight decrease in real wage from 1977 to 1979, and by a slight increase in the labor share. It can, therefore, be argued that the labor class increased its strength during 1970s. Moreover, strong labor class did not hesitate to show its militancy in bargaining with the employers. As shown in the figure below, the number of strikes increased after 1976, and the workdays lost in strikes reached its maximum level (within the whole ISI SSA period) in 1977.

Figure 3-13: Number of strikes & workdays lost in strikes, all sectors (1963 - 1980)



Source: Ministry of Labor and Social Security (MLSS) database

Data on average real wage, labor share, and number of strikes have an interesting common point. All these three series have turning points around 1973, and then all show increasing trends. What would be the reason of this commonality? The interim regime after the military memorandum in March 1971 ended with the parliamentary elections in October 1973, and a new coalition government was established in January 1974. The biggest partner of the government was CHP, which was a social democrat party. Although this coalition ran the government for only 10 months, it succeeded to issue a

general amnesty in the parliament. Most of political prisoners who were arrested by the interim regime (left-wing intellectuals, radical students and workers) were released from prison in 1974. This general amnesty of 1974 is considered as the major reason for the revival of the Turkish labor class (and the Turkish left in general) after two years of oppressive interim regime period.

Finally, why did class struggle evolve into bloody street clashes during the final years of the ISI SSA? The alliance of radical students, leftist intellectuals, and militant labor class formed a strong opposition block, which increased its strength after the general amnesty in 1974. This left coalition was harmful for the interests of the capitalists, and had to be beaten down. Demands of the leftists varied from a real social democracy to socialism, and proportion of those demanding socialism was increasing. The capitalist class realized that parliament and governments were not effective in fighting against the militant labor class, and hence they put the right-wing people front to fight with the left coalition in streets. The right coalition consisted of nationalists and political Islamists in terms of ideology, and almost all of them were also poor people like big majority of the left coalition. How could the capital succeed in putting two groups of poor people into fight? Actually, the typical propaganda against leftists worked well: Nationalists were made to believe that they were fighting against the agents of Moscow, and political Islamists were made to believe that they were fighting for God against 'godless communists'. The intensity of violence in streets increased especially after the Taksim Square massacre (also known as Bloody 1 May) on May 1st 1977, at which 34 people died due to the panic at May 1st demonstration caused by *ambiguous* shooting incident. This increasing social unrest ended with the coup d'état in September 1980,

after which social and economic life of Turkey changed significantly. As will be discussed in next chapter, the capitalist class was then able to apply neoliberal policies without any opposition from the working class under the military regime.

CHAPTER 4

NEOLIBERAL SSA (1980 – 2015)

4.1 Background

1980 was a critical year for both Turkish politics and Turkish economy, since both of them experienced significant and structural changes. These two aspects of change are highly related; and they have had major effects on every aspect of social and economic life in Turkey during the post-1980 period. Political and economic background of the 1980 coup d'état was already discussed in the previous chapter. Increasing militancy of the labor class, most of which fought for socialism along with their alliances from various student groups and intellectuals, was the most important problem of Turkish capitalist class at that time. When the capitalists realized that it was impossible to suppress the militant labor class on streets, they changed their strategy³⁷; and responded by using economic and military instruments.

The timing of the coup d'état on Sept 12th of 1980 was not a coincidence in terms of global politics, if one thinks about capitalism during 1970s. The crisis of the post-war SSA was apparent in most parts of the capitalist world; and the system required a structural change, a new SSA. It seems neoliberal wave around the capitalist part of the world, starting in 1970s, hit Turkey in 1980. According to Harvey (2005), imperial power of US might be the reason behind “the rapid proliferation of neoliberal state forms” starting at mid-1970s. Given Turkey’s strong ties with US during cold war and its

³⁷ The initial strategy of the capitalist class was to they put the right-wing people front to fight with the left coalition in streets. See previous chapter for details.

membership of NATO, Turkish foreign policy has always been pro-American since 1950s. And, at the time of the coup, the neoliberal restructuring in US had been ongoing for several years. It is, therefore, *not unexpected* that Turkish capitalist class preferred neoliberalism as a dominant economic policy after the coup³⁸. Although there is no official document, Birand (1987) argues that US considered the Turkish military generals, who took the power in September 1980, as ‘our boys’; and thought that the coup was in line with US interests in Turkey³⁹.

4.2 Construction

The period that started with the declaration of a new economic policy (known as ‘January 24th Decisions’) in January 1980 and ended with the first general elections (after three years of the military regime) in November 1983 can be called as construction period of the NL SSA in Turkey. The construction period will be analyzed under three parts in this section. In the first part, the neoliberal economic policies declared on January 24th in 1980 will be discussed, along with effect of Turgut Özal on these happenings, who was undersecretary of the prime minister at that time. As one cannot discuss neoliberalism in UK without Margaret Thatcher, or in US without Ronald Reagan, construction of the NL

³⁸ Although external factors played an important role in construction of the NL SSA, I do *not* mean that the NL SSA was mostly a result of external factors. The weight of external factors should not be exaggerated, they were just parts of many factors.

³⁹ Birand was an experienced Turkish journalist who also filmed a detailed documentary about the coup, called ‘12 Eylül’ (*12 September*). It is interesting to read the details of this story from his book cited above: “The US National Security Council adviser and head of the Turkish desk Paul Henze had just returned home when his telephone rang. It was the ‘Situation Room’ in the White House. ... The duty officer in the ‘Situation Room’ announced: ... ‘Your generals, Paul, they’ve pulled a coup.’ Henze was really pleased: ‘Is that so, great. ... You can tell Mr. President that the intervention is in our interests.’ ” (pp.185-6)

SSA in Turkey cannot be completely understood without discussing the role of Turgut Özal in this process. Secondly, role of the state in construction of the NL SSA will be explored, by discussing effects of the coup d'état and of the following military regime on the class struggle. The most important role of the state for this period was to suppress the militant labor class by violent and bloody measures. Finally, in the third part, international/external factors, mainly roles of WB and IMF, on construction of the NL SSA in Turkey will be presented.

4.2.1 January 24th Decisions, Neoliberal Ideology and Özal

The DP government declared a new set of economic policies on January 24th 1980 to overcome the economic crisis that had lasted since 1976. These policies are known as ‘January 24th Decisions’ (J24D), which mainly includes the following items: more flexible exchange rate regime, liberalization of foreign trade, financial liberalization, decreasing real wages (limiting wage increases by inflation), removing price control, cutting subsidies for some state owned enterprises (SOEs), decreasing state intervention in economy, devaluation of Turkish currency. On the other hand, the ongoing crisis was not an ordinary business cycle recession; it was a *structural* crisis of the ISI SSA. As stated by Kotz (2015), a structural crisis “cannot be resolved within the current structural form” or “by well-chosen economic policies”. Although the DP government passed the law for J24D, political environment of the time was not suitable for implementation of those neoliberal policies. Militant labor force was the main barrier for implementing J24D, and hence it had to be defeated first. There is a quote from Bülent Ecevit, who is the head of the main opposition party (CHP) in parliament at that time, that was said just

after the announcement of neoliberal policies but before the coup: “these economic policies cannot be implemented in a democratic parliamentary regime.”⁴⁰ This famous quote is considered as a sign of coming military intervention.

The coup d'état on Sept 12th 1980 and the following military regime were so effective to suppress any opposition to newly introduced neoliberal policies, as will be explained in the next part. On the other hand, violence was neither enough nor sustainable to convince people for neoliberal policies. Without an ideological attack on people's mind, it would have been impossible to assure them for benefits of neoliberal capitalism. The mass media and public relation techniques were used during early 1980s in Turkey in order to make people believe that neoliberal economic policies will bring prosperity for all segments of the society. As stated by Boratav (2005), all economic problems of the previous ISI SSA were wrongly attributed to the interventionist state policies, which, according to proponents of neoliberalism in Turkey, could *only* be removed by free market economy and neoliberal policies. By help of this bad reasoning, most people were made to believe that *there is no alternative* to neoliberalism. The propaganda for neoliberalism continued by different means also during 1990s⁴¹.

Turgut Özal was a Turkish bureaucrat and politician, and was an undersecretary of the prime minister during late 1979. He was assigned to prepare a new set of economic policies by the government in 1979, which will later be known as J24D. Before that, during early years of his career in 1950s and 1960s, he had served in several public

⁴⁰ See Kafaoglu (2004) pp 31-32 for this quote.

⁴¹ See section 4.4.4 for more discussion of role of ideology in the NL SSA of Turkey.

institutions. He had worked in SPO from 1967 to 1971, and then he had been employed by WB as a consultant, at which he had worked for two years. After returning to Turkey in 1973, he had worked as a manager in a few top holding companies and as a president of an employer's union, Turkish Metal Industrialists' Union (MESS), until 1979. So, he already developed very good relationships with both national capitalists and international finance institutions at the time he was assigned by government to work on economic policies in order to overcome crisis of the ISI SSA. According to Boratav (2005), Özal's assignment as an undersecretary of the prime minister in 1979 was mostly due to his prestige among national and international capitalist circles. Especially during his presidency at MESS, he took a very hard line against labor unions. The personality and career of Özal did well reflect themselves in the very neoliberal soul of J24D. After the coup in September 1980, Özal continued to serve as a deputy prime minister who was responsible for economics until his resign in July 1982. He then established a political party, the Motherland Party (ANAP), won the 1983 and 1987 general elections, and run the government until becoming a president in 1989. Özal was the most influential person in Turkey during 1980s, which is the period that the Turkish NL SSA was constructed and consolidated.

In addition to Özal's role in neoliberal economic policies declared by J24D in 1980, his personality and ideas affected ideology of the NL SSA during 1980s (and also partly during 1990s) in two other ways. First, Özal always declared that he favored rich over poor, and considered richness as a very important virtue of a person. Until 1980, being rich had not been considered as a virtue that one should be proud of. Moreover, displaying richness in public could sometimes be considered as shameful. However, this

attitude of the Turkish society changed significantly after 1980. Being proud of richness was a new phenomenon that emerged in Turkey during 1980s. As society considered rich people more valuable than poor, people were tempted to try every way (legal or illegal) to earn more money. Related with this, the second feature of Özal, as stated by Onis (2004), was “his tendency to underestimate the importance of the rule of law”, which showed itself in “his preference for ruling by decrees, hence bypassing normal parliamentary procedures and constraints”. Since Özal, as the prime minister (and then the president), had loose attitude towards the rule of law, businessmen also didn’t care much about the legality of their operations; and hence the result was high levels of corruption and fictitious exports during 1980s and 1990s⁴². On the other hand, despite Özal’s important role in the first decade of the NL SSA, the construction of the NL SSA in Turkey cannot be reduced to merely an influential leader’s decision. Özal’s political/economic orientation was *a* factor among many that were effective in construction of the NL SSA.

4.2.2 The Military Regime and Class Struggle

After the coup d’état in September 1980, Turkish army ruled the country via National Security Council (NSC) until the first general elections in November 1983. NSC was consisted of five top generals of the army, and its chief was Kenan Evren. This part discusses the effects of military regime on class struggle in three dimensions:

⁴² Not surprisingly, Özal was totally pro-American in terms of politics. He wanted to engage actively in Gulf War to help US army, although most of the state bureaucracy of the time didn’t agree with him. Morton Abramowitz, US diplomat and ambassador to Turkey from 1989 to 1991, describes Özal as “much maligned management by his family and friends, the problem of vast corruption in his administration, and his supposed dedication to the rich and influential.” For more, see Abramowitz (2013).

relationships between capitalists and the NSC, violent domination of the labor class, and reactions from the labor class.

The coup d'état and the following military regime were welcomed by the capitalists. The quote by Halit Narin, a major businessman and the head of TİSK of the time, summarizes support of the capitalist class for the coup d'état well: "Till now, we [capitalists] had suffered a lot and you [the labor class] laughed. Now, it is our turn."⁴³ According to the capitalist class, the main obstacle to employ neoliberal policies of J24D was the militant labor class, and hence violent domination of the labor by military measures seemed a short cut and an effective way in this regard. Another leading businessman of the era, Vehbi Koc, wrote a letter to the head of military junta several weeks after the coup, and warned them to be careful about possible attempts of leftists and communists. As stated by Savran (2002), Vehbi Koc, in his letter to junta, "urged in provocative terms the military regime to crush DİSK [the leftist labor union confederation] and other 'subversive' elements."

What the capitalist class expected from the NSC was suppression of the militant labor class, and the NSC met that expectation during three years they held the state power. Military is armed forces of the state. The class that holds the state apparatus is also able to use military for its own benefits. During political turnovers or in civil wars, state (and its armed forces), become a site of contestation among classes. Classes try to

⁴³ See Ozturk (2009) and Yesilbag (2007) as references for this quote. This is one of the most well-known quote in Turkey about the coup d'état in 1980; and it perfectly reflects the soul of the coup. Ozan (2012), a detailed book about capitalism, class, and the state in Turkey around 1980s, has a similar version of this quote as its title. Some other resources written by non-Turkish scholars, Glasser (2001) for instance, mentions this quote in a little different way than my translation above: "the workers have had their day and now it is our turn."

manipulate and use the army (or, at least, some factions of it) to gain the state apparatus. According to Boratav (2013), the military regime formed economic policies as ‘counter attack of the capital’, and it kept labor market under militaristic control. The junta suppressed militant labor class so violently. Going on a strike was forbidden until 1984. So many people, most of who were leftists, were arrested, tortured, and some of them were executed. The coup also created significant amount of political migrants, most of who fled to European countries just after the coup, and some of them haven’t come back to Turkey since then. Although big silence on labor side of the class struggle ended during late 1980s by help of several big protests and labor strikes, damages of the three-year military regime period on Turkish labor class has *never* be fully repaired. Even after the military regime, the Turkish labor class, and the Turkish left in general, has never achieved the level of militancy that they had had during 1970s. As stated by Ercan (2002), “the military coup reshaped the state so as to organize a state that was strong in its dealings with labor and the social opposition.” Taking the pace of class struggle during the NL SSA period into account, the 1980 coup can be considered as *successful* in its aims.

Reaction of labor class to the attacks of the military regime and to neoliberal policies was very weak. Two factors can be argued as reasons for this weakness. First, as explained in the previous paragraph, the military regime was so violent against the militant labor class. Tough military measures prevented labor from organizing protests and showing a significant resistance. Second, the two biggest labor confederations, DİSK and TÜRK-İŞ, positioned differently in their relationship to military junta, and this discrepancy within labor class kept workers from forming a unique and strong opposition

to the construction of NL SSA. While administrators of DİSK were arrested and tried, and its activities were banned, administrators of TÜRK-İŞ supported the military junta. The relationship between TÜRK-İŞ and the junta was very close so that the general secretary of TÜRK-İŞ was assigned as the minister of labor during the military regime. Ordinary workers, who were neither administrators nor executives in labor unions, were not able to change this situation due to fear of the military regime. In addition, as stated by Boratav (2005), fear of arrests, tortures and executions prevented workers from engaging any kind of support for leftist labor union leaders, who were tried in the courts of the military junta.

4.2.3 International \ External Factors

The policies introduced by J24D were prepared according to advices of IMF and WB, and hence were welcomed by both. Firstly, J24D were consistent with conditions that IMF put for a new stand-by agreement with the government, which the Turkish economy desperately needed at that time. Furthermore, Boratav (2013) argues that some policies introduced by J24D did even pass beyond the conditions of IMF; in other words, the Turkish government gave more than IMF wanted. Secondly, policies in J24D included neoliberal structural adjustment items of WB. The following quote from Kapur et. al. (1997) in the History of World Bank series expresses this fact clearly: “The Turkish reform agenda [J24D] was greatly influenced by the structural adjustment thinking that, at the time, was taking shape in the Bank. Reciprocally, the Turkish program became a prototype for the institution's structural adjustment loan series.” The effects of IMF/WB demonstrated itself especially in relieving foreign debt problem and

overcoming shortage of foreign exchange, which were major problems in demise of the previous ISI SSA. The construction of NL SSA in Turkey did, therefore, benefit from “close cooperation and goodwill of” IMF and WB, as Pamuk (2007) argues. During 1980s, those institutions depicted Turkey as “a shining example of the validity of the orthodox stabilization and structural adjustment programs.”

As to roles of IMF/WB in construction of the NL SSA in Turkey, two other things should also be mentioned. First, the Turkish capitalist class directly engaged in agreements between those international institutions and the Turkish government, and this engagement did even start before the coup. As stated by Boratav (2005), a group of capitalists belonging the major union of employers, TÜSIAD, visited US in 1979, and discussed with IMF/WB about what can be done economically *after* the government of the time was *gone*. I am not arguing that the Turkish capitalist class knew the coup d'état of 1980 beforehand. But it is apparent that they were planning on, along with their international counterparts, a government that is willing to accept neoliberal economic policies without any opposition. Second, as stated before, the neoliberal policies introduced by J24D would not have been easily implemented without a military regime. “In the secure environment provided by the military regime”, as Ercan (2002) argues, the stand-by agreement with IMF and the agreements with WB on structural adjustment loans were implemented smoothly. So, it was not only Turkish capitalist class, but IMF and WB as well, that benefited from the political environment created by the coup d'état. Those international institutions found a country facing a structural crisis and, more importantly, *lack of* any social and political opposition to resist experimentation of neoliberal policies.

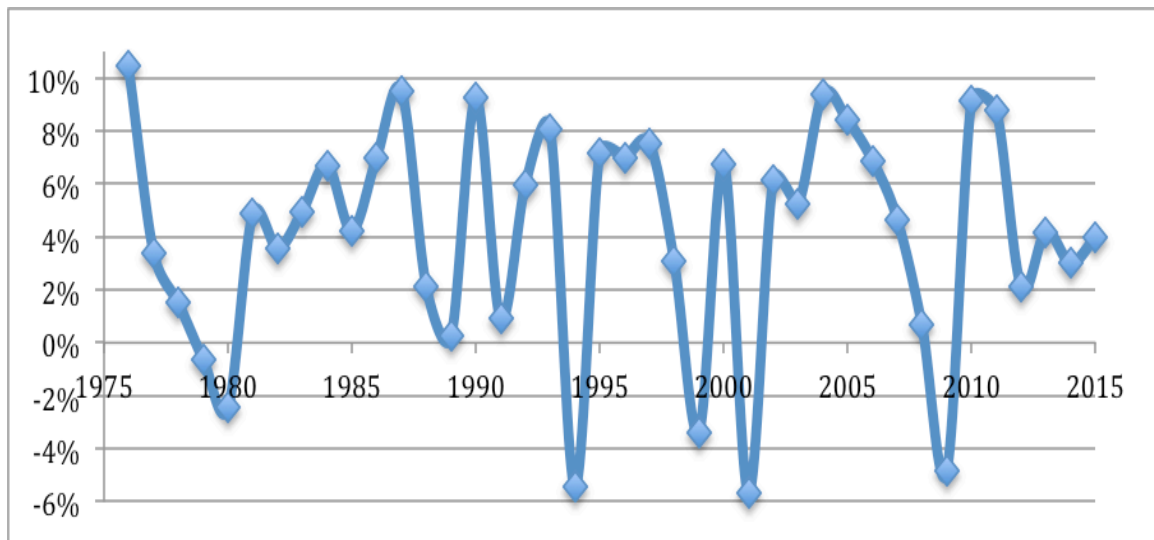
4.3 Economic Performance

This section includes two parts. The first part presents GDP growth performance of Turkey during the NL SSA period. As GDP growth of the period shows a highly volatile pattern, the first part also includes a discussion of how this volatility can be explained within the framework of SSA theory. Then, in the second part, economic performance of the NL SSA will be analyzed in terms of other economic indicators, such as rate of profit and current account balance.

4.3.1 GDP growth in the light of SSA Theory

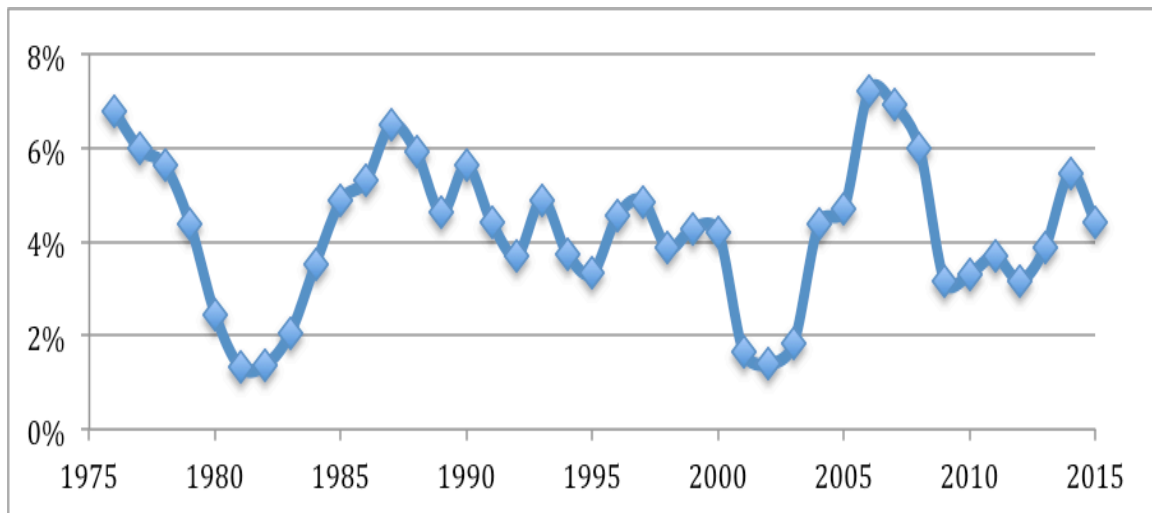
Discussion in this part is based on the data presented in the following two tables, annual real GDP growth rates and its 5-year moving average, respectively:

Figure 4-1: Annual real GDP growth rate (1976 – 2015)



Source: MD (2015) and TurkStat database

Figure 4-2: 5-year moving average of annual real GDP growth (1976 – 2015)



Source: Own calculations from MD (2015) and TurkStat database

Were the crisis conditions of 1976-1980 resolved by the NL SSA? In terms of GDP growth rate, the answer of this question is a definite yes, as the almost ‘V’ shape in Figure 4-1 during 1976-1987 period and the clear ‘V’ shape in Figure 4-2 during the very same period suggest⁴⁴. During the demise period of the previous ISI SSA, 1976-1980, GDP growth rate exhibited a decreasing trend, which was then turned opposite by construction of NL SSA. The GDP growth rate increased dramatically from *negative* 2.4% in 1980 to 4.9% in 1981, and then the trend had positive slope until 1987, where there were only two years (1982 and 1985) that GDP growth rate decreased slightly.

4.3.1.1 Overview of the macro path

The average annual GDP growth during the whole NL SSA (1980-2015) is 4.3 %, which is slightly worse than it was during the ISI SSA (which was 4.5%). Starting with a negative value in 1980, GDP growth rate reached its peak in 1987, and has followed a

⁴⁴ In terms of other economic indicators, see section 4.3.2 .

more or less cyclical pattern afterwards. The period from 1980 to 1987 can be labeled as construction and early consolidation period of the NL SSA, since the economy experienced rapid capital accumulation⁴⁵. Although the construction of NL SSA saved Turkish capitalism from the stagnation during late 1970s, it did not perform well during 1990s and afterwards, as the GDP growth during those years was quite unstable. So, SSA was in place, but was not stable. It is possible to conclude that the NL SSA was *not fully consolidated* in Turkey as a regime of accumulation. Especially during a relatively long period from 1987 to 2012, GDP growth rate data exhibits frequent ups and downs, the possible reasons of which will be explored below. This period also includes four years with negative GDP growth rates:

- 1994: This is called ‘currency crisis’ in the literature⁴⁶. Turkish currency crash occurred due to “huge requirements of public sector borrowing in 1993 and 1994, combined with major policy errors in financing the deficit”, as argued by Celasun (1998). The US \$ / Turkish Lira exchange rate increased by 165% from end of 1993 to end of 1994.
- 1999: 1990s witnessed rapidly changing governments (political instability), increasing public sector deficit and high inflation. These problems increased fragility of the economy by the end of 1990s, and made it vulnerable to external shocks. When this fragile structure was hit by a powerful earthquake in 1999,

⁴⁵ If there is a rapid accumulation, we can talk about an SSA. But, this does *not* mean that rapid accumulation is necessary for an SSA. As stated in chapter 1, an SSA needs to promote *high profit rates and stable accumulation* by stabilizing the class contradictions.

⁴⁶ Celasun (1998) provides a great detail of the currency crisis in 1994.

which killed over 18000 people in northwestern part of Turkey that most industrial cities are, a negative GDP growth followed.

- 2001: This is mostly called as ‘banking crisis’. Already fragile economy was this time hit by a severe political crisis triggered by the debate between the president and the prime minister on Feb 19th. In the very same day, “jittery investors pulled out \$5 billion out of Turkey” as stated by Dufour and Orhangazi (2009), which put foreign exchange reserves of CBRT at risk. Then a stock market crash and devaluation of Turkish Lira followed. Several more significant capital outflows also took place during the remaining months of the same year.
- 2009: Contrary to above three years of negative growth, the reason of 2009 crisis is not an internal/national problem; it happened due to global crisis. Turkish economy was hit by global financial crisis of 2008 severely, which led to almost zero growth (0.7%) in 2008 and a negative growth in 2009.

It can be argued that Turkish NL SSA has entered its demise period by 2012, as the economy experienced low real GDP growth rates for four years in a row until 2015. Average annual real GDP growth for 2012-2015 period is 3.3%, which is below the average of the previous (1980-2012) period (4.4%). Although there is no year with negative real GDP growth rate during 2012-2015 period, uninterrupted low growth rates for a four-year period suggest that Turkish NL SSA was no longer promoting growth, so it stopped working effectively. 3.3% average GDP growth would not be considered as slow for ‘developed’ countries such as US, but it can be considered as slow for

‘developing’ (or less developed) countries, such as Turkey⁴⁷. In addition, growth rates during 2012-2015 were *consistently lower* than the previous period of NL SSA, as there wasn’t any single year during this four years period with a growth rate that is higher than the average growth rate of the previous period.

4.3.1.2 Unstable growth and SSA Theory

There is unanimous agreement in literature that Turkey entered to a neoliberal period in 1980 with the introduction of neoliberal economic policies known as J24D. NL SSA in Turkey created a favorable environment for capital accumulation, which worked well during its early years until 1987. But then highly volatile pattern emerges, which may seem inconsistent with the SSA Theory, since an SSA must provide *stable* accumulation and profit-making during a period that it worked effectively. Although annual data on GDP growth tend to present high volatility across years, smoothed data on growth is expected to show a stable pattern. For instance, as presented in the previous chapter on the ISI SSA, annual GDP growth series seems volatile, but 5-year moving average of the same data shows stable accumulation for the period that ISI SSA worked effectively. However, this is not the case for the NL SSA period. GDP growth during the NL SSA is highly volatile, so that even smoothing the data (Figure 4-2) doesn’t bring any significant improvement in volatility.

⁴⁷ The reason that words ‘developed’ and ‘developing’ are used in quotes is that there is no consensus in the literature regarding definition of these terms. Even WB abandoned using these terms. Recently, in 2016 version of World Development Indicators, WB states that they are no longer distinguishing “between developing countries (defined in previous editions as low- and middle-income countries) and developed countries (previously high-income countries).”

Is a high degree of instability in annual GDP growth compatible with the presence of an SSA? Actually, *yes*, it is compatible. In other words, real GDP growth pattern of Turkish NL SSA does *not* contradict with the SSA Theory. Before 1980s, SSAs are primarily national with an international element, then a transnational global NL SSA emerged with national elements. Not all local social structures in the global NL SSA must manifest stability due to the national differences within the global neoliberal structure, or due to specific circumstances. Stability of NL SSAs is manifested at the global level. In addition, a country can have big swings in accumulation over short periods of time along with relatively vigorous accumulation over a period of 10 or 20 years that includes those short-period fluctuations. An SSA is supposed to enable secure predictions of the return to accumulation over period years into the future, *not* in every shorter period. In case of Turkey, although the economy experienced negative growth rates in several years, it bounced back immediately in following years by virtue of *coherent institutional structure* of the NL SSA. All those crisis years with negative GDP growth were really sudden, and institutional structure of NL SSA was able to prevent the economy from long run stagnation, at least until 2012.

What were specific circumstances of Turkey that caused big swings in annual GDP growth during the 1990s through early 2000s? The main reason is political instability as a result of rapidly changing governments during that period. As the following table suggests, there is a *correlation* between standard deviation of annual GDP growth rates (a measure for volatility) and number of governments per year (a measure for political instability):

Table 4-1: Standard deviation of GDP growth rates and number of governments per year during three periods of NL SSA

Period	St.Dev. of GDP growth rates	# Governments per year
1981-1989	2.7	0.4
1990-2002	5.3	1.0
2003-2015	4.2	0.6

Source: Own calculations from MD (2015)

How does political instability lead to volatile GDP growth? In order to understand the mechanism behind this relationship, GDP growth can be decomposed into aggregate demand components, as presented in Table A. 1 (in Appendix). The data suggests that when there are big swings (around the years with negative growth rates), volatility in GDP growth results mostly from volatility in gross fixed capital formation (GFCF) growth. Also, among components of GDP, private investment is expected to be the one that is highly affected from political instability, due to the reason explained below. In other words, political instability leads GDP growth volatility via volatility in private GFCF growth. Correlation between standard deviation of private GFCF growth and number of governments per year can be seen from the table below:

Table 4-2: Standard deviation in private GFCF growth rate vs. number of governments

Period	Std. Dev. of Private GFCF growth rates	# Governments per year
1984-1990	12.1	0.4
1991-2002	19.5	1.0
2003-2015	17.2	0.6

Source: Own calculations from MD (2015)

There are two points to mention about the data presented above. First, the periodization in Table 4-1 and Table 4-2 is not random. Both the first (1984-1990), and the third (2003-2015) periods were periods of single party government. The government changed several times during those periods, but it was always run by the *same political*

party within each period⁴⁸. However, the second period (1991-2002) is called *coalition governments* period, as the government was always shared by at least two political parties. There was a new government every year on average during the second period, and standard deviation of private GFCF growth rate was higher in this period than it was during the previous and next periods.

Second, this correlation between private GFCF growth volatility and political instability is consistent with the SSA Theory. According to the theory, a politically stable government structure is necessary for stable investment patterns, and hence stable accumulation. As government changed every year on average during the second period, it is expected that GDP growth exhibits frequent ups and downs. The underlying SSA remains stable, but each change in government leads capitalists to pause in their accumulation behavior. Once the change has been completed and the SSA is still in place, they resume high investment. Also note that since correlation is *not* necessarily causation, data presented here cannot be considered as a statistical evidence of causality relation between political instability and private GFCF volatility. An econometric test will be presented in Chapter 6 in order to have an evidence of a possible causal relationship.

4.3.2 Other economic indicators

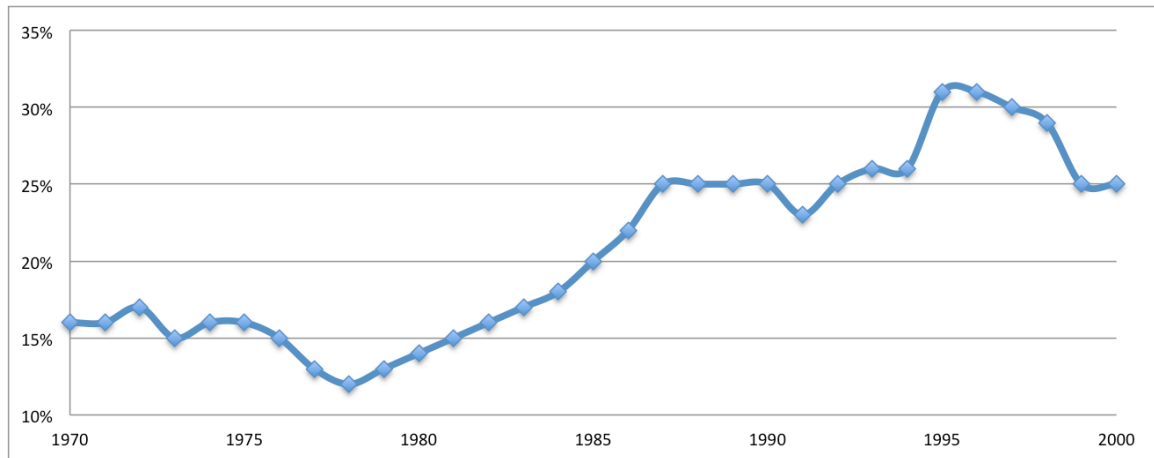
After presenting the data on GDP growth, some other economic indicators will be presented in this part so as to explore economic performance of the NL SSA in Turkey⁴⁹.

⁴⁸ The government was run by ANAP during 1984-1990 period, and by AKP during 2003-2015.

⁴⁹ Data for some indicators may not cover the whole neoliberal period due to lack of availability or inconsistency in measurement. A detailed discussion of some data series can be found in the Appendix.

In addition to stable accumulation, an SSA is expected to promote profit making, and hence data on rate of profit is one of the main economic indicators to look for:

Figure 4-3: Rate of profit in manufacturing sector (1970 – 2000)



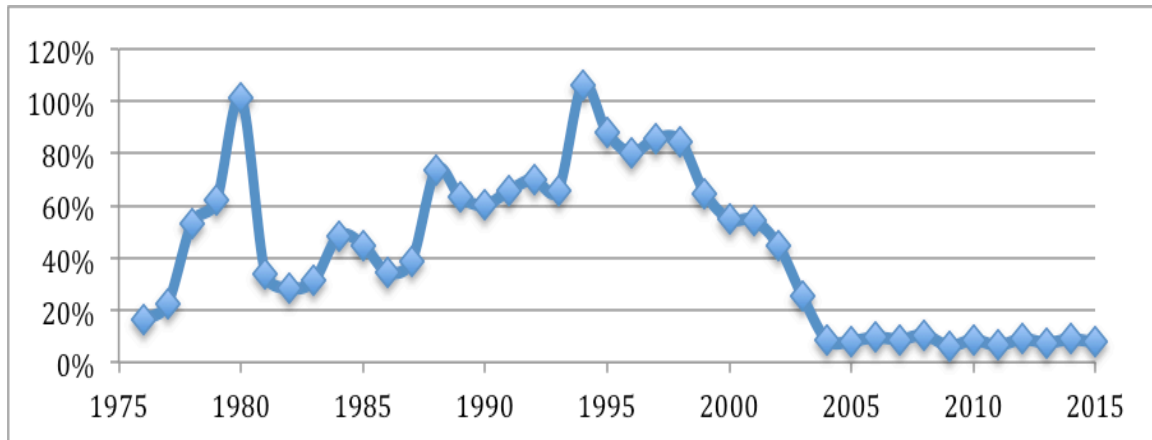
Source: Memis (2007)

In terms of the rate of profit, were the crisis conditions of 1976-1980 resolved by the NL SSA? They were resolved, as the data in the above figure suggests. During its construction and early consolidation period (1980-1987), the NL SSA was successful in profit-making, which is consistent with the SSA Theory. The NL SSA provided a *steady increase* in the rate of profit during its initial years. Then, after several years of almost constant profit rate between 1987 and 1991, it continued to increase until mid 1990s, and then a period of decline followed until 2000. Although lack of data prevents us to comment on post-2000 period, it can be concluded that promoting profit-making feature of an SSA is satisfied for the NL SSA in Turkey, at least until 2000.

Inflation was another factor that contributed to crisis conditions of the previous ISI SSA. As the data on the following figure suggests, initial performance of the NL SSA

in fighting inflation can be considered as satisfactory, since more than 100% inflation rate in 1980 was kept below 50% until 1987.

Figure 4-4: Inflation rate (1975 - 2015)

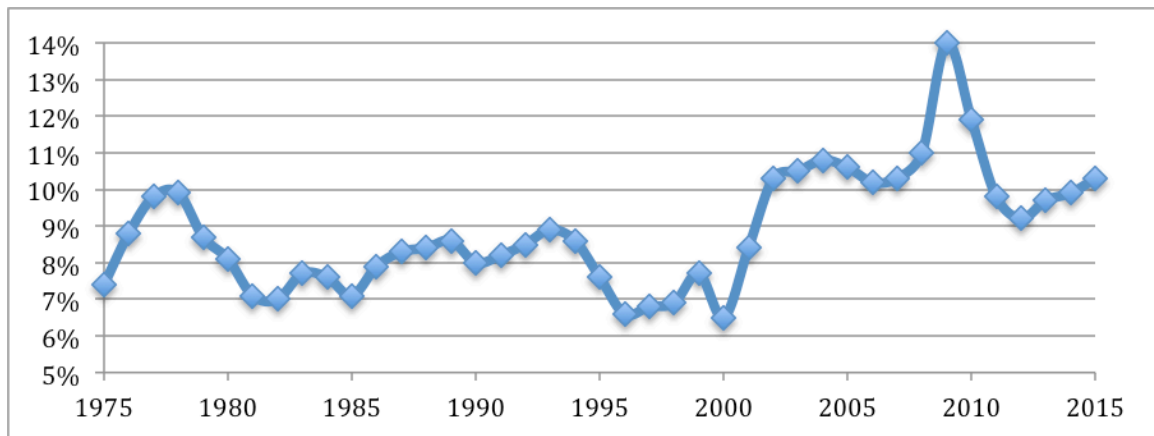


Source: Own calculations from TurkStat (2013) and TurkStat database

On the other hand, Turkey experienced very high levels of inflation during most years of the NL SSA, which can be kept at relatively low levels only since 2004. The period of high inflation mostly coincides with the period of political instability (1991-2002). The period of AKP governments (since 2002) shows lower levels of inflation than previous periods. Except for the first two years, the rate of inflation has always been below 11% since 2002.

Another important macroeconomic indicator is the rate of unemployment. As the following figure suggests, a decreasing trend in unemployment already started just before the construction of NL SSA. But, it must be emphasized that NL SSA was successful in keeping unemployment rate at almost constant level around 7%-8% until 1987, and even at lower levels it during early 1990s. So, until 2002, rate of unemployment had always been less than 9%.

Figure 4-5: Annual unemployment rate (1975 – 2015)



Source: OECD and TurkStat databases

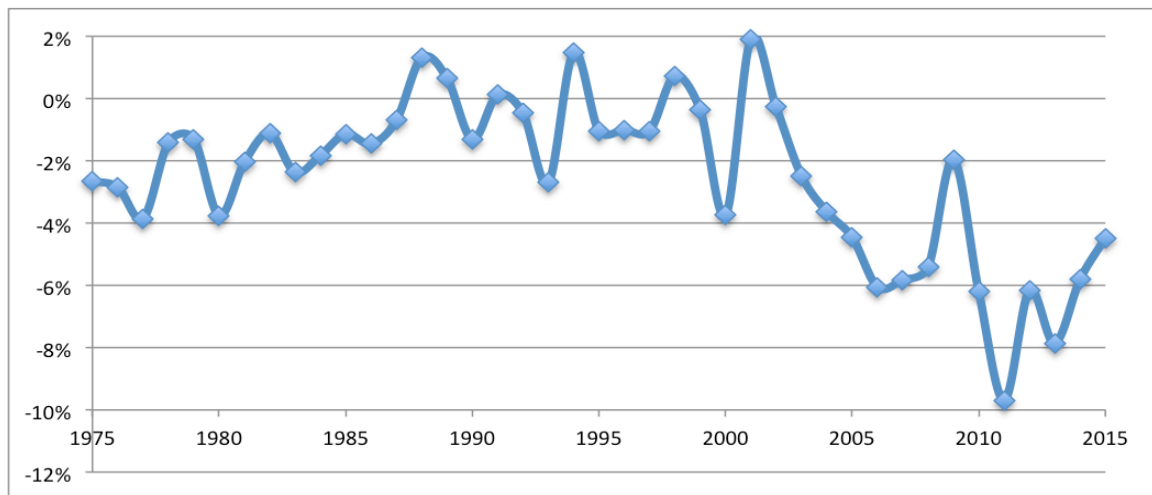
However, post-2002 performance (period of AKP governments) has been worse than the previous period, as the rate of unemployment has been more than 9% for all years. It is, therefore, worth to mention that inflation and unemployment data series have shown opposite patterns during AKP years of the NL SSA. While the former got better with AKP, the latter has become worse. Actually, once we move away from the narrow definition of rate of unemployment in official statistics to an expanded definition, the situation becomes even much worse. According to a report from one of the biggest labor union confederations, DİSK (2016), the *expanded* unemployment rate⁵⁰ for July 2016 is 18.9%. On the other hand, the official *narrow* unemployment rate for the very same month is 10.7%.

In addition to profit rate and three major macroeconomic indicators (GDP growth, inflation, and unemployment), there is another economic indicator that is related to my

⁵⁰ In addition to those who are already included in the narrow definition, the expanded definition of unemployment used by DİSK (2016) considers also the following groups as unemployed: those who are unemployed but don't look for a job and those who are seasonally unemployed. Another striking figure in the same report is the non-agricultural youth unemployment rate, which is 23.8% for July 2016.

analysis of Turkish NL SSA. Declining trend in current account balance (CAB) was an important problem for Turkish economy during 2000s, which has worsened during 2010s. Very large current account deficit since 2010 can be considered as one of the main indicators of crisis of NL SSA.

Figure 4-6: Current account balance as % GDP (1975 - 2015)



Source: MD (2015) and TurkStat database

During the first period from 1980 to 1988, we observe an increasing trend, hence an improvement in CAB. This initial increase was then followed by a volatile period until 2001; at which CAB was more or less around 0% level. Starting with the AKP government in 2002, CAB has worsened significantly. Several years of steady decline during early 2000s was then followed by a temporary improvement for a few years during late 2000s, but the situation has even worsened later. The 2010-2014 period was the worst period in terms of CAB during the whole NL SSA, and CAB for 2015 was just slightly better.

Why did current account balance worsen significantly after 2002? Once CAB is decomposed into its components, it is seen that the biggest item is balance on goods, in

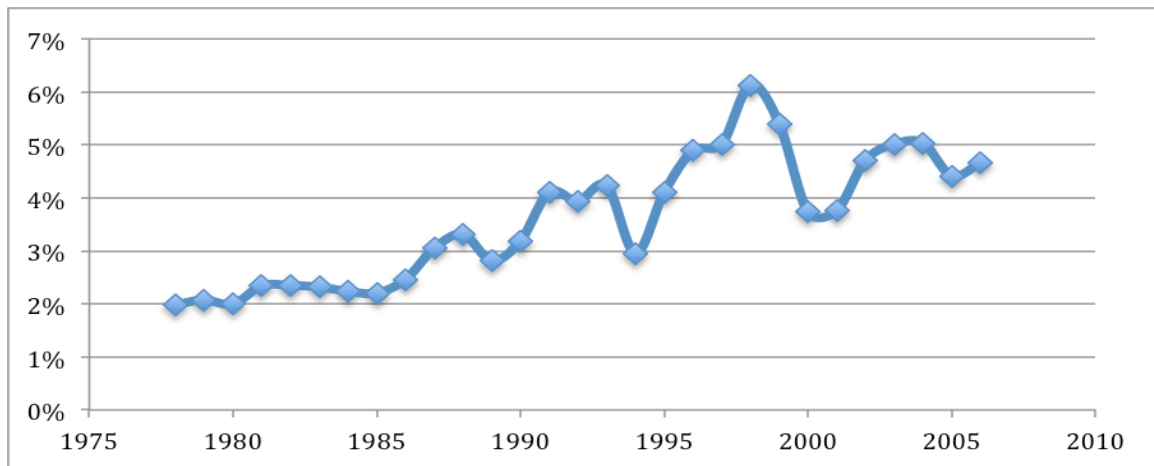
other words trade balance (export-imports). So, the question can be reduced to why trade balance has worsened since 2002. It would be better to divide the period of interest into three sub-periods to have a better picture:

- 2002-2006: Sharp decrease in trade balance (Figure A.2); due to increasing import share, but almost stable export share (Figure A.3). The main reason of increasing imports is increasing dependency on imports for energy sector (Figure A.4), and increasing oil prices (Figure A.5). As to exports, overvalued Turkish Lira during this period is the main reason (Figure A.6).
- 2007-2009: Improving trade balance, as import share decreased (Global Recession).
- 2010-2015: Worsening trade balance due to increasing imports, although a slight increase in export share. This is mainly because of an increase in exchange rate and high levels of import dependency on energy (although almost stable during this period).

Last but not the least, I will discuss the performance of NL SSA performed in financialization⁵¹. Data on share of financial sector in gross national product (GNP), presented in the figure below, can provide an answer. The data is limited in the sense that the definition of financial sector in national statistics was changed in 2006, so only pre-2006 period is presented, which clearly shows the increasing role of financial sector. Share of financial sector in GNP had been stable around 2% level during initial years of the NL SSA. Starting in late 1980s, we can talk about *modest* financialization, since share

⁵¹ I used the term ‘financialization’ with the definition presented by Epstein (2005): increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies.

Figure 4-7: Percent share of financial sector in GNP (1978 – 2006)



Source: TurkStat database

of financial sector increased from 2% to more than 6.1% in 1998, despite a temporary decrease in 1994. This increase in financialization during 1990s is due to increasing interest of holding companies in financial activities. Actually, most financial companies of Turkey have been part of holding companies that also have had investments in other sectors. As stated by Onis and Senses (2009), 1990s was the period during which “the profitability of large industrial establishments became increasingly dependent on their financial activities rather than manufacturing activities.” Then, increasing pattern in share of financial sector stopped by late 1990s; and then the share decreased in 1999 and 2000. After a slight increase in 2002, it stayed almost stable around 5% level during 2002-2006 period. Taking these low levels of share into account, we can conclude that the NL SSA hasn’t led to significant financialization of Turkish economy.

4.4 Features

This section will be on institutional aspects of the NL SSA in Turkey. The main question of interest is the following: what were the set of (political, economic, cultural)

institutions that constituted the environment capital accumulation has taken place? The features of the NL SSA in Turkey can best be understood if the whole period is divided into three sub-periods/phases⁵².

1. Phase I (1980-1989): This period starts with the coup d'état and declaration of new economic policies (J24D) in 1980. It ends with the election of Turgut Özal as a new president in 1989. Why is the year 1989 important to label as the end of the first period? There are two reasons. First, after the coup in 1980, the military junta held the power for three years. Then, Özal (ANAP government) ruled the country until 1989. Özal was a special character for Turkish neoliberalism; and he became *less* effective when he moved from prime minister position to presidency in 1989. Second, 1989 was the year at which labor class organized the first big protest after the coup. This turning point in labor history will be explored more below, but we can shortly say that the protests of 1989 were very effective in waking up the labor class, which had been silent for a long time since the violent coup in 1980.

⁵² Two points must be mentioned about periodization of the NL SSA in Turkey. First, periodization does *not* mean that the overall institutional structure is incoherent. From the beginning in 1980, Turkey has been walking in the neoliberal path, despite policy differences of governments. On the other hand, each period has its own characteristics; and hence periodization makes the institutional character of the NL SSA easy to explore. Second, periodization of the neoliberal era in Turkey is *not* unique to this study. Since the whole period is not totally homogenous in terms of political and economic features, some other scholars have also used these types of periodizations to analyze neoliberal capitalism in Turkey. For instance, according to Onis & Senses (2009), the first phase (which they called “de-regulation phase”) is the period from 1980 to 1989, similar to my periodization above. They label the start phase of the second period as 1989, and also characterize 1990s with political instability. They don't mention any specific third phase, but emphasize the importance of the start of AKP government in 2002. Another example is Boratav (2013), who uses three-period approach in his analysis. The first one, which he called “counter-attack of capital”, is the period from 1980 to 1988. Then he labels the second period as “submission to finance-capital and lame populism”, that starts in 1989 and ends in 1997. And the last period, since 1998, is called “uninterrupted IMF surveillance and crisis.”

2. Phase II (1989-2002): After Özal became president in 1989, ANAP government ruled the country for only two more years. During this 1989-1991 period, ANAP government was not powerful as it was before due to two reasons. First, the new leader of ANAP, and also the new prime minister, was a much less powerful person. Second, although holding majority in the parliament, ANAP lost the municipal elections of 1989 dramatically, which changed political atmosphere of the time significantly. According to results of 1989 municipal elections, it was highly expected that ANAP lose the next general elections. The expectations came true in general election of 1991, at which ANAP lost majority in the parliament. After this general election, Turkey entered a period of coalition governments, which lasted for around twelve years. During this period, governments changed many times as conflicts between ruling political parties of coalitions occurred. Very unstable political situation during the second phase of NL SSA can be considered as an important reason of instability in GDP growth figures during 1990s, as discussed previously.
3. Phase III (2002 - 2015): By 2002 general elections, Turkey has entered a period of single party government. AKP won the majority in the parliament by general elections in 2002, and kept its majority in all of the following elections since then. In terms of political structure, this period has been the most homogenous period of the Turkish NL SSA, as the government has run by a single party for more than a decade.

4.4.1 Three pillars of neoliberal economic policies

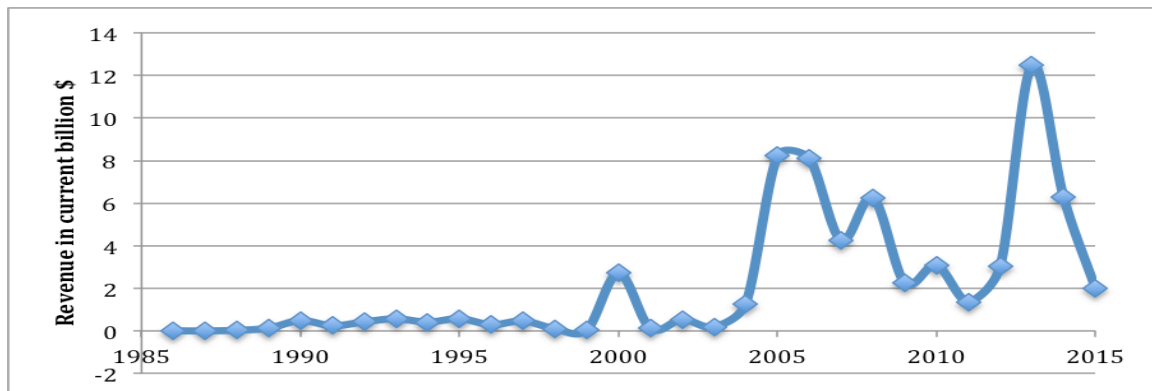
NL SSA has some common features that have emerged in all countries experienced neoliberal capitalism. For instance, privatization of SOEs and deregulation /

liberalization of financial sector are two examples of those features. On the other hand, there are also some features that may not be considered as significant/important in some countries⁵³. This section includes a brief history of three important pillars of neoliberal capitalism that have been significant in course of NL SSA in Turkey.

4.4.1.1 Privatization

The first legal regulation for privatization was made in 1984. According to Atiyas (2009), privatization was considered as an “important part of the structural adjustment process that was intended to move the economic policy regime away from import substitution model” towards neoliberal model. Although the first group of privatizations started in 1986, level of privatization was not significant until 2000s, as can be seen from the following figure:

Figure 4-8: Privatization revenue in current billion \$ (1986-2015)



Source: CBRT database

⁵³ Two recent studies on neoliberal capitalism in two different countries, US and Turkey, present examples for this. In his work on NL SSA in US, Kotz (2015) mentions series of changes in the role of the state that came with introduction of neoliberal capitalism in US. Among these changes, one of them is “reduced enforcement of anti-trust laws”, which cannot be considered a significant factor in Turkish NL SSA. But some other ones, privatization and financial market deregulation, for instance, have also been observed in Turkish NL SSA. Onder (2015), in her study on neoliberalism in Turkey, counts these two among important economic policies of the era.

The figure above suggests that during the first and the second phase of Turkish NL SSA, level of privatization (in terms of \$ value) can be considered as negligible as it was barely higher than zero, except for a single year 2000. On the other hand, the third phase of NL SSA, which is the period of AKP governments, has experienced very high levels of privatization, with respect to previous periods. So, the immediate questions that will arise from this figure are the following: What were the reasons that prevented privatization to reach significant levels during the first two phases of the NL SSA? Related with this, what features of NL SSA led to relatively high levels of privatization during the third phase?

As to low levels of privatization during the first two phases of NL SSA, there are three main arguments in the literature, all of which have played a role. First, although the legal framework of privatization was constructed in 1984, the Privatization Administration (PA) was founded in 1994, which has been the top institution responsible for privatization process in Turkey since then. So, between 1984 and 1994, although there was a legal framework, it was *not* institutionalized yet. Second, most of the state bureaucracy in Turkey during 1980s and 1990s was not in favor of privatization. As stated by Atiyas (2009), “the ability of the étatist-minded state elite to use the recourse to the constitutional court to launch legal challenges against privatization laws” was an important factor keeping the level of privatization low. Last but not least, the political environment of 1990s was highly unstable, as number of new governments per year is 1 on average and all governments were run by a coalition rather than a single party. It was, therefore, difficult for different political parties in coalition governments to agree on the

level and scope of privatizations. The weakness of political authority during 1990s prevented big state enterprises from privatization.

The high level of privatizations during the third phase of NL SSA has taken place as the obstacles, stated in the previous paragraph, have removed by AKP governments. Being a single party government has granted AKP a significant political power. AKP has used this power to strengthen the legal framework in favor of pro-privatization policies and replaced most of the old state bureaucracy with those who are in favor of neoliberal privatization policies. In addition, if we consider macroeconomic conditions of the year that AKP ruling has started, it is understandable why AKP governments put much emphasis on privatization. AKP came to the power in 2002, just after the worst year of Turkish NL SSA in terms of public sector debt. Gross public sector debt stock as percent of GDP reached its peak at 78.9% in 2001 (Figure A.8). AKP has applied large-scale privatizations to reduce this huge public sector debt stock. Most of the big public enterprises in different sectors (petro-chemical, petroleum, tobacco) were gone under privatization during the second half of 2000s. The public opinion was not totally in favor of privatizations during that period. But Turkey experienced a severe economic crisis in 2001 (annual GDP growth rate of -5.7%, the minimum of NL period), and AKP had a chance of being a new and strong (single party) government after this crisis. It used this chance to manipulate the public opinion by presenting large-scale privatizations as ‘necessary’ to overcome the crisis.

There are various methods that have been used in privatizations. Three of the mostly used ones are block sale, asset sale, and public offerings. Privatization Administration published a report, PA (2016), that analyzes the first 30 years of

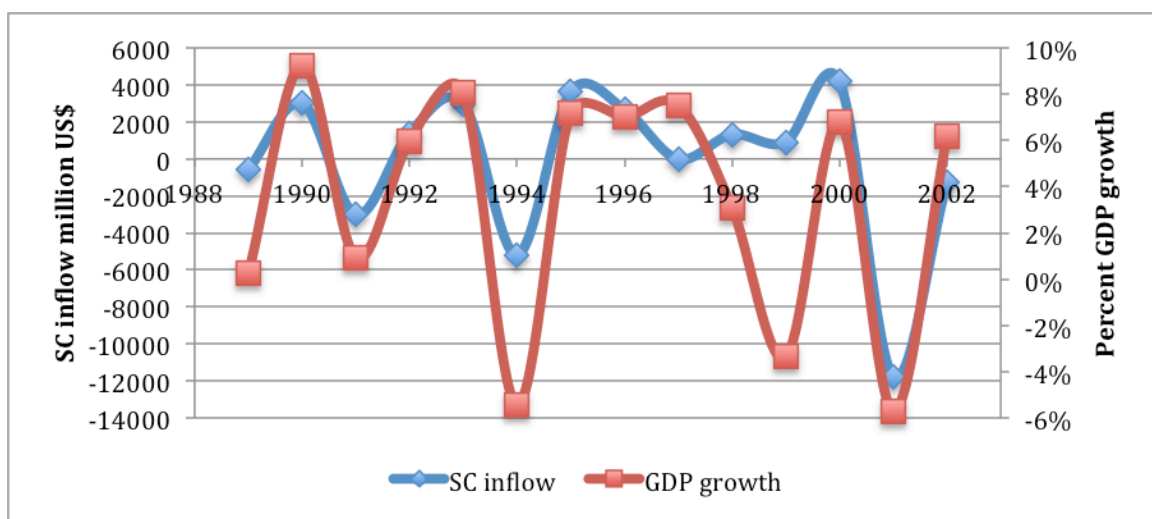
privatization experience in Turkey. PA (2016) states that more than half of the privatizations (53%, in terms of \$ value) were done by block sale method. On the other hand, public offerings have accounted only for 14% of the total value. As stated by Atiyas (2012), the discrepancy in values of block sale and public offerings methods has income distributional effects. By applying block sale method much more than public offerings, “governments have clearly shown their preference for revenue maximization and rapid results as opposed to including wider segments of the population through the capital markets.”

4.4.1.2 Financial Liberalization

Financial liberalization was one of the main policies among many of neoliberal economic policies announced in 1980 (J24D). During the first phase of the NL SSA in Turkey, there were several attempts to have a more liberal financial market. The first attempt was removing the controls (i.e. legal ceilings) on deposit interest rates, which triggered a banking crisis in 1982. As Yeldan (1997) states, the removal of controls caused a struggle among banks and other personal creditors (called ‘bankers’) in order to attract funds from public. This struggle on offering very high interest rates resulted in many bankruptcies that caused savers to lose their money. However, the unsuccessful attempt during 1980-1982 period did not stop following governments to pursue policies towards financial liberalization. As mentioned by Boratav and Yeldan (2001), the other events during the first phase (between 1982 and 1989) were the following: i) liberalization of foreign exchange rate regime in 1984, which allowed banks to accept foreign currency deposits from residents, ii) the first use of open market operations by CBRT in 1986, and iii) foundation of Istanbul Stock Exchange Market in 1986.

The major turning point in financial history of NL SSA in Turkey, full liberalization of capital account, took place in 1989, at the very beginning of the second phase of NL SSA. The result of this full liberalization was, however, not as expected by ideologues of neoliberalism. As well summarized by Cizre and Yeldan (2005), neoliberal ideology claims that as financial sector of a country liberalized, amount of loanable funds will increase, which will then cause real cost of credit to fall. As a result, according to proponents of neoliberalism, pace of capital accumulation will increase, which will eventually lead to sustained growth. However, this neoliberal fantasy did not come true in Turkey after full liberalization of capital account. Instead of a sustained growth, Turkey experienced a highly volatile growth pattern, especially during 1990s. As the following figure suggests, volume of short-term capital (SC) inflow (and outflow, when negative) into Turkish economy after 1989 seems highly correlated with GDP growth during the second phase of NL SSA (1989-2002). This is also the period at which GDP growth was highly volatile.

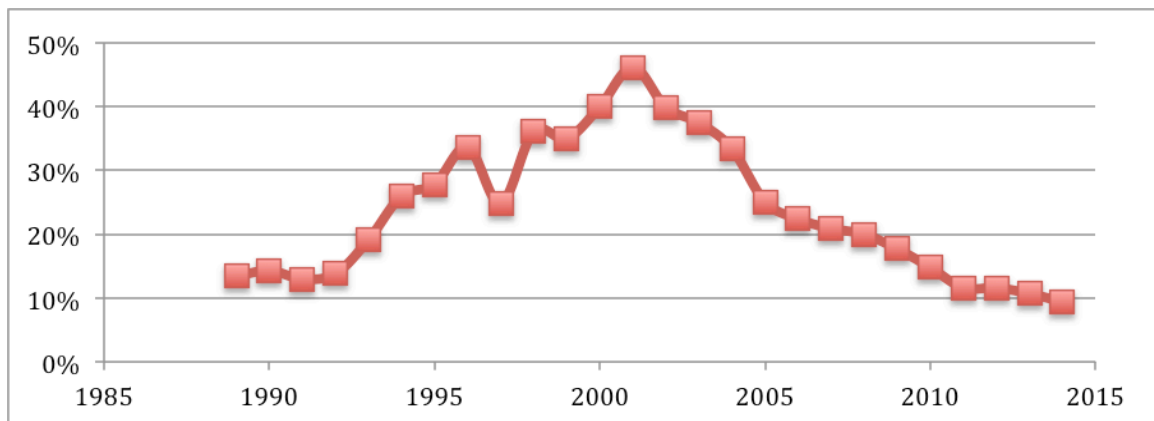
Figure 4-9: Short term capital inflow vs. GDP growth (1989 – 2002)



Source: CBRT database and MD (2015)

As Pamuk (2007) states, dependence on capital inflows as a result of financial liberalization made Turkish economy more vulnerable to external shocks and sudden outflow of capital. Financial liberalization did also affect the government budget. According to Demir (2004), the full liberalization of capital account in 1989 “provided the successive governments with a deadly tool [short-term capital inflows] to finance their borrowing requirements.” He argues that limited foreign debt options caused governments to look for domestic borrowing during 1990s. But small domestic capital market, along with its oligopolistic structure, led to high interest rates on government bonds and treasury bills. High rates of interest then made firms to direct their investment from real sector to speculative financial sector. The result was a significant increase of interest burden on the government budget during 1990s.

Figure 4-10: Interest paid on domestic borrowing as % of total expenditures in consolidated budget (1980 – 2014)



Source: MD (2015)

4.4.1.3 Liberalization of Foreign Trade

The neoliberal economic policies (J24D) announced in 1980 included two important items for foreign trade reform: exports promotion by various means and

legislations, and liberalization of import policy. The changes in foreign trade policies and legislations were mostly completed during the first phase of NL SSA. Then, during the second phase, liberal trade policies were consolidated with a membership to European Union Custom Union (EUCU, accepted in December 1995, effective since January 1996).

In order to increase share of exports in GDP, which had been very low during the ISI SSA period, devaluation of Turkish lira by 155% in 1980 was combined with several export promotion measures during the first phase of NL SSA⁵⁴. According to data presented by Onis and Webb (1992), these measures included mainly four types of incentives, importance of each changed from year to year:

Table 4-3: Export incentives and subsidies as % of total of exports in manufacturing

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Export Tax Rate	1	4	10	12	11	7	6	5	4	2
Duty Free Imports	6	5	4	6	3	10	14	12	4	0
Export Credit or FX allocation	16	13	7	7	0	0	0	0	0	0
Cash Grants and Tax Rebates	0	0	0	0	0	3	6	7	6	6
TOTAL	22%	21%	22%	24%	14%	19%	25%	23%	15%	8%

Source: Onis and Webb (1992)

Export credits were important during the 1980-1983 period, and resources for these credits were mostly provided by CBRT. As stated in a report by CBRT (2002),

⁵⁴ In addition to devaluation of currency and export subsidies, suppression of real wages in manufacturing was another tool that was used during the first phase of NL SSA in order to increase level of exports.

credits given by CBRT decreased to very low levels after 1983. Related with this “the share of the commercial bank loans in export credits increased and commercial banks became the dominant lenders in the export credit market”. Duty free import authorization, along with cash grants and tax rebates, gained importance during 1984-1989 period. Tax exemptions were applied on those imported goods that were used as *inputs* in production of exported goods. In sum, share of export incentives and subsidies in total value exported in manufacturing decreased from 22% in 1980 to 8% in 1989, which, according to CBRT (2002), can be considered as a sign that export sector became self-sufficient over time during the first phase of NL SSA.

Another export promoting policy during that period was the issue of Free Trade Zones (FTZ) Law in 1985. Several FTZs were then founded in different cities during late 1980s and 1990s. There were mainly three exemptions and incentives that were listed in section 6 of this law⁵⁵: i) FTZs are considered outside of the customs border. So, any legislation about taxes, levies, and duties are not applicable in FTZs. ii) Producers and users are eligible for incentives that are determined by the government. iii) Income and revenues earned in FTZs are exempt from income and corporate taxes, under some conditions.

As to import policy, there have been several important changes. Some regulations on imports were simplified, and some restrictions were removed during the first phase of NL SSA. According to CBRT (2002), 25% stamp duty on imports was reduced to 1% in

⁵⁵ The full text of the law can be found in Official Gazette of Turkey # 18755, dated as June 15th 1985.

1980. The number of items whose importation required a license decreased significantly (from 100 in 1984 to 33 in 1988), and was further reduced at the beginning of the second phase of NL SSA, and finally became 0 in 1990. There were also large group of items whose importation had been prohibited by pre-1980 import laws. This banned list was reduced to a very few items during the first phase of NL SSA. In addition to adjustment on import restrictions, tariffs and levies on imports were significantly reduced. Then, during the second phase of NL SSA, order to be in line with the European Union (EU) commitments, further reductions in tariffs and tariff-equivalent charges occurred, which liberalized the import policy even more. A report from WB well summarizes the overall result of foreign trade liberalization practices in Turkey. As WB (2010) states, “Turkey has one of the most liberal trade regimes, based on its 1.5 percent MFN Tariff Trade Restrictiveness Index (TTRI). It ranks as the 5th least restrictive tariff regime out of a 125 country sample.”

Turkey joined to EUCU in 1996, and as a result all the duties and other charges on EU products were removed. In addition, Turkey also agreed to follow EU agreements with third countries, which led to a significant decrease in import protection rate imposed on third countries’ products (from 16% before EUCU, to 4.2% in 2011). Although proponents of trade liberalization at that time argued that EUCU will bring more benefit than harm to Turkey, joining to EUCU *without* being a member to EU reduced Turkey’s independence on its foreign trade policy. Turkey has to follow EU regulations and agreements with third countries, but it does *not* have any right to vote on these agreements since it is *not* a member of EU. This inequality in membership has also affected financial assistance that Turkey may have received. As stated by Onis and

Senses (2009), “Turkey failed to receive financial assistance as part of the EUCU agreement due to Greek veto.” In addition, Turkey’s previous special agreements on import of some investments goods with third countries (US and Japan, for instance) turned to be void after EUCU membership. Very low levels of tariffs in these agreements increased to relatively higher levels due to EUCU regulations. In sum, after being a member to EUCU, Turkey has lost ability to use its comparative advantage in foreign trade, and has had to be a follower of EU policies most of the time.

4.4.2 Class struggle and role of the state

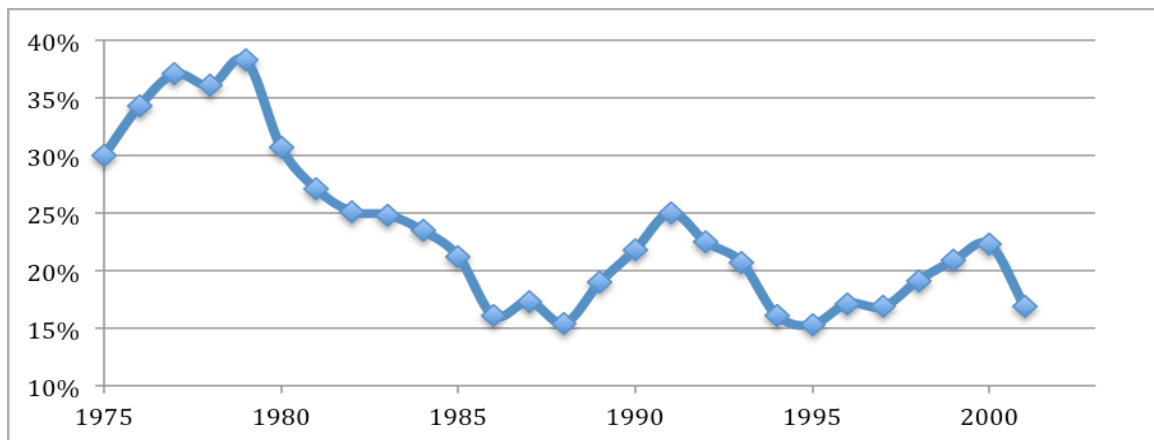
An SSA needs to stabilize class conflicts in order to work effectively (to promote stable accumulation and profit-making). Unlike the ISI SSA, during which the class conflict had been stabilized by labor-capital compromise, the NL SSA has stabilized the class struggle via total domination of labor by capital⁵⁶. By referring to the history of labor class in Turkey and using relevant data, this section analyzes how this domination of labor has occurred during the NL SSA period, along with role of the state in it.

Section 4.2 previously presented how the military regime (1980-1983) violently suppressed the militant labor class and its allies (leftist intellectuals and students), and why reaction of the labor class to the attacks of the military regime was very weak. Due to those happenings during construction of the NL SSA, labor class was so silent in class struggle, and couldn’t show any significant resistance during the first phase of the NL

⁵⁶ In terms of stabilizing class conflict, this difference between the ISI SSA and the NL SSA of Turkey seems as the same difference between regulated and liberal SSAs, as theorized by Wolfson and Kotz (2010). In that analogy, the ISI SSA corresponds to ‘regulated’ type, and the NL SSA corresponds to ‘liberal’ type.

SSA. In Marxian political economy, relative strength of labor against capital in class struggle is the most important determinant of wages, and so of labor share. Labor share data in manufacturing sector, presented in the figure below, clearly reflect the weakness of the labor class during the first phase of NL SSA, since labor share shows almost steady decline until 1989. If we consider high levels labor share during late 1970s as a sign of crisis for the ISI SSA, it seems construction of the NL SSA solved this problem. This dramatic decline in labor share (from 30% in 1980 to 15% in 1988) is, according to Onaran (2009), “the best indicator to explain the political economic aspect behind the military coup ... and the neoliberalism that followed.”

Figure 4-11: Labor share in manufacturing (1975 - 2001)

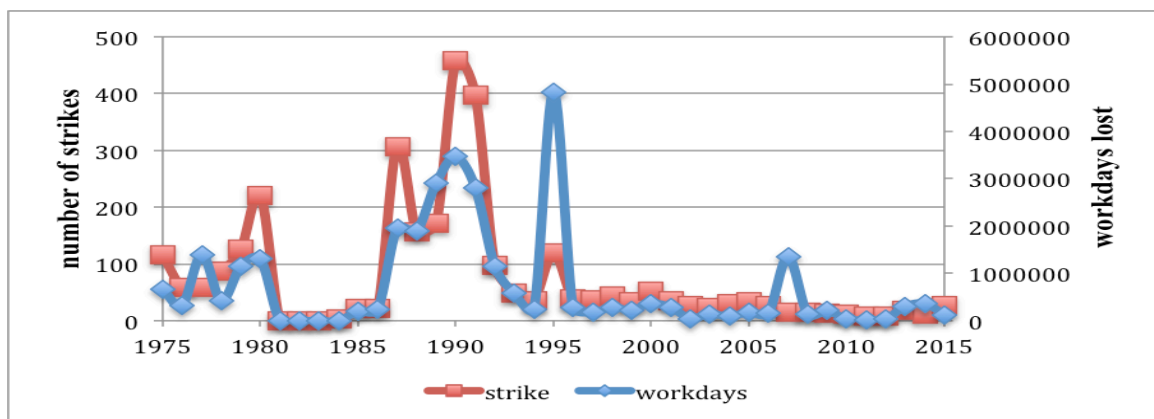


Source: Own calculations from TurkStat (2013)⁵⁷

⁵⁷ Labor share is calculated by dividing “total payments to employees” (TPE) to “total value added” (TVA) in manufacturing sector (the details of TPE and TVA can be found in Appendix). TurkStat changed the methodology for calculating these components in 2003. Old series ended in 2001, and the new series starts at 2003. (The 2002 data point is missing). In order to extend the old series and to have some consistency between the old and new series, I tried to calculate “adjusted post-2003 series” by applying rate of change in new series to old series. Despite these adjustments, I couldn’t get any meaningful data series for post-2003 period. For instance, adjusted new series shows an increasing trend during 2000s, which does not seem in line with the history of labor during the same period. In sum, due to change in data methodology, I only present old series here, since the old series gives us a chance to compare across pre- and post-1980 periods consistently, so we can comment about the effect of construction of NL SSA on labor class.

Almost a decade of silence of the labor class ended in 1989, with several big labor protests and strikes that took place in 1989 and also during early 1990s. The 1989-1991 period was a critical turning point in labor history of Turkey, since the events during this period has affected the pace of class struggle significantly. Those years are best defined by Celik (2005) as “years that labor class stood up.” The first happening took place in 1989, called ‘Spring Actions’. Six hundred thousand public employees organized several big protests during three months of spring in 1989 in order to protest collective bargaining process between state enterprises and labor unions⁵⁸. Although the government was offering 40% increase in wages, as a result of protests, it agreed to give much more than that. Spring Actions was then followed by a big strike and the resulting march of seventy thousand miners (between November 1990 and January 1991). The march of mine workers triggered a general strike all around Turkey in 1991. In sum, those years were the period that labor class was at its highest level of strike activity, as presented in the figure below.

Figure 4-12: Number of strikes and workdays lost in strikes, all sectors (1975 - 2015)



Source: MLSS database

⁵⁸ Spring Actions was also the main reason that the ruling party of the era (ANAP) lost the municipal elections of March 27th 1989.

So, what are political economic implications and results, from SSA Theory viewpoint, of the class struggle during 1980s and early 1990s? Here are two comments:

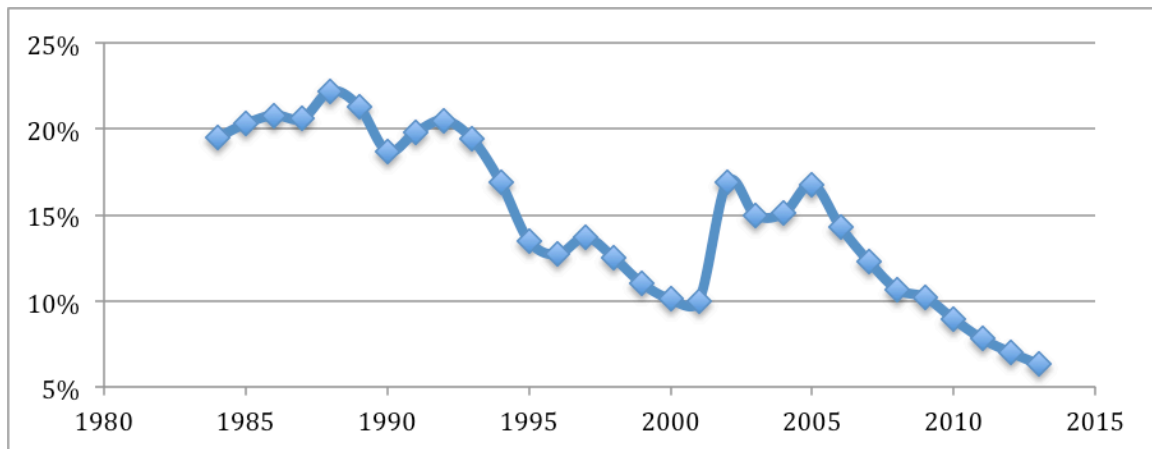
- During construction of the NL SSA, capitalist class was able to reduce labor share significantly. They used the state apparatus heavily in doing so. Three years of bloody military regime until 1983 and the following highly pro-neoliberal Özal government were totally in favor of the capitalists. In fact, the capitalists had no choice other than suppressing wages, as they were no longer playing in the protected domestic environment of the previous ISI SSA period. They had to compete with foreign companies as trade was liberalized, and wages (cost of labor) had to be reduced.
- Relatively sharp increase in labor share between 1988 and 1991 is an evidence of strength of workers in class struggle during that period. Spring Actions and the following big strikes seem to be effective in class struggle of the period. On the other hand, NL SSA did survive during the wave of labor uprising during 1989-1991 period. It is usually the case that once an SSA is constructed, it was hard to see any demise in a very short period (5-10 years). An SSA, as a coherent institutional structure, is strong enough to *bounce back* after temporary shocks.

The wave of labor uprising during 1989-1991 faded away quickly. After that, class struggle has never reached at a sufficient level to threaten integrity of NL SSA, unlike class struggle in demise period of the previous ISI SSA. The labor class stayed in big silence during 1990s. It is hard to see any big strikes except for a temporary one in 1995. Mainly, there are two reasons of why labor class has never struck back effectively after 1991. First, labor class has been left alone in the class struggle. The natural allies of

working class, such as leftist intellectuals and student movement, haven't fully recovered after the 1980 coup. As 'monopoly of violence' feature of state was heavily applied during the construction of NL SSA, most significant figures of the left were either killed, or prisoned, or forced to become political refugees abroad. The demise of the Soviet Union in 1991 did also weaken the left movement and its political parties. In addition, there has been a problem of organizing labor class against attacks of neoliberalism. Most leaders/administrators of labor unions during late 1970s were also revolutionaries, so that the militant labor class of the time could organize well. On the other hand, this is not the case during the NL SSA period. As a result, as stated by Savran (2002), the wave of labor uprising "could not find an organizational outlet through which it could consolidate its gains and set in motion a self-perpetuating upsurge of the class struggle."

The second reason is ideological. The neoliberal ideology has weakened class-consciousness of labor class by promoting individualism. Ethnic and religious differences between workers have also been exploited by capitalists to prevent workers from unity. In the meantime, the state has criminalized revolutionary political parties and labor unions by using various ideological arguments. For instance, being a member of a certain labor union or a political party may have been associated with being a traitor to the country. In addition to criminalization of revolutionary organizations, unionization is usually not welcomed by capitalists and by the state. As a result, rate of unionization has exhibited a clear declining trend during the NL SSA period. It decreased from more than 20% levels in 1980s, to almost 6% in 2013, as depicted in the following figure.

Figure 4-13: Rate of unionization (1980 - 2013)



Source: Sahin (2002), Celik and Lordoglu (2006), and OECD database⁵⁹

The silence of labor class during 1990s has continued also during the third phase of the NL SSA (2002-2015), except for a temporary and a relatively big strike in 2007. Other than that, post-2002 period hasn't been different than the 1990s, as the labor class and its organizations cannot stand against attacks of capital. The political environment of this period has been different than 1990s, as the government has run by a single party (AKP). But domination of labor by capital, the way that NL SSA has stabilized class struggle, has continued. In addition to two reasons stated above for the silence of the labor class during 1990s, another factor seems to be effective specifically for the post-2002 period. The unemployment rate increased significantly after the crisis in 2001, and the average unemployment rate of post-2002 period (10.8%) is higher than the average unemployment rate during 1990s (7.8%). Higher unemployment rates have led to increasing fear of job loss within the labor class. Those workers who were able to keep

⁵⁹ As stated by Celik and Lordoglu (2006), official data series provided by MLSS is *unrealistically* high, between 55% and 70% for the period. Celik and Lordoglu (2006) provide alternative series for 1988 – 2006. For the post-2006 period, I used OECD database, which is also consistent with Celik and Lordoglu for pre-2006 period. Since neither Celik and Lordoglu (2006) nor OECD provides data for 1984-1987, I obtained data for that period from Sahin (2002).

their jobs, as Onaran (2009) states, have found themselves “burdened with increased debt and dramatic losses in living standards, which does not facilitate militant bargaining even after crisis.”

4.4.3 How has NL SSA got cooperation from labor?

During the construction period of NL SSA, the military regime severely crushed the militant labor class of 1970s. Attacks against labor have continued also during civil governments period at various levels. On the other hand, without any consent from labor, violence itself cannot be the only way to keep labor class under control. There must be some incentives that working class (and the poor in general) receives from neoliberalism, or/and some mechanism that the system produces consent of those people through. The question is: what are those incentives/mechanisms that the NL SSA has used to get consent of people? I have two arguments to answer this question: ideological brainwashing, and some material incentives (especially during AKP governments period, since 2002).

NL SSA, its timing and structure, is not unique to Turkey, as significant part of the capitalist world went through similar transformations during late 1970s and early 1980s. Ideological attack through various means was a common phenomenon that was observed in those countries experienced neoliberalism. As Harvey (2005, p: 40) argues on how neoliberalism produced consent in US and UK:

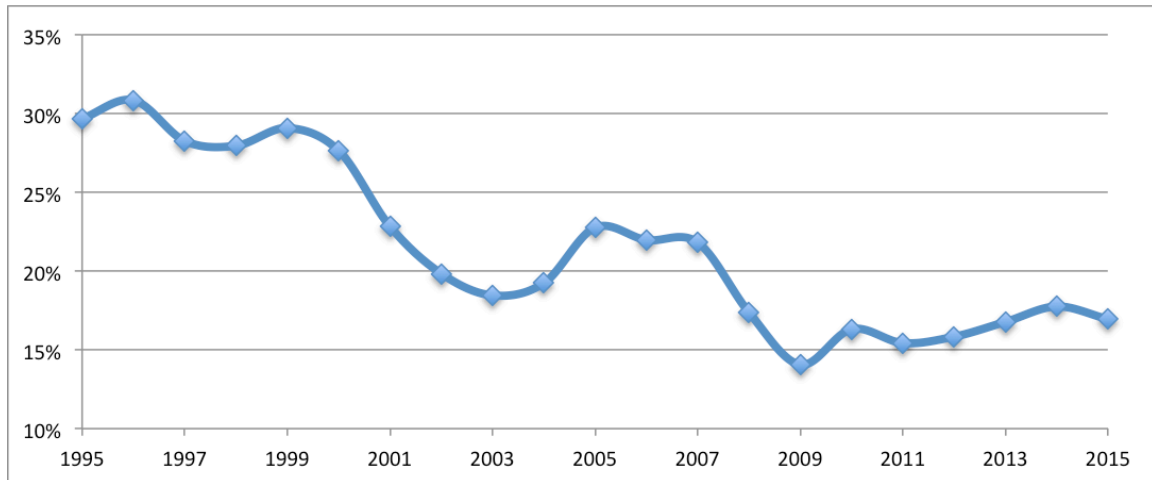
Powerful ideological influences circulated through the corporations, the media, and the numerous institutions that constitute civil society—such as the universities, schools, churches, and professional associations. ... An open project around the restoration of economic power to a small elite would probably not gain much popular support. But a programmatic attempt to advance the cause of individual freedoms could appeal to a mass base and so disguise the drive to restore class power.

The very similar things happened in Turkey, too. Financial liberalization and liberalization of foreign trade were wrongly associated with ‘freedom’ to all society, without mentioning their possible bad effects, which were then realized. Individualism and consumerism were promoted by mass media and corporations. Increasing availability of credit options provided by financial liberalization and promotion of consumerism made people to consume more than they can normally afford. As people have become more indebted, they have had to work more and to show less resistance. This neoliberal ideological attack has also been supported with increasing Islamization in society and politics, which has denounced any kind of resistance and made people more obedient.

As to material incentives, it can be argued that type of consumer goods available has increased during the NL SSA period, so that people are now able to buy things that they couldn’t during 1960s and 1970s. For instance, although it is very expensive to buy top cell phone brands in Turkey and hence most people need credit to buy that kind of goods, they *feel happy* since they can use the very same phones as people of developed Western countries use. In addition to increase in type of consumer goods available, there is another thing that is specific to the third phase of the NL SSA in Turkey. After several talks with poor people in Turkey, I realized most argue that AKP governments have improved health system significantly. Two common arguments are i) people now receive a better care, and ii) they spend less on health than they did during 1980s and 1990s. In order to evaluate this anecdotal evidence, I looked for available data on the subject. The second argument, less healthcare spending, seems to be supported by data on out-of-pocket health expenditure. The figure below suggests that almost 30% out-of-pocket health expenditure during late 1990s has reduced to 15% by end of 2000s. Although there

is a slightly increasing pattern during early 2010s, the current situation is better than 1990s.

Figure 4-14: Out-of-pocket health expenditure % total expenditure on health (1995 - 2015)



Source: WB and OECD databases

In order to discuss the first argument, better health care, evaluation of Health Transformation Program (HTP), an important reform of health system that was started in 2003, would be helpful. World Health Organization, in a report WHO (2012), defines HTP as an example of successful health system reforms. Another report, OECD (2014), states that there has been an *impressive improvement* in health of Turkish population during the first nine years period of HTP depending on the data presented in the table below⁶⁰. OECD (2014) also states that HTP “consolidated multiple coverage schemes that had diverse entitlement rules into a single Social Security Institution (SSI),

⁶⁰ Another report that provides a detailed view on performance of HTP is Bump et. al. (2014) from WB. A complete evaluation of HTP is out of scope of this dissertation, so only some indicators of health care are provided here. But it should be kept in mind that there are also critics of HTP. For instance, see Elbek and Adas (2009), Ergun and Ergun (2010), and Elbek (2014) for critical views. Also, even the reports mentioned above, OECD (2014) and Bump et. al. (2014), discuss some issues at which HTP hasn’t performed well.

improving pooling and redistribution.” In addition, there have been improvements in ‘Green Card’ system during 2000s, which is a non-contributory health insurance program for the poor⁶¹.

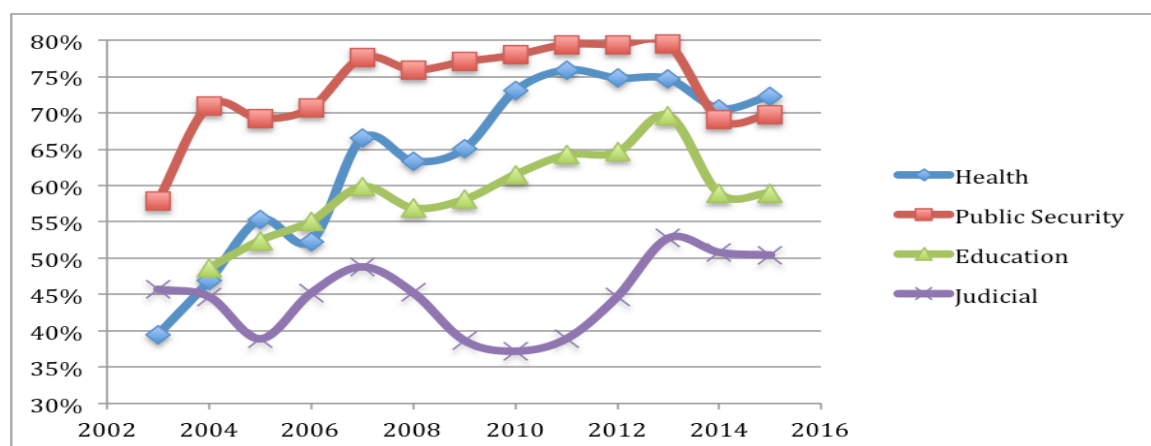
Table 4-4: Selected health indicators (2002 and 2011)

	2002	2011
Life Expectancy at Birth	71.9	74.6
Neonatal Mortality (per 1000 live births)	16.6	4.6
Maternal Mortality (per 100,000 live births)	64.0	15.5
Infant Mortality (per 1000 live births)	31.5	7.7

Source: WB database

In addition to health indicators, results of an official survey on life satisfaction can be used as a supporting quantitative evidence of increasing health care quality:

Figure 4-15: Satisfaction from several public services as % of total participants to annual Life Satisfaction Survey (2003 - 2015)



Source: TurkStat database

⁶¹ For more detail on Green Card scheme, see Menon et. al. (2013), a WB paper, which states the following: “Initially launched in 1992, the Green Card program has seen a rapid expansion in the number of beneficiaries and program benefits since the implementation of HTP in 2003, with the number of beneficiaries more than tripling, from 2.5 million beneficiaries in 2003 to 9.1 million beneficiaries in 2011. In addition, both the coverage and targeting of the program improved substantially.”

TurkStat conducts nationwide ‘Life Satisfaction Survey’ every year since 2003, which includes questions on household living conditions, personal happiness and life satisfaction, satisfaction from public services, expectations, and personal development and hope. It is reasonable to assume the following: people become satisfied with health services if and only if they receive better health care. The above figure suggests that satisfaction from health services increased dramatically during the first decade of AKP governments (2002-2011), and then stayed almost constant for the last four years. This increasing pattern does, therefore, seem to support the anecdotal evidence on better health care. Although a survey on ‘satisfaction from public services’ can easily be manipulated by design and sampling, this still can be considered as another evidence of better healthcare after 2002 (in addition to a strong evidence of health indicators in Table 4-4).

4.4.4 Ideology

The ideology of NL SSA in Turkey has various dimensions, and it has been in contrast with the ideology of ISI SSA. After the coup in 1980, the state has constantly denigrated collectivism, and individualism has been promoted. Newly emerging media were heavily used to advertise individualism during 1990s⁶². Organized movements on left (labor unions and political parties) were affected badly not only by decreasing number of members due to imprisonment and political immigration, but also by ideological brainwashing. Individualism at micro level was used to promote free market ideas at macro level. The nationalist developmentalism ideas of previous ISI SSA were replaced by fantasies of neoliberal capitalism. According to these fantasies, as individuals

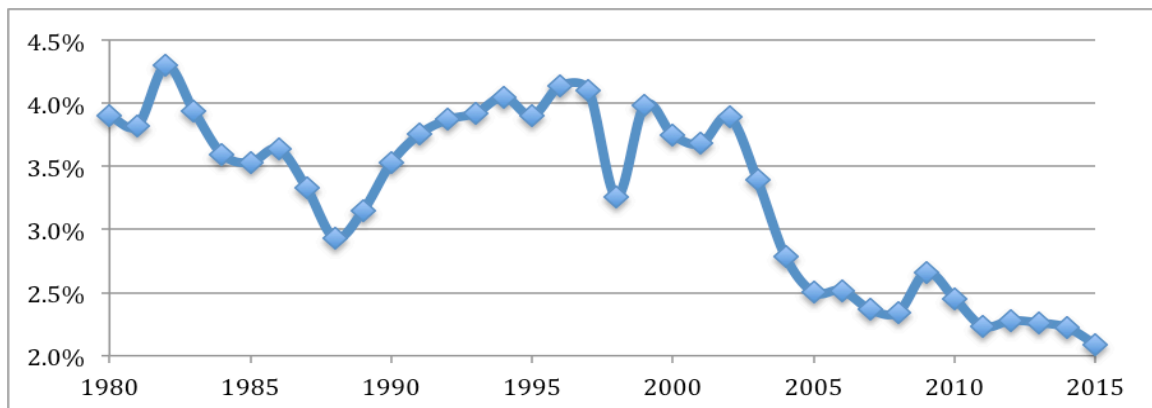
⁶² The first private TV channel started broadcasting in 1990, and then more others followed it.

pursue richness for their own, the society will also get richer. Although SPO has not been abolished, economic planning lost its importance significantly during the NL SSA period, as planned economy has been associated with ‘dangerous’ and ‘old-fashioned’ socialist ideas.

Consumerism has increased dramatically with respect to previous ISI SSA period. In the past, people had tended to use fewer items by longer periods. Also, showing of one’s richness had been considered as improper by the society. But, NL SSA has converted behavioral codes of the Turkish society. Buying ‘new’ items frequently has become a new norm, and showing off richness by various means has not been considered as improper anymore. The first shopping mall, temple of consumerist ideology, was founded in Istanbul in 1986, which then followed by many others in different cities. An important ideal of ISI SSA period, being an economically self-sufficient country, has been abandoned by the NL SSA. Rather than personal savings, which had been considered as a way to have a strong national economy during ISI SSA, spending and getting credit cards have been important in the neoliberal period. In addition, as foreign trade was liberalized, domestic goods has been considered as inferior than imported goods in most sectors. ‘Domestic goods week’, which have been celebrated in schools since 1946 at which all students bring foods produced in Turkey and share with others, have lost its importance significantly during the neoliberal period. Even the traditional and famous Turkish food sector has been attacked by neoliberal ideology. Western fast food culture, especially after the opening of the first McDonalds restaurant in 1986, has been heavily promoted by mass media.

The priorities of national security have also changed during 1990s. By the demise of the Soviet Union, fear of communist invasion was over. Starting with late 1980s, the “Kurdish problem” has been the main concern for the state. The war between the national army and Kurdish forces intensified during 1990s, and has continued with several temporary peace periods. Main economic effect of Kurdish war was the increasing burden of military spending during 1990s, as can be seen from the figure below. In addition, the Kurdish war has also worsened the economy of cities in the Eastern part of Turkey. Lack of job opportunities, along with security threats, led to internal migration from East to big cities of West, especially to Istanbul. Most of those immigrants have been used as a cheap labor force in various industries. The effect of this war on ideology is that society has become more nationalist, and anti-democratic policies of the state can sometimes gain huge support due to ethnic problems.

Figure 4-16: Military spending as % GDP (1980 – 2015)



Source: Stockholm International Peace Research Institute (SIPRI) database

Last but not least, Islamization is another feature of the ideology of NL SSA in Turkey that has been more important since 2002. Republic of Turkey has been a secular nation-state from its first day, and this property of the republic is guaranteed by the

Constitution. In order to separate the new republic from its predecessor Ottoman Empire on ideological grounds, the founders of republic had put so much emphasis on secularism. Although significant majority of population is Muslim, the state has never had a theocratic character. On the other hand, starting with the coup in 1980, this secular character of the state has been eroded. The erosion was not that significant before 2002, but the process of Islamization has gained momentum with the AKP governments. Turkey has been currently experiencing an increasing Islamization in both social and economic life, effects of which will be discussed in detail from SSA perspective in the next chapter.

4.4.5 International/external factors

The international factors that have played role in working of the NL SSA of Turkey can be divided into two groups, EU and international financial institutions (IMF and WB). The economic role of EU is mostly through Turkey's membership to EUCU, which was previously discussed in section 4.4.1 The effective roles of IMF and WB in early years of NL SSA were also discussed previously in section 4.2 This section analyzes the political economy of relationships with IMF during 1990s and afterwards.

Turkey has made seven stand-by agreements with IMF since 1980. The last agreement was signed in 2005, which was for three-year period. In 2008, AKP government decided not to make any more stand-by agreement. As of May 2013, Turkey paid its last loan installment, and is no longer in debt to IMF. The amounts of financial aid for the last three agreements (1999, 2002, and 2005) were much greater than the amounts for the first four, as presented in the table below. As amounts of loan have got

bigger, effect of IMF on economic policies of Turkey has increased. Boratav (2013) defines the 1998-2009 period of Turkish Economic History as “the period of continuous IMF surveillance”.

Table 4-5: IMF Stand-by agreements (in thousand SDR⁶³ dollars, 1980 - 2015)

Facility	Date of Arrangement	Amount Agreed	Amount Drawn
Standby Arrangement	11-May-2005	6,662,040	4,413,602
Standby Arrangement	4-Feb-2002	12,821,200	11,914,000
Standby Arrangement	22-Dec-1999	15,038,400	11,738,960
of which Supplemental Reserve Facility	21-Dec-2000	5,784,000	5,784,000
Standby Arrangement	8-Jul-1994	610,500	460,500
Standby Arrangement	4-Apr-1984	225,000	168,750
Standby Arrangement	24-Jun-1983	225,000	56,250
Standby Arrangement	18-Jun-1980	1,250,000	1,250,000

Source: IMF database

The crisis of 2001 has a special place in IMF-Turkey relationship. After a negative GDP growth rate in 1994, GDP growth rates for the following three years were all above 7%. On the other hand, rate of inflation had been so high during late 1990s. In addition, GDP growth rate decreased to 3.1% in 1998, and macroeconomic indicators of the first three quarters of 1999 suggested that the growth rate was going to be negative in 1999 (which actually turned out to be -3.4%). Under these circumstances, Turkey made a new stand-by agreement with IMF at the end of 1999, with an extension in December 2000. This agreement, which included the biggest amount of loans in IMF-Turkey relations so far, necessitated a new stabilization programme by IMF. Despite a temporary jump in GDP growth rate in 2000 (6.8%), this IMF directed programme did not prevent Turkey from going into even deeper crisis in 2001 (-5.7% real GDP growth rate, the

⁶³ See footnote # 19 in previous chapter for definition of SDR dollars.

minimum of whole neoliberal period). According to Pamuk (2007), the IMF stabilization programme couldn't be successful due to flaws in its design, since "it ignored significant problems in financial sector, especially large deficits of the public sector banks, which had been used for financing part of the budget deficits."

Ironically, unsuccessful IMF programme and the resulting crisis in 2001 forced coalition government of the time to have a new stand-by agreement with IMF. Although there had been some level of resistance to IMF policies within the government, it was broken by the crisis burst in February 2001. As well stated by Onis and Senses (2009), "the very depth of crisis helped to change the balance of power in Turkey's political economy ... IMF gained the upper hand." The coalition government of the time included three political parties. The majority belonged to a leftist party (DSP), and so the head of DSP was holding the prime minister position. Despite being run by a leftist prime minister, the government considered IMF as *the only way* to overcome crisis. Moreover, the government did not only agree to follow IMF programme, but also invite Kemal Derviş to manage that economy. Kemal Derviş is a well-known figure in international financial circles, as he worked in WB for 23 years, and has close links with both IMF and WB. Although he wasn't even a deputy at that time, he was assigned as the minister of economic affairs, and held that position for seventeen months (until August 2002). This unusual appointment of Derviş as a minister was heavily criticized in public, and it was considered as a sign of total submission to neoliberal policies of IMF. On the other hand, there was a consensus that major reason of Turkey receiving another big IMF loan (almost \$13 billion) in 2002 was the credibility of Derviş in international financial circles.

There is an important point in the history of Turkey-IMF relationship during the neoliberal era that is intentionally omitted by mainstream economic literature: The relationship is mutually beneficial. IMF/WB have been hard proponents of neoliberalism, and they played important roles in the construction of NL SSA in Turkey. As much as Turkey needed IMF loans to overcome crisis, IMF also wanted Turkish NL SSA to survive as an evidence for success of neoliberal model in a developing country. Even at the times when it didn't seem economically reasonable to give a loan to Turkey, IMF agreed to lend. As pointed out by Boratav (2013), the very example of this is the last stand-by agreement in 2005. The stand-by agreement of 2002 ended in 2005, and AKP government wanted to have a new agreement with a significant amount of loan in May 2005. An evaluation report from IMF experts just before the agreement, IMF (2005), first states that "Turkey is not facing an acute capital account crisis and, as such, does not meet all of the criteria governing exceptional access". But then continues: "Hence, it is proposed to approve the proposed exceptional access by invoking the exceptional circumstances clause." We can learn what those 'exceptional circumstances' are from the same report: In addition to proposed economic benefits, the report states, the new three-year programme will also "provide an anchor during the run up to the next general elections (to be held by November 2007)." So, these sentences from an official report of IMF suggest that loan decisions can be highly political. A pro-neoliberal government (AKP) can be supported 'exceptionally' by IMF, despite the fact that it didn't meet all criteria of a stand-by agreement.

4.5 Ongoing demise

3.3% average annual GDP growth in 2012-2015 period suggests a possible crisis phase of NL SSA. Although 3.3% is not as low as GDP growth during demise period of previous ISI SSA (0.4%), it can still be considered slow for Turkey given its stage of development. Moreover, crisis phase of NL SSA argument can also be supported with another economic indicator: current account deficit. Turkey has been experiencing a severe current account deficit during 2010s. Average annual current account deficit as % GDP for 2011-2015 period is 6.8%, which is absolutely the worst of all periods since 1963. Moreover, general trend of current account has been downward since the crisis of 2001, except for a few jumps. Kara and Sarikaya (2014) analyze current account deficit by decomposing it into cyclical and non-cyclical (structural) components. After extracting cyclical part, they conclude that there remains a significant amount of non-cyclical deficit, which needs to be managed with structural policies. Importance of current account deficit problem has been also accepted by government officials, as it has been one of the top policy issues during 2010s.

Severe class struggle was one of the main causes of the demise of previous ISI SSA, since ISI SSA had been unsuccessful in stabilizing class conflicts during late 1970s. However, pace of class struggle at the end of 2015 did not appear as a close threat for demise of NL SSA. Labor class was so weak and unorganized, and hence cannot be a serious threat for the system. I argue that, rather than inactive labor-capital struggle, unstable domestic political environment and external issues are playing roles in ongoing demise of NL SSA. First, domestic political environment has been highly unstable,

especially since the Gezi Park protests in June 2013. Ideological polarization in public between supporters and opponents of AKP government has been increasing. In addition, the state bureaucracy is also polarized. As several different groups in state bureaucracy have been fighting with each other, integrity of organizational structure of the state has been vanishing, which was crystallized by the coup attempt in July 2016. Thousands of active duty soldiers and policemen have been arrested due to their engagement with the coup attempt, and there seems no hope for normalization in a near future. Second, Turkey has also increasing problems in international relations. It has conflicts with both US and Russia on the politics of Syrian war, and these conflicts seem to be intensified since Turkey's active military engagement in Syrian war in August 2016. Moreover, support of Western governments (both US and EU) to Erdogan regime and AKP in 2000s has turned into opposition during last several years.

Last but not least, there is also a global dimension of demise of NL SSA. As the rise of neoliberal capitalism was a global phenomenon, its demise will likely to be global as well. For US, the biggest capitalist economy with a NL SSA, Kotz (2017) states that it entered its "structural crisis phase" in 2008. Damages of neoliberal policies have been criticized in most Western countries during recent years, and it is now seen by more and more people that neoliberal model is no longer working. Moreover, even the IMF, long-term proponent of neoliberal policies, seems doubtful whether neoliberalism is oversold. In a relatively recent paper, Ostry et. al. (2016), three IMF economists state that "instead of delivering growth, some neoliberal policies have increased inequality, in turn jeopardizing durable expansion."

CHAPTER 5

EFFECTS OF ISLAMIZATION ON NEOLIBERAL SSA

5.1 Introduction

In this chapter, I will analyze effects of Islamization on working of the NL SSA in Turkey. In addition to this introduction, there will be three more sections. First, I will present a brief history of the rise of political Islam in Turkey that started with the coup d'état in 1980. Then, in the second section, I will explain the relationship between the rise of political Islam and capital accumulation by focusing on the rise of 'Islamic Capital', which is a term commonly used for the capital of those who identify themselves as Islamists. Islamic financial institutions, within-class conflict between Islamic and 'secular' capitalists, and role of Islamic charities will also be discussed in the second section. Lastly, I will discuss effects of Islamization on labor class, by focusing on role of Islamization in class struggle between labor and capital.

Before going through details, I want to explain why Islamization in Turkey deserves a separate chapter in this dissertation on SSA Theory. In other words, why is the Islamization process important in terms of SSA Theory? There are three reasons, all of which are related to class conflicts⁶⁴. First, Islamization has changed the course of within-class conflict of capital. A new faction in capitalist class, Islamic capital, has emerged due to rise in political Islam, which is in conflict with the already existing capitalists of Turkey in some respects. Although capitalist class as a whole is against labor class, this

⁶⁴ As stated in Chapter 1, an SSA creates favorable environment for capital accumulation by regulating class conflicts, intra class relations and competition, and by assuring growing markets.

doesn't exclude competition between two factions of capital. Second, Islam is a very strong ideology that organizes *every single feature* of human life, and labor-capital relation is not exempt from this. Islamic labor unions and Islamic employer organizations can change course of traditional class struggle in a workplace. Third, as being a religion, Islam can also be used as opium of the masses. It is not a mere coincidence that the rise of political Islam has taken place during NL SSA period in Turkey. The poor have become more vulnerable to effects of capitalism under neoliberalism. Islamic rhetoric is a powerful tool that has been used as a *fake* relief for those who are struggling due to neoliberal policies. God's eternal justice will take those poor prayers to the heaven in the afterlife, so there is no need to revolt against the employers.

Related to the third point above, one may rightly think that exploiting religious beliefs of workers was also an issue during previous ISI SSA period, as it has been during NL SSA period. So, why are we analyzing Islamization as an issue related to NL SSA only? More specifically, what did change after 1980 that exploitation of religious beliefs has become an important issue? I admit that this would have been an issue also for ISI SSA, but it wasn't. Regardless of the timing, if Muslim workers believe that their employer is a faithful Muslim, they are more open to manipulation. On the other hand, one cannot consider worker-employer relation as isolated from social and political atmosphere in the country. First, as will be explained in the next section, the rise of political Islam started with the coup in 1980, and it has continued during the NL SSA period. In previous ISI SSA period, the ideology of state was more secular, and the society was less religious, than they have been during 1990s and afterwards. Under that atmosphere of 1960s and 1970s, the exploitation of religious beliefs could not be a

common practice in workplaces. Second, since state bureaucracy was more secular and state enterprises hadn't been privatized yet during ISI SSA, workers of state enterprises were not in danger of religious manipulation. Increasing share of private sector in the economy, combined with the rise of Islamic capital, has led to increasing number of firms controlled by Islamic capital. Workers that are employed by those Islamic companies have become more vulnerable to religious propaganda of their Muslim employers.

5.2 Rise of Political Islam – A Brief History

The Republic of Turkey has been a secular state since its foundation in 1923, and a big majority of population has been Muslim. Although Islamic political parties have been in political arena since 1950s, political Islam was not effective before 1980s. The main reason of this is that the secular (Kemalist) state bureaucracy (mainly the top officials in army and jurisdiction) was against Islamic political parties, and kept them under control. However, the state bureaucracy was also against total elimination of Islam from politics, as it was a very useful tool in fighting against communist (and in general leftist) ideas, which had been the principle concern of Turkish state since being a NATO member. So, although control of the state apparatus had never completely given to Islamists, Islamic propaganda had been allowed up to some degree. As stated by Bugra (2002b), the secular state bureaucracy highly preferred “the institutionalization of a state-interpreted and controlled version of Islam as an integral part of the public political sphere”. The Directorate of Religious Affairs, a public institution, have been used to this end. Up until 1980, the state bureaucracy successfully followed this balanced policy when dealing with political Islam. Although several Islamic political parties had won

some seats in the parliament before 1980, they had never been politically strong enough to follow their own political agenda. However, course of political Islam during the NL SSA has been different than it was in pre-1980 period. The NL SSA period has witnessed four milestones in regard to political Islam, which I will briefly explain below.

1. The 1980 coup d'état and the military regime: Secular ideology of the state before 1980 was weakened by the military junta that came to power just after the coup d'état in 1980. It may seem paradoxical at first sight that under the rule of army, which had been the strongest proponent (and also the guardian) of the secular regime since the foundation of Turkey, the secular character of the regime has started to erode and the political Islam has started to rise. Actually, there are two reasons why this happened in early 1980s. First, the military junta thought that Islam could be used to build a social cohesion that had almost disappeared in the bloody social uprising on streets during late 1970s. The term 'Turkish-Islamic synthesis' is commonly used to denote the ideology of early 1980s, which can be described as combination of national Turkish identity with unifying aspect of the religion. The head of military junta, Kenan Evren, used references from Quran (holy book of Islam) in many of his public speeches. The religion class in schools, which had been optional previously, became mandatory during this period. And it does not seem as a coincidence that construction of NL SSA took place at the same time with the emergence of 'Turkish-Islamic synthesis'. In order to construct a new SSA, severe class conflicts of late 1970s had to be stabilized, and the religion seemed to be a useful tool. As stated by Kaya (2015), "both the accommodation of the Islamist forces and economic liberalization were expected to prevent polarization and fragmentation ... among diverse social forces ...

and to shape social order.” The second reason of why political Islam has started to rise in early 1980s is the “vacuum emerged in Turkish polity” due to violent and bloody suppression of left-wing people and political parties. As stated in the previous chapter, it took almost a decade for the first working class actions to take place after the coup; and the Turkish left has *never* been able to fully recover. The political arena and society became an open playground for right-wing and especially for political Islamists, at which their political and civil organizations have flourished without any significant opposition. These many Islamic organizations, founded by different factions/schools within Islam, have played important roles in increasing religiosity in the society and in politics.

2. Elections of 1994 and 1995: The electoral success of an Islamist political party, Welfare Party (RP), in municipal elections of 1994 and also in general selections of 1995 was another milestone in the history of political Islam. Although RP got just the third rank in municipal elections (in terms of total percent of voters nationwide), it won the two biggest cities, Istanbul and Ankara⁶⁵. Then a year later, RP got the first rank in the general elections, and hence became the biggest member of the resulting coalition government. There are two reasons behind this electoral success. First, the economy was not doing well during early 1990s. People were not satisfied with very high rates of inflation of the time. Rate of inflation increased dramatically from 60% in 1990 to 106% in 1994, and a crisis took place in 1994. Bad governance in major municipalities is another reason of dissatisfaction from traditional political parties.

⁶⁵ The candidate of RP for the mayor of Istanbul in 1994 municipal elections was Recep Tayyip Erdogan. Erdogan has been certainly the most important figure in Turkish politics since 2002. I agree with the common view that the rise of Erdogan has started with being the mayor of Istanbul, the biggest city of Turkey, in 1994.

So, people wanted to give a chance to an Islamist party. Second, 1990s were the period that domestic migration (due to intensified Kurdish war in the East part of Turkey) was at its highest. These new immigrants became either unemployed or very low paid workers in big urban centers. RP, as stated by Bugra (2002a), effectively used a language of social disadvantage to win the votes of this huge immigrant population of big cities.

3. 1997 Military Memorandum: The victories of an Islamist political party (RP) in two successive elections worried the army about the future of secular regime. It was realized that political Islam was moving out of the control of the state. On February 28th of 1997, NSC declared Islamist fundamentalism as the most important threat for national security, and “suggested” several measures to fight against it⁶⁶. Necmettin Erbakan, the prime minister of the time and also the head of RP, did not sign this final declaration of NSC; and this then led to a short-term, but severe, political crisis. During the following months, Erbakan was forced to resign from the government, and RP was shut down by Turkish Constitutional Court.
4. Elections of 2002 and start of AKP period: The military memorandum in 1997 and resulting disbandment of RP didn’t stop the rise of political Islam. The politicians of RP founded another political party, Virtue Party (FP), which was also shut down a few years later. Then in 2001, AKP was founded by Recep Tayyip Erdogan and his comrades, which won the majority of seats in the parliament in general elections of

⁶⁶ NSC is a constitutional organization, the members of which are the top military and government officials. The meetings are normally held every other month. Although its main purpose is to establish coordination between military and civil authorities on issues of national security, declarations of NSC are usually considered as *official views of the army* and are taken seriously by governments.

November 2002. During its first five years, AKP avoided Islamic rhetoric, unlike its predecessors RP and FP. It always presented itself as a conservative-democratic political party. But it was not successful enough to convince the secular state bureaucracy, who was still powerful during late 2000s. A closure trial for AKP was opened at the Constitutional Court in 2008. At the end of this trial, AKP was not shut down just by a single vote⁶⁷. But the Constitutional Court, in concluding statement of the trial, stated that AKP became a “center for anti-secular activities”, and decided for a significant cut in the state funding of AKP as a penalty. Just after this trial, AKP government initiated a series of trials (called *Ergenekon Trials*), as a result of which many top army and civil officials belonging to secular faction of the state bureaucracy were arrested. The official accusation against those was forming a secret organization in order to plot against the AKP government. *Ergenekon Trials* were very useful for AKP as they broke down secular resistance within the state bureaucracy. Most positions in the state bureaucracy were then filled by pro-AKP people.

5.3 Rise of Islamic Capital

The history of Islamic Capital (also called as ‘Green capital’ in the literature) in Turkey has been highly similar to the history of political Islam. Starting to flourish in early 1980s, size of Islamic Capital increased significantly afterwards. I will first explore Islamic capital with reference to MÜSİAD, as it is the most important organization that represents majority of Islamic firms that ranges from small and medium sized enterprises

⁶⁷ There were 11 members of the Constitutional Court, and at least 7 votes in favor required to shut down a political party. But the result of AKP trial was 6 in favor vs 5 against. Since the Constitutional Court is the top juridical organization, this 6 to 5 distribution of votes can be considered as a measure of balance of power within the state bureaucracy of the time.

(SMEs) to holding companies. A brief history of MÜSİAD, along with a discussion of its role as an important employer organization, can be found in the first part below. Then, secondly, I will analyze the organization of Islamic banks and their role in financial sector. In the third part, I will focus on within class conflict between the Islamic and the traditional (established or ‘secular’) factions of capital. Finally, in the last part, I will briefly explain the role of Islamic charities funded by Islamic capital in providing social assistance.

5.3.1 Islamic Enterprises and MÜSİAD

Proliferation of Islamic capital in Turkey is specific to the NL SSA period. Adas (2009) states that the first generation Islamic entrepreneurs have commonalities in terms of their class and local origins. Most of them came from conservative petty-bourgeoisie families, and were born in the cities on the periphery⁶⁸. Due to their class and local origins, they lacked necessary “social and political ties” with the secular state elite during pre-1980 period, and this kept Islamic capital at insignificant levels. There are three reasons why Islamic capital has found a favorable environment to flourish after 1980. First, the rise of political Islam provided necessary social and political ties to Islamic capital. Second, neoliberal financial liberalization policies and newly emerging Islamic finance organizations increased financing opportunities for Islamic SMEs. Third, shifting from state dominant and inward economy, with protected domestic market, of the previous ISI SSA to a more liberal, more open, export-oriented regime during the first

⁶⁸ Related with this geographical origin, Islamic capital has also a third name (in addition to Green capital) in the literature, ‘Anatolian Tigers’, which comes from local origins of the first generation Islamic entrepreneurs. ‘Anatolian Tigers’ emphasizes the contrast between secular big bourgeoisie of Istanbul and conservative Anatolian petty bourgeoisie.

decade of NL SSA increased the size of market, at which newly emerging Islamic firms found great opportunities for their goods and services.

Islamic capital was initially organized in forms of SMEs, most of which benefited from export promoting measures to grow during 1980s. On the other hand, the current organization of Islamic capital includes not only SMEs but also large enterprises. Especially due to its close tie with the (Islamic) AKP governments, Islamic capital has gained significant strength since mid-2000s. I, therefore, agree with Hosgor (2011) that although there is still a misconception in some of the literature that Islamic capital is mostly composed of SMEs, this is not true anymore, as “there has been a significant change in its size, scope and regional orientation.” While newly emerging and growing Islamic capital was not a serious threat for the established big capital in Turkey during 1980s, Islamic capital has become an important faction within capitalist class during the last decade, thanks, in large part, to AKP governments.

As Islamic capital was expanding, Islamic entrepreneurs understood the importance of having a business association in order to promote their common interests. For this reason, MÜSİAD was founded in 1990 by several Islamic entrepreneurs. It has gradually become one of the two biggest business associations of Turkey. I will present two quotes that are mostly referred in literature to understand the goals of MÜSİAD. First, Dogruoz (2008) presents the following quote from a MÜSİAD booklet:

“... creating a developed country with advanced high-tech industry within a highly developed commercial environment, but *without sacrificing national and moral values*, where labor is not exploited and capital accumulation is not degraded and where the distribution of national income is just and fair, a country with peace at home, influence in the region and respect in the world. ...” [emphasis added]

Second, Bugra (2002b) presents the following quote from an audiovisual show staged for an international fair organized by MÜSİAD in 1998:

“On the road to final salvation,
We must mobilize all our material and spiritual resources.
We must fully cooperate in the financial field, in business relations, and in common industrial investments.
We believe that there are great advantages for the Islamic World
In the cooperation of small companies.
We must establish efficient information networks among Islamic countries and Muslim businessmen.”

Why is MÜSİAD important in terms of SSA Theory? As stated in the last line of the second quote above, MÜSİAD has provided Islamic entrepreneurs (a faction within capitalist class) a valuable network for capital accumulation, which is based on Islamic identity. Trust based on religious brotherhood is the binding of MÜSİAD members. The economic value of this network comes from benefits it provides to its member firms, which can be grouped into three according to types economic activity: production, financing, and marketing. First, the Islamic business network decreases costs of supply chain related activities in production sphere. According Bugra (2002b), the network of MÜSİAD reduces “the uncertainty and, consequently the costs of information gathering and monitoring in relations that involve input supply, outsourcing, subcontracting, retailing, and establishment of retailing agencies.” For instance, it is usually the case that inputs of a good produced by an Islamic firm are provided by other Islamic firms in the network. Second, the network facilitates financing of new investment projects of member firms via Islamic financial institutions, which will be discussed in the next section. And third, as stated by Cemrek (2002), MÜSİAD member firms benefit from “marketing

strategies with religious references” when advertising their goods and services to public, a big majority of which are Muslim.

5.3.2 Islamic Banking

According to Institute of Islamic Banking and Insurance, Islamic banking is a “system of banking or banking activity that is consistent with the principles of the *Shari'ah* (Islamic rulings) and its practical application through the development of Islamic economics.⁶⁹” The motivation of Islamic banking is strict prohibition of interest in Islam, which is clearly stated in the *Quran*. In conventional banking system, depositors earn money mainly from interest paid by banks. On the other hand, Islamic banks offer ‘risk and profit sharing’ to depositors, rather than interest. *Mudarabah* and *Wakala* are two types of contracts based on risk and profit sharing. In addition to risk and profit sharing, there are also other types of contracts that are used in current Islamic banks around the world, such as trade contracts (*Murabah* and *Istisn'a*) and bonds (*Sukuk*)⁷⁰.

Like the history of Islamic capital, the history of Islamic banking in Turkey has also been parallel to rise of political Islam. Legal framework of Islamic banking was founded in 1983 by a government decree (no: 83/7506) so as to attract capital from rich Arab countries. There are two important points about the decree that opened a way for Islamic banking in Turkey, which reflect political economy of Islamic banking during the first decade of NL SSA. First, the decree did *not* include a term ‘Islamic banking’, but

⁶⁹ http://www.islamic-banking.com/what_is_ibanking.aspx (last accessed in May 2018)

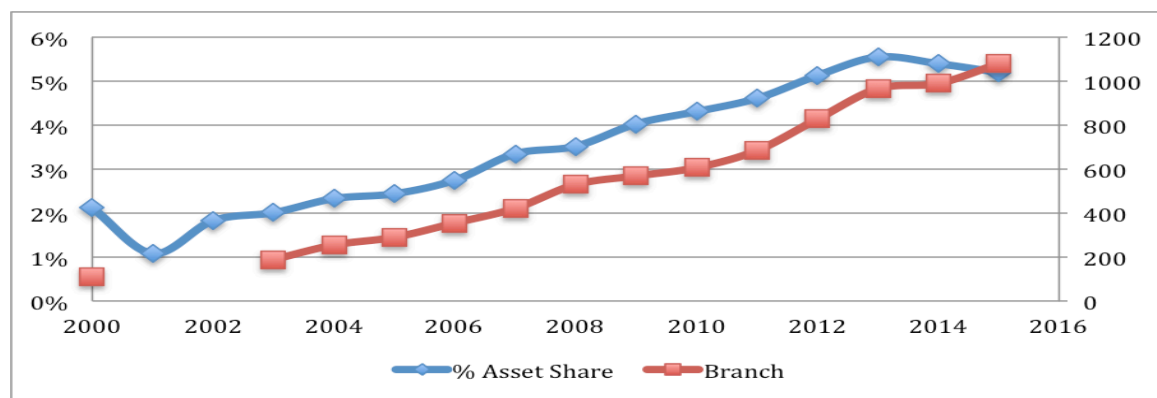
⁷⁰ It is out of scope of this dissertation to explain all types of contracts used in Islamic banking system. For a detailed reading on the issue, see Egresi & Belge (2015).

named those institutions as ‘Special Financial Houses’ (SFHs). The ANAP government of the time (and Özal as the prime minister) chose this name that doesn’t have any reference to Islam, since the state bureaucracy of the time was highly secular. However, even naming those institutions as SFHs didn’t help Islamic banks to overcome the difficulties generated by skeptical state bureaucracy. As stated by Hardy (2012), SFHs were highly regulated initially, and their status was different than the status of conventional banks. Unlike the latter, SFHs were not covered by the Central Bank’s insurance program. Moreover, investing in government securities was also forbidden for SFHs. They were considered as being outside of the banking system, and hence were not included in the banking law.

The second issue about importance of the decree is related to its timing. After three years of military regime, the first civil government was founded by Turgut Özal on December 13, 1983. The decree for SFHs was signed by Özal on December 16th of the same year, and was published in Official Gazette on December 19th. So, within less than a week, the first civil government established the legal framework of Islamic banking. Liberalization of finance (as a part of neoliberal policies during early 1980s) is one aspect of the timing of the decree for Islamic banking. Furthermore, personality of the Prime Minister Özal has to do with the decree as well. As explained in Chapter 4, Özal was a very pro-neoliberal character, who played an important role in construction of the NL SSA. In addition, he came from a religious family who belongs to *Naqshbandi* tariqa, which has been one of the important sects of Islam in Turkey. So, as being a pro-neoliberal and religious person, Özal’s approval of the decree on Islamic banking seems highly reasonable.

After foundation of legal framework in 1983, three SFHs were established during 1980s, and three more followed in 1990s. After sixteen years of exclusion from the banking system, SFHs were taken into banking system in 1999, and SFH Association was founded. Then their name was changed to ‘participatory banks’ by a decree in 2005. The decree is important in the sense that, as stated by Cetrez (2016), it legally defines these institutions first time as ‘banks’. In the same year, SFH association changed its name to Participation Banks Association of Turkey (PBAT). PBAT defines its vision as “to raise the market share of participation banking sector to 15% by 2025 and to deliver world-class financial products and services”, and its mission as “to ensure the development of participation banking sector in Turkey in a healthy and sustainable manner...⁷¹” The rise of Islamic banking in Turkey can also be supported by available data. As shown in the following figure, both asset share and total number of branches of participation banks have an increasing trend since 2000⁷².

Figure 5-1: Asset share of participation banks (as %) in Turkish banking sector and number of participation bank branches (2002 – 2015)



Source: PBAT (2009) and PBAT (2015)

⁷¹ <http://www.tkbb.org.tr/visionmission> (last accessed in May 2018)

⁷² Data for pre-2000 period is not available.

On the other hand, despite this increase in its asset share, Islamic banking has still been a small part of the Turkish banking sector, as it held only 5.2% of the total assets in 2015. According to Hardy (2012), this small asset share of participation banks “will likely to remain so due to lack of penetration in the market and strong competition from conventional banking system.” Similar to small asset share of Islamic banking at the national level, the global performance of Turkish Islamic banking sector is also far from being significant. As the data in table below suggests, Turkey has ranked 6th among Islamic countries (excluding Iran), with a global share of only 5.1% of total assets.

Table 5-1: International comparison of participation banks in 2014⁷³.

Country	Asset Share of Participation Banks	
	Global	National
Saudi Arabia	33.0%	51.2%
Malaysia	15.5%	21.3%
UAE	15.4%	21.6%
Kuwait	10.1%	45.2%
Qatar	8.1%	25.8%
Turkey	5.1%	5.5%
Indonesia	2.5%	3.7%
Bahrain	1.6%	29.3%
Pakistan	1.4%	10.4%

Source: EY (2016)

As to this relative weakness of Islamic banking in Turkey, in addition to economic reasons proposed by Hardy (2012), long secular history of Turkey can be considered as another factor. Despite the rise of political Islam since 1980s, Turkey does still have a more secular and more *Western* character than all countries listed in the table above. Increasing Islamization in society and politics may, of course, strengthen the

⁷³ EY (2016) notes that “International Participation banking assets exclude Iran which has a unique domestic industry.”

Islamic banking sector in the future⁷⁴. However, given the course of Islamic banking in Turkey and its current position within national and global financial sectors, it seems unlikely to observe a dramatic increase in market share in the short- and mid-term. In this respect, PBAT's vision of "15% market share by 2025" seems too ambitious to achieve.

What are the functions of Islamic banking in capital accumulation during the NL SSA period? In other words, what is the importance of Islamic banking from the standpoint of SSA Theory? Roughly speaking, banks are intermediary institutions between lenders and borrowers. As stated by Hosgor (2011), there are two critical functions of Islamic banking in the course of capital accumulation, one of them is related with lenders' side and the other is about borrowers' side. First, these banks have attracted savings of religious people who are against conventional banking system, since earning interest is considered as a great sin. Those savings, which had been hidden or channeled through unofficial/informal ways before 1983, have turned out to be a great resource for Islamic banks. Second, increasing resources of Islamic banks have provided funds to Islamic firms, which previously had difficulties in finding credits from conventional public and private banks. In that sense, Islamic banks have been a crucial part of Islamic business network, and have played an important role in capital accumulation of Islamic companies.

⁷⁴ According to a relatively recent survey on participation banks in Turkey carried out by a major professional service firm, Deloitte (2014), 'religious values' ranked second in the list of twenty reasons of why people prefer those banks. In the same survey, 'close relations with the staff' ranked the first, and 'friendly/respective staff' ranked the third.

5.3.3 Within class conflict of capital

As Turkey has experienced the rise of Islamic capital, the Turkish capitalist class has been realigned. The traditional faction of capitalist class, which had grown during 1950-1980 period with (political and economic) help of the secular state bureaucracy, has faced off a challenge from rising Islamic capital during the NL SSA period. As Islamic capital has proliferated, intra class conflicts have arisen between these two factions of capitalist class. In section 5.3.1 Islamic capital was discussed along with its most important business association MÜSİAD. The counterpart of MÜSİAD in the ‘secular’ side of capital is TÜSİAD. TÜSİAD was founded in 1971, almost two decades earlier than MÜSİAD. In terms of member firms, while most members of TÜSİAD were *old* firms (established before 1980), most members of MÜSİAD were established after 1980.

Before going into details of within class conflict of capitalists represented by these two business associations, two points must be mentioned. First, some scholars use secular vs. religious dichotomy to denote two factions of capitalist class represented by TÜSİAD and MÜSİAD, respectively. But, I do *not* completely agree with this dichotomy. Although it is clear that MÜSİAD represents the Islamic faction of capitalist class, TÜSİAD cannot be considered as completely secular. It is true that, up until 2000s, TÜSİAD member firms benefited a lot from cooperation with secular state bureaucracy. And, it is also true that the ideological orientation of TÜSİAD has never been Islamic. On the other hand, TÜSİAD member firms have also flourished during AKP governments period (since 2002), and they have *not* shown any significant resistance to rising Islamism in society and politics. TÜSİAD has always had a class-conscious leadership

who are aware that profits come before secular democracy. That is why I have used (and will continue to use) secular with quotes, ‘secular’, to denote this *non-Islamic* faction of capitalist class. Second, I will focus on conflicts in economic arena only. The other (non-economic) issues at which these two business associations have different opinions on (headscarf ban in public institutions, for instance) are out of the scope of this dissertation.

Public auctions have been the most important arena that these two factions of capitalists compete in. Before the rise of Islamic capital, the ‘secular’ capital had been the only player in this field. However, especially during post-2002 (AKP governments) period, Islamic capital has appeared as a strong rival to ‘secular’ capital. Islamic (and hence pro-AKP) firms have won increasing number of auctions in the last decade, and most of these auctions were resulted in a *highly* political way. Government officials engaged (directly or indirectly) in some of these public auctions. As stated by Hosgor (2011), “AKP’s preferential treatment of certain bourgeois sections significantly altered the distribution of total surplus value.” The relationship between AKP and Islamic capital has been mutually beneficial. Islamic capital, due to both ideological and economic concerns, has eagerly supported AKP. And AKP, in return, has favored Islamic firms, and so has played an important role in the rise of Islamic capital. This mutual relationship reflects itself best in media sector. Although the government has run by AKP since 2002, AKP didn’t have a strong influence on media during 2000s. But the last decade has witnessed a significant shift in media sector, as some important media companies of ‘secular’ capital (popular newspapers and TVs) were sold to Islamic capital. As a result of these changes in ownership, AKP government currently controls an enormous propaganda machine.

On the other hand, this change in distribution of surplus value within capitalist class should *not* be exaggerated. Despite the fact that Islamic capital is now being supported by the government unlike before, and that Turkey has witnessed the rise of Islamic capital, size of economy controlled by ‘secular’ capitalists (which is mostly represented by TÜSİAD) is still bigger than size of economy controlled by Islamic firms. TÜSİAD represents 50% of total value added (excluding public), more than 50% of non-agricultural, non-governmental workforce, 80% of Turkey’s total foreign trade, and 80% of corporate tax revenue⁷⁵. Istanbul Chamber of Industry annually publishes “Turkey’s Top 500 Industrial Enterprises” report based on sales from production. The report for 2015 also shows the imbalance between Islamic and ‘secular’ capital. The top 3 firms in that list belong to Koc Holding, the biggest (and one of the oldest) industrial conglomerate and a member of TÜSİAD. The number of MÜSİAD member firms in the list is lower than of TÜSİAD member firms. This imbalance in capital power shows itself in size of privatization auctions (in terms of \$ value) that each group gets. The second (national oil refinery company) and the third (national steel company) biggest privation auctions in Turkish history were won by ‘secular’ capital. However, the biggest privatization auction (national communication company) was won by a Saudi firm, foreign Islamic capital. These top three privatizations reflect the fact that, despite the support of AKP government, amount of capital that is held by national Islamic firms is still not enough to control the strategic sectors of Turkish economy, except media sector.

To sum up, although distributional conflict between two factions of Turkish capitalist class is a phenomenon, this conflict should not be exaggerated, as it is

⁷⁵ These numbers are from <http://tusiad.org/en/tusiad/about> (last accessed in May 2018)

sometimes done in public discussions. In the end, capitalist class, as a whole, has class-consciousness, and so the conflict between two groups of capitalists has *never* reached at a level to threaten class interests of the capitalists in Turkey. Both ‘secular’ and Islamic capitalists have supported neoliberal policies, and, needless to say, have agreed on anti-labor practices.

5.3.4 Islamic Charities

In addition to usual business activities, a part of increasing capital within the Islamic network has been used for compensating needs of the poor. As the state’s social provision has been weakened during the NL SSA, effect of Islamic organizations that provide social assistance has been increased. As stated by Hosgor (2011), “the Islamic alternative attempts to fill the vacuum created by the decline in social spending ... via community work.” Islamic charities based on religious brotherhood, which are funded by donations of Islamic businessmen, have played an important role in this process. In addition to basic necessities (such as food and heating), these charities also provide employment opportunities for the unemployed within Islamic network and free dormitories for students from poor families. The latter is especially important, since indoctrination of young people has always been crucial for Islamic political movements. As some of those students feel indebted to Islamic charities, they have become a great human resource for these organizations after graduation.

Increasing role of Islamic charities in the society has been another important factor in the rise of political Islam during the NL SSA period. As poor families become more dependent in these types of social assistance, they become more vulnerable to

religious propaganda. This relationship has been much more apparent during the AKP governments period. As stated by Kaya (2015), the activities and services of Islamic charities “have brought the AKP the support not only of established sections of the working class but also marginalized strata as well as housewives, migrants, farmers, and the unemployed.” In return, AKP governments have favored Islamic charities over secular ones, as the former have provided great political support to AKP. While secular charities face with increasing bureaucratic difficulties during the last decade, Islamic charities have always been promoted by AKP governments.

5.4 Islamization and Labor Class

Both the rises of political Islam and Islamic capital have affected labor-capital relation in Turkey. Islamic faction of the capitalist class has used Islamic rhetoric as a way to stabilize the class conflict during the NL SSA period. AKP governments have also played a role in this. Moreover, in parallel to the rise of political Islam, an Islamic-oriented labor union confederation, HAK-İŞ, has become more effective within labor class. I will analyze these developments in two parts. First, I will discuss how Islamic businessmen approach to labor-capital relation. Then, in the second part, the role of HAK-İŞ will be analyzed. After presenting its history briefly, I will explore this Islamic-oriented labor union confederation by focusing on its perception of class struggle.

5.4.1 Islamic capital, labor and the state

The view of Islamic capital on labor-capital relation can best be understood from the views of MÜSİAD, the biggest business association of Islamic businessmen.

According to MÜSİAD, Islam suggests peace and harmony in workplace, rather than a struggle between capital and labor. This peace and harmony can be attained if both parties, workers and employers, behave as members of the same family (religious brotherhood), instead of two competing classes. Hosgor (2011), by referring a report from MÜSİAD (“The Muslim Person in Working Life”), states that Islamic businessmen have an idea of *homo Islamicus* instead of *homo economicus*. Islamic businessmen criticize the latter by being individualistic, while the former “should base their acts on social morality.” According to *homo Islamicus* idea, if workers obey their employers, and if employers treat workers fairly, then there will not be any conflict between them. What do ‘obedience to employer’ and ‘fair treatment to workers’ refer to? According to Adas (2009), the former refers to hard work, avoidance of idleness, to respect employers, and taking care of means of production. The Muslim employers, in return, “must be just and fair, and should give their [workers’] due rights before their sweat is dried.” Trust based on Muslim brotherhood is a guarantee that both parties behave as *homo Islamicus*.

There is also hostility towards labor unions among Islamic businessmen. This can be understood since labor unions are harmful to their class interests as capitalists. But, MÜSİAD defends this hostility with the following reasoning: As relations between labor and capital become conflict-free as a result of both behaving like *homo Islamicus*, there will be no need for labor unions. In other words, as stated by Bugra (2002a), in this Islamic view of labor-capital relation, “mutual trust replaces the need for a formal labor code or labor unions.” But, Bugra argues, lack of universally accepted principles for resolving disputes between workers and employers will then leave workers in a more

vulnerable position. The weak position of workers in these kinds of workplaces will cause them to be exploited more than those workers who are organized in labor unions.

Effects of Islamization on labor-capital relations cannot be confined to those workplaces that are owned by Islamic capital. Contrary to public perception, ‘secular’ capital hasn’t had any problem with increasing Islamization in the society, since Islamization proves itself as a very effective tool in stabilizing class conflict during NL SSA period. Islamic and ‘secular’ factions of the capitalist class have different opinions on some issues related to Islamization, such as identity politics or democracy. On the other hand, it is the class aspect of Islamization what makes it appealing for capitalist class as a whole in the first place. The militant labor class of the 1970s was harshly crushed by the coup d’état in 1980, and then increasing Islamization has been a powerful tool for preventing labor class from being militant again. Increasing Islamization of the society is a factor (among others such as individualism) that has played a role in erosion of class-consciousness of labor class during neoliberal era. For instance, “strike is a sin” argument is beneficial not only to Islamic capital but also to ‘secular’ capital.

The state, especially during the AKP governments period since 2002, has also engaged in religious propaganda to labor class. By using the official branch of government on religious issues, called Presidency of Religious Affairs, religious messages can be delivered to workers, if needed. There is an interesting example of this kind of propaganda from 2011⁷⁶: Among the duties of Presidency of Religious Affairs, one of the most important is to prepare sermons (mostly about current events) that are

⁷⁶ For detailed news on this case (in Turkish), see: <http://www.evrensel.net/haber/6494/grevi-gunah-sayan-hutbeye-ilahiyatcilardan-tepki>

read in all mosques in Friday prayers. There was a strike in a manufacturing factory in Duzce (a small city in Turkey), as 120 workers had been fired due to their membership in a leftist labor union. In a Friday prayers during the fourth month of the strike, the actions mentioned in sermon as ‘sin’ were the following: slowing down the work, damaging the workplace, engaging in activities that would reduce the profits and the profitability. So, as this example shows, any activity that may reduce profits of capitalists can *officially* be condemned on religious grounds, and be labeled as a sin.

5.4.2 Islamic-oriented labor union confederation: HAK-İŞ

HAK-İŞ has an important place in labor politics of Turkey, as it is the second biggest labor union confederation. It was founded in 1976, the year when social uprising and class struggle started to intensify. As stated by Duran and Yildirim (2005), the main principle of HAK-İŞ at that time was “the commonality of employer and employee interests on the basis of Muslim brotherhood.” Since the labor class was highly militant and most union leaders were leftist during late 1970s, HAK-İŞ couldn’t grow until early 1980s. As an Islamic-oriented institution, it couldn’t attract militant labor class of the time. But the coup d’état in 1980 changed this situation. As explained in section 5.2 political Islam in Turkey found a favorable environment to flourish after the coup, since the military regime severely crushed the left. The vacuum left by leftists in political sphere was filled by Islamists, including labor organizations. The military regime suspended the activities of DİSK, which was a very powerful leftist labor union confederation among militant labor class before the coup. The representation power of HAK-İŞ within organized labor class increased during 1980s. On the other hand, DİSK

stayed as banned until 1992, and then it has never achieved the level of strength within labor class as it had during late 1970s. The table below shows relative representation power of the three biggest labor union confederations during the NL SSA period. Historically, the biggest labor union confederation has always been the Confederation of Turkish Trade Unions (TÜRK-İŞ). Unlike Islamic-oriented HAK-İŞ and leftist DİSK, TÜRK-İŞ doesn't have any significant political orientation, and is usually associated with center politics⁷⁷.

Table 5-2: Percent share of unionized workers in three biggest labor union confederations (1985 - 2015, odd years)

Year	TÜRK-İŞ	DİSK	HAK-İŞ
1985	74.1%	0.0%	7.1%
1987	74.0%	0.0%	7.9%
1989	77.5%	0.0%	9.1%
1991	78.6%	0.0%	11.7%
1993	73.0%	8.4%	11.0%
1995	74.2%	12.3%	11.1%
1997	73.8%	11.7%	12.1%
1999	73.0%	12.2%	12.1%
2001	71.7%	13.5%	11.5%
2003	71.4%	13.9%	11.4%
2005	70.2%	13.6%	12.5%
2007	69.7%	13.5%	12.8%
2009	69.4%	13.2%	13.3%
2011	71.8%	9.6%	15.4%
2013	71.0%	10.0%	14.0%
2015	60.2%	10.2%	27.5%

Source: MLSS database

The data suggests three phases in terms of representation power of HAK-İŞ within organized labor. First, during the period that DİSK was suspended (until 1992),

⁷⁷ TÜRK-İŞ is also called 'the state's union confederation' due to its organizational strength in public enterprises.

share of HAK-İŞ within organized labor increased. Then, during 1990s and 2000s, share of HAK-İŞ stayed more or less stable around 11%-12% levels. On the other hand, share of leftist confederation DİSK increased in the same period, as it was no longer banned. The third phase covers 2010s. This is also the very same period that AKP regime has consolidated. The share of HAK-İŞ has increased dramatically especially during the last few years, from around 14% to more than 27%. As expected, like Islamic-oriented business association MÜSİAD, HAK-İŞ has also supported AKP governments, and in return, it has obtained the government's support. AKP's preference of HAK-İŞ over other labor union confederations is the most important reason of this dramatic increase in share of HAK-İŞ.

How about workers' preference? As it is a social principle that workers get some benefits from organizing in labor unions, this must also be the case for Islamic-oriented labor unions. Why do some workers choose an Islamic-oriented labor union over the other ones? Although this question makes sense theoretically, it overstates willpowers of workers, due to two reasons. First, and the most important, reason is that although workers have several labor union options to organize in each sector, their role in choosing labor union *confederation* is usually negligible. HAK-İŞ is a labor union confederation, and so its members are not workers, but labor unions. When administration committee of a labor union decides to be a member of HAK-İŞ, workers organized in that union usually don't have any chance to resist. Two examples of this case are transfers of two labor unions in different sectors, OLEYİS and Liman-İŞ, from leftist union confederation DİSK to Islamic union confederation HAK-İŞ, in 2010 and in 2013, respectively. A better question would be the following: why do some labor union leaders/administrators

prefer HAK-İŞ to the other ones? Because in a single party (AKP) regime that goes on for more than a decade, being a member of ‘government-approved’ and Islamic-oriented organization can provide great material benefits and career opportunities. So, HAK-İŞ is a very rational choice for those labor union leaders who want, or need, to show support for the AKP regime. The second reason is related with preferences of employers. The ideal situation for employers is, of course, a workplace without any labor union. But since unionization is not illegal, employers prefer labor unions that harm them least. So, rather than a labor union that is a member of leftist confederation DİSK, some employers prefer a labor union from HAK-İŞ confederation.

What is HAK-İŞ’s view of labor-capital relation? Although HAK-İŞ originally had the idea of peace in workplace based on Muslim brotherhood, which was the same as the view of Islamic businessmen, this view changed during 1990s. HAK-İŞ has gradually softened its class-cooperation idea between workers and employers, and has started to emphasize class-conflict. According to Duran and Yildirim (2005), this gradual shift in rhetoric is due to change in composition of its membership, and also due to labor uprising of late 1980s. Since DİSK was banned until 1992, left-oriented labor unions, which were previously organized in DİSK, looked for an alternative. As most of organized labor was dissatisfied with the performance of TÜRK-İŞ during the labor uprising of late 1980s, some of those left-oriented unions joined HAK-İŞ. Also, during early 1990s, the administration of HAK-İŞ realized that Islamic approach does not constitute an alternative to modern institutions of organized labor. As stated by Bugra (2002b), “while Islam is very useful as an organizational resource, the confederation’s [HAK-İŞ] very existence as a labor union depends on the acceptance of primarily western institutional

and political principles of organized interest representation.” HAK-İŞ is currently considered as an Islamic-oriented labor union confederation, and actually it is. On the other hand, its perception of labor-capital relation has changed over time from class-cooperation with religious references to class-conflict in a modern sense. This change in perception during 1990s reveals itself also in HAK-İŞ’s relations with international labor organizations, as it became a member of International Confederation of Free Trade Unions in 1997.

It would also be interesting to compare two Islamic-oriented institutions, HAK-İŞ and MÜSİAD; the former represents conservative sect of labor class, and the latter represents Islamic capital. Although they both have Islamic-orientation, their views on labor-capital relation are different. As presented in the previous section, according to MÜSİAD, there is no need for labor unions since mutual trust based on Muslim brotherhood keeps relations between workers and employer free from disputes. On the other hand, HAK-İŞ considers labor unions as necessary regardless of religious beliefs of employers. Difference in class positions of these two organizations reflects itself in workplace relations. For instance, a HAK-İŞ member labor union that attempts to organize workers in a MÜSİAD member firm may face a resistance of employer, although both union and employer have Islamic orientation. As stated by Duran & Yildirim (2005), “when it comes to dealing with labor, religious capital tends to adopt policies based on its own class interests”, which is condemned by administrators of HAK-İŞ for not being compatible with Islam.

Class struggle has a very important place in SSA Theory. If an SSA cannot stabilize class conflicts, these conflicts will eventually cause demise of an SSA, as in the case of ISI SSA during late 1970s. HAK-İŞ, as an Islamic-oriented labor union confederation that controls around one fourth of organized worker, is an important institution in working of the NL SSA. Despite its differences with Islamic capital in its view of labor-capital relations, HAK-İŞ is far from taking decisive actions to defend workers' rights. Since Islamic-oriented labor unions organized in HAK-İŞ support AKP, they avoid confronting with the government and showing a strong resistance to its neoliberal policies. In cases where there is a conflict between leftist workers organized in DİSK and their employers, HAK-İŞ is usually far from showing solidarity with those workers. This lack of unity among labor union confederations reduces the organized strength of labor in class struggle, and hence makes it difficult for labor class to resist attacks of capital.

CHAPTER 6

AN ECONOMETRIC MODEL FOR INVESTMENT VOLATILITY

6.1 Introduction

GDP growth rate during the NL SSA period shows high volatility (Figure 4-1). In chapter 4, it is argued that political instability, via its effect on volatility in investment growth, can be considered as an important reason of GDP growth volatility. Since a stable investment pattern requires a politically stable government structure, rapidly changing governments during 1990s can cause volatility in investment growth. Data presented previously in Table 4-2 suggests a clear correlation between standard deviation of private GFCF growth rates and number of new governments per year. As correlation does not necessarily imply causation, an econometric test can provide an evidence for a causal relationship.

This chapter offers several econometric models to test the argument that there is a positive relationship between political instability and private GFCF growth volatility, such that higher political instability leads to higher volatility in GFCF growth rate. In section 2, a basic time-series model and the data will be introduced. Estimation of political instability index, along with a discussion of two different types of estimation techniques in the literature, can also be found in that section. Then, section 3 presents results of the first regression on the basic model. In section 4, several more models will be tested to check robustness of the basic model. Finally, section 5 comments on substantive significance of results, and also includes a discussion of limitations of the models presented.

6.2 Basic Model, Data, and Methodology

The basic model that will be tested is the following:

$$\text{VOL.GFCF}_T = B_1 * \text{POL}_T + B_2 * \text{VOL.INT}_T + e_T \quad T=1984, \dots, 2015^{78} \quad (1)$$

where, VOL.GFCF is volatility of GFCF growth in *private* sector⁷⁹, POL is political instability indicator, and VOL.INT is volatility of real interest rate.

The definitions of variables used in the model are listed below with expected sign for predictors are in parenthesis (in the order as they appear in equation (1)).

6.2.1 VOL.GFCF: Volatility of private GFCF growth rate

Volatility of private GFCF growth rate is calculated as absolute deviation⁸⁰ of annual percent growth rate series⁸¹ for private GFCF from its trend. Trend of series is calculated by Hodrick–Prescott (HP) filter, which is the most common technique for

⁷⁸ A note for time period: There is no civil government in Turkey during 1980-1983 period, as Turkish army ruled the country after the 1980 coup until the general elections in November 1983. Also, some statistics (such as workdays lost in strike, which will be used in estimation of political instability index) is not available for that period.

⁷⁹ The literature on relationship between investment and political (in)stability uses private investment, not total investment. Investment decisions of capitalists, private investments, are directly affected by political situation, so it makes sense to exclude public part. Moreover, as presented in Figure A.7, private GFCF forms majority of total investment in Turkey, around 80-90% of total during most of the period.

⁸⁰ Absolute deviation is just the absolute value of the cyclical component obtained from H-P filter. The reason why absolute value is used instead of actual value is that both positive and negative deviations from trend imply volatility in GFCF growth.

⁸¹ Data source for private GFCF: MD (2015) and TurkStat database.

detrending time series in macro-econometrics literature. Smoothing parameter (λ) is 6.25, as the data is annual.

6.2.2 POL: Political instability index (+)

6.2.2.1 Literature review of estimation methods and government change

Since political instability is *not* a directly observable variable, there are different measures and techniques that have been used in literature to come up with a meaningful instrument for political instability. Literature can be divided into two groups in their approach to quantify political instability. The first group includes studies that combine several quantitative social and political indicators at different weights. This approach seems to start with Venieris and Gupta (1986), who calculate sociopolitical instability index by applying discriminant analysis to three variables: protest demonstrations, death from domestic political violence, and regime type. Chauvet and Guillaumont (2004), in their study on developing countries, use weighted sum of the number of coups d'état, of the number of demonstrations and of a dummy variable for civil war breaks out. Annett (2001) uses nine different variables (including genocidal incidents, civil war, violent demonstrations), and then reduce the dimension by linear combination that assigns more weights to those with most information. Heintz (2002) performs a principal component analysis of three variables (average annual prison population, estimated number of persons held in detention without trial, and number of strikes) to come up with a political instability index for South Africa. Jong-a-Pin (2009) uses explanatory factor analysis method with more than twenty different variables, including assassinations, riots, and strikes.

The second approach in calculating political instability is to predict the probability of government change. In their influential paper, Alesina et. al (1992) define political instability as “the propensity of an imminent government change.” By using a simple probit specification (binary government change variable on the left and several economic/political control variables on the right), they calculate probability of government change, which then can be used as an index for political instability. Among other studies, Cukierman et. al. (1992) also use a probit model to estimate propensity of government change. Chen and Feng (1996) apply the same idea with a logit specification.

I will use the second, propensity of government change, approach to estimate a political instability index for Turkey during NL SSA period⁸². There are two issues to discuss about the approach. First, propensity of government change can be calculated by different methods. Since it is basically a classification problem, with factor “1” denoting government change and “0” denoting otherwise, several different classification techniques can be applied. In addition to logit/probit models, which have been common in econometrics literature, more other classification techniques have been developed in

⁸² Why not using the first, sociopolitical indicators, approach? There are two reasons. First is the lack of enough sociopolitical indicators for Turkey to use in the first approach, such as principal component analysis or discriminant analysis. For instance, annual prison population in TurkStat database starts from 1998, so not cover all years within the period of interest. Second, Turkey experienced political instability during 1990s due to rapidly changing governments, *not* due to another reason. A country may experience high political instability due to, say, civil war or social unrest, but a change in government does not necessarily take place. So, although Turkey’s political instability can best be defined as “high propensity of an imminent government change”, this definition may not fit to another country’s experience. Actually, this is a defect that can be found in most of the mainstream economics literature. Without taking history into account, which is specific to every country, mainstream literature uses very broad terms as if those terms apply to all countries. For instance, using ‘civil war’ indicator in a panel data study that includes European countries does not make any sense. On the other hand, in a panel data study on African countries, ‘civil war’, as an indicator for political instability, must be used. Similarly, a country that experiences civil war may not experience ‘rapidly changing governments’, if its regime is a dictatorship.

recent decades. Especially tree-based methods (basic classification tree, pruned tree, and random forest) have become highly popular in machine learning literature. I will use random forest method to calculate propensity of government change. This method will be briefly explained below. On the other hand, I will also check the robustness of result by using a traditional classification method, logit.

Second issue is whether to include government changes that occur as a result of elections on *regular* election cycle. For instance, consider the following scenario: assume a country is expected to have parliamentary elections once in every five years. After an election in year T, a new government comes into power, and the next *expected* government change will be at year T+5. For some reasons, current government resigned at year T+2, and a different government runs country until the next general elections of T+5. The question is, shall we assign “1”s (value of a dummy variable for government change) to years T, T+2, and T+5? Or, shall we assign “1” to only year T+2, as it is *unexpected* government change? The second way makes more sense. Since people form their expectations that a new government will be elected at year T+5, they don’t perceive that regular government change as political instability⁸³.

6.2.2.2 Random Forest and Estimation Results

Random forest is a tree-based classification technique. In order to understand random forest, one should be familiar with construction of single classification trees. Classification trees take two sets of variables, target and input variables. Target is the

⁸³ Actually, in terms of Turkey, within the period of interest, there are only two (expected) government changes that took place on regular election cycle, in 2007 and 2011.

variable that we want to predict, and inputs are variables used for prediction. What a classification tree does is basically creating partitions in the predictor space, and choosing the partition that minimizes classification error rate (i.e. Gini Index). Difference, and also superiority, of random forest algorithm compared to single classification tree is that random forest grows many classification trees based on random sampling of predictors at *each split* of a tree⁸⁴. Then, each resulting classification tree has a vote on class of the target variable, and the algorithm chooses the class with most votes. How does each tree vote on a class? After running model, each tree determines a probability p for class '1' and $1-p$ for class '0'. Then, if p is greater than 0.5, tree votes for class '1', and votes for class '0' otherwise⁸⁵. Here is the critical part: since the aim here is not prediction, but coming up with an index for political instability, probability estimates for class "1" (unexpected government change) can be used as an index for political instability.

Although random forest is a common classification technique in statistics and machine learning, its application in social sciences disciplines is a recent phenomenon⁸⁶; and it is not as common as logit/probit specifications. Muchlinski et. al. (2015) compare random forest method with logistic regression for predicting civil war onset, and

⁸⁴ Some argue that random forest is *the best* classification algorithm. Although "the best" is a very strong word to use for any classification algorithm, I think random forest produces very good results in *most* problems, and *usually* outperforms others. As for reference, there is a recent discussion on this issue. While Fernández-Delgado et. al. (2014) argue that "the classifiers most likely to be the bests are the random forest versions", Wainberg et. al.(2016) don't agree with them.

⁸⁵ 0.5 is default value for threshold. It can be changed depending on nature of study and data properties. I use the default value in all models presented in this chapter.

⁸⁶ In terms of econometrics literature, discussion of machine learning techniques and their application to economic problems seem to start with an interesting paper by Varian (2014).

conclude that the former provides significantly more accurate predictions than the latter. In a recent World Bank research paper, Sohnesen and Stender (2016) state that random forest method is “largely absent in the economics literature.” They use the method for poverty prediction, and conclude that it is often more accurate than common practices.

I use the following model to estimate political instability index:

$$GOV_T = INF_T + GPC_T + TT_T + WLS_T \quad T=1984, \dots, 2015 \quad (2)$$

where, GOV: unexpected government change indicator (factor variable with two levels), INF: inflation rate⁸⁷, GPC: growth rate of *per capita* GDP⁸⁸, TT: terms of trade⁸⁹, and WLS: workdays lost in strike in a year⁹⁰. The Figure 6-1 at the next page shows how private GFCF growth volatility (absolute deviation of annual percent growth rates from HP trend) and estimated index for political instability change over time.

6.2.3 VOL.INT: Volatility of real interest rate (+)

Volatility of real interest rate is calculated as absolute deviation of annual real interest rate series⁹¹ from its trend. Like trend of private GFCF growth rate, trend of real

⁸⁷ Percent change in CPI. Data source for CPI: TurkStat (2013) and TurkStat database.

⁸⁸ Data source for GDP per capita: MD (2015) and TurkStat database.

⁸⁹ Data source for terms of trade: OECD database.

⁹⁰ Data source for strikes: MLSS database. Although most studies in the literature uses number of strikes as an index for this type of conflict, ‘workdays lost in strike’ is better for the case of Turkey. For instance, as can be seen from Figure 4-12, the effects of big strikes in 1995 and 2007 can better be reflected by workdays statistics, not by the number of strikes.

⁹¹ Data source for real interest rate: Own calculation by using nominal interest rate data from MD (2015) and inflation rate.

interest rate is also calculated by Hodrick–Prescott filter. Figure 6-2 below shows how GFCF growth volatility and volatility of interest rate change over time:

Figure 6-1: Volatility of private GFCF growth vs. political instability (1984 - 2015)

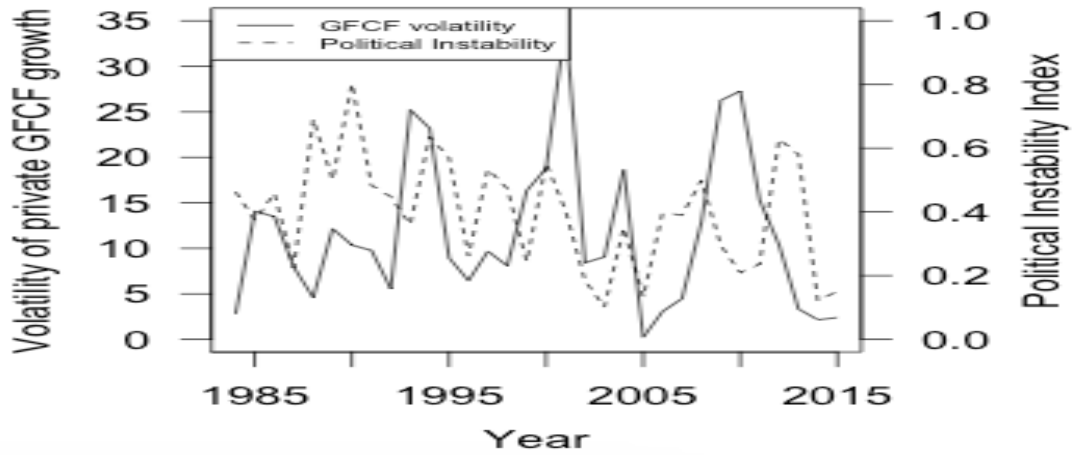
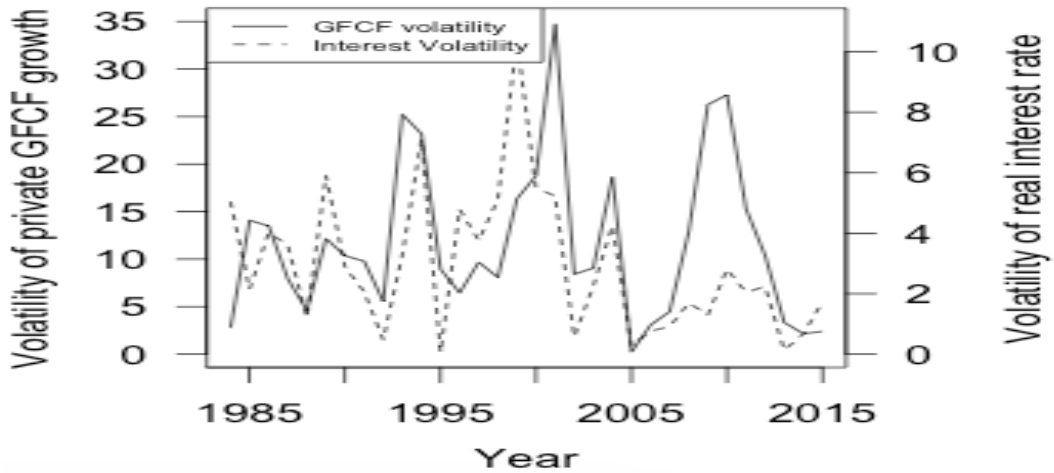


Figure 6-2: Volatility of private GFCF growth vs. volatility of real interest (1984 – 2015)



6.3 Estimation and Results

Before running an OLS regression on a time-series model, unit root and stationarity tests for all variables must be performed. The table below presents the results

of Augmented Dicky-Fuller (ADF), Philips-Perron (PP) tests for unit roots and Kwiatkowski–Phillips–Schmidt–Shin (KPSS) tests for stationarity on three variables of the model:

Table 6-1: p-values (ADF and PP tests for unit root, and KPSS test for stationary)

Variable \ Test	ADF Test	PP Test	KPSS Test (Level)	KPSS Test (Trend)
<i>VOL.GFCF</i>	0.048*	0.024*	> 0.1*	> 0.1*
<i>POL</i>	0.184	<0.010**	0.051*	> 0.1*
<i>VOL.INT</i>	0.436	<0.010**	0.069*	0.079*
Significance levels for ADF and PP tests: 0.01 **, 0.05 *, # 0.1.				

For VOL.GFCF, both ADF and PP tests suggest that there is no unit root. KPSS tests for level and trend stationarity *fail to reject* that the variable is level and trend stationary. In terms of POL and VOL.INT, ADF and PP tests provide conflicting result, as the former suggests a presence of unit root but the latter does not. This conflicting result in two tests is most probably due to low sample size (n=32). KPSS tests on POL and VOL.INT *fail to reject* that these variables are level and trend stationary. Moreover, although not presented here, autocorrelation function (acf) plots for both POL and VOL.INT do not show any significant autocorrelation between these variables and their lags. It is, therefore, safe to use POL and VOL.INT in OLS regressions.

The table below summarizes the results of OLS regression on the base model represented by equation (1). According to results, both political instability index and volatility of real interest rate variables are significant with expected signs at 0.05 and 0.01 levels, respectively. These results, therefore, suggest that volatility in private GFCF growth rate of Turkey during 1984-2015 period, which is a significant part of GDP

growth volatility, is positively affected by both political instability and volatility of real interest rate. In other words, this result can be considered as evidence that high political instability (high propensity of *unexpected* government change) leads to high volatility in private GFCF growth rate

Table 6-2: OLS estimation of equation (1)

Dependent Variable <i>Volatility of private GFCF growth</i>	OLS (1) Estimate
Independent Variables: <i>Political Instability</i>	12.108 * (2.448)
<i>Volatility of real interest rate</i>	2.005** (3.458)
Adjusted R ²	0.675
Sample size	32
Note: t-statistics in parantheses. significance levels: 0.01 ** , 0.05 *	

6.4 Robustness of the evidence

In this section, two different modifications will be applied to the base model so as to check its robustness. First, the base model will be tested for possible structural breaks. Second, political instability index will be estimated by a different method (logit).

6.4.1 Testing for structural break(s)

The time period of the model spans 32 years from 1984 to 2015. Before formally testing for possible structural break(s), it is better to discuss the following question: what is (are) the expected structural break(s), if there is any? As stated by Rao (2007), statistical methods are “tools to develop credible summaries of the observed facts.” So, in

order to evaluate results, one must have an idea of relevant observed facts during the period. In Chapter 4, it was stated that NL SSA can best be understood if the whole period is divided into three sub-periods/phases. So, if there is any structural break, it must be either at late 1980s (between the first and the second phases) or at early 2000s (between the second and the third phases) or at both. Here is the result of structural break test on the base model that is provided by ‘*breakpoints()*’ function in R:

Table 6-3: Result of structural break test for the base model

# breaks	BIC	Corresponding break date					
m=0	233.9						
m=1	227.2				2000		
m=2	234.4				2000		2011
m=3	238.2				2000	2007	2011
m=4	245.8		1992		2000	2007	2011
m=5	248.5	1989	1993		2000	2007	2011
m=6	259.2	1987	1991	1995	2000	2007	2011

The number of breakpoints (denoted by ‘*m*’ in the table above) and corresponding break dates are determined by minimizing Bayesian Information Criterion (BIC). So, since BIC is minimized at *m*=1, there is a single break date at year 2000, which is consistent with our previous expectation based on historical facts. In order to incorporate this single structural break into the base model, an indicator variable (‘*I*’) is created, which takes value ‘0’ for *T*=1984, ..., 2000, and ‘1’ otherwise. In other words, the indicator variable takes account for post-2000 period. The following model is estimated:

$$\text{VOL.GFCF}_T = B_1 * \text{POL}_T + B_2 * \text{POL}_T * I + B_3 * \text{VOL.INT}_T + B_4 * \text{VOL.INT}_T * I + e_T \quad (3)$$

The table below summarizes OLS results for equation (3). All coefficients have expected signs, and all but one are significant at different levels. $POL_T * I(T > 2000)$ is not significant, which suggests that relation between political instability and private GFCF growth volatility does *not* show a significant change between two periods separated by a structural break at year 2000. Were the coefficient of $POL_T * I(T > 2000)$ significant, we would comment that the relation weakens during post-2000 period as its sign is negative. Moreover, OLS on (3) gives a better fit than OLS on (1) based on adjusted R^2 criteria. So, introducing a structural break to the base model increases its goodness of fit⁹².

Table 6-4: OLS estimation of equation (3)

Dependent Variable: <i>Volatility of private GFCF growth</i>	OLS (3) Estimate
Independent Variables: <i>Political Instability</i>	11.965 * (2.459)
<i>Political Instability * I (T > 2000)</i>	-7.828 (-0.928)
<i>Volatility of real interest rate</i>	1.415 * (2.717)
<i>Volatility of real interest rate * I (T > 2000)</i>	4.386 ** (3.654)
Adjusted R^2	0.795
Sample size	32
Note: t-statistics in parentheses. significance levels: 0.01 **, 0.05 *	

6.4.2 A different estimation method for political instability index

The political instability index used in regressions so far is estimated by random forest method. In this part, it will be tested whether the model in equation (3) is robust to

⁹² In a separate regression where the second variable ($POL * I(T > 2000)$) is removed, so structural break is applied only to VOL.INT, adjusted R^2 increases very slightly from 0.795 to 0.796.

estimation method of the index. The point of interest is whether there is any change in signs and significance levels of coefficients (relative to Table 6-4 above). The table below shows result for OLS regression on equation (3) by using a political instability index estimated by logit, rather than random forest method:

Table 6-5: OLS estimation of equation (3) with different index for political instability

Dependent Variable: <i>Volatility of private GFCF growth</i>	OLS (3) Estimate
Independent Variables: <i>Political Instability (logit)</i>	8.947 # (1.950)
<i>Political Instability (logit) * I(T>2000)</i>	-4.886 (-0.430)
<i>Volatility of real interest rate</i>	1.682 ** (3.331)
<i>Volatility of real interest rate * I(T>2000)</i>	4.228 ** (3.221)
Adjusted R ²	0.779
Sample size	32
Note: t-statistics in parantheses. significance levels: 0.01 **, 0.05 *, 0.1 #	

The only difference between the results presented in Table 6-4 and Table 6-5 is in the coefficient of political instability index⁹³. Its level of significance increased from 0.05 to 0.10 (so it becomes less significant); and its value decreased from 11.96 to 8.95. But, it is still positive and statistically significant. We can, therefore, conclude the model represented by equation (3) is robust to estimation method of political instability index. Moreover, it can also be said that political instability estimated by random forest provides slightly better fit than the index estimated by logit, as the adjusted R² in Table 6-4 is slightly higher than it is in Table 6-5.

⁹³ Changes in values of two VOL.INT coefficients seem negligible.

6.5 Substantive significance and limitations

Although political instability index is *statistically* significant, this does *not* necessarily mean that it is *substantively* significant. The former concept is related with t-statistics (and associated p-value) reported in regression summaries. t-statistics is for the test whether a coefficient of a predictor is zero (which means no relationship between that predictor and dependent variable) or not. However, the latter concept is related with *size* of the effect. In other words, while statistical significance refers to “*how likely*”, substantive significance refers to “*how big*”. In order to comment on substantive significance, one must first calculate size of the effect. The result presented in Table 6-4 shows that OLS estimate of political instability coefficient for the pre-2000 period is equal to 11.965, and is statistically significant at 0.05 level. Political instability index ranges from 0 to 1, and measures the probability of *unexpected* change in government for a year. Assume that political instability index increases from 0.4 to 0.7 between two successive years during pre-2000 period. And also assume that real interest rate stays on its long-term trend in the meantime (so no volatility in real interest rate). Then, 0.3 points increase of the index will increase volatility in private GFCF growth by 3.59 points. Economic meaning of this change is that annual growth rate of private GFCF will *deviate from its long-term* trend by 3.59% points. Given that average annual growth rate for private GFCF in pre-2000 period 9.32%, 3.59% *deviation* from long-term trend can be considered as substantive. So, the result suggests that political instability index is both statistically and substantively significant for pre-2000 period.

Another point to explore would be comparison between sizes of the effect of real interest rate and political instability index. Since these two predictors are on different scales, direct comparison of coefficients does not make sense. So it is hard to say which predictor is more substantively significant than other. But, we can calculate how much change is necessary in real interest rate in order to see the same effect on GFCF growth volatility as we see when political instability index changes. For instance, if we keep political instability index constant, 2.54% deviation of real interest rate from its long-term trend will lead to *same level of deviation* (3.59%) in private GFCF growth during pre-2000 period as we observe when keeping real interest rate constant but increasing political instability by 0.3 points. On the other hand, for post-2000 period, the result in Table 6-4 suggests that political instability index is much less substantively significant than it is for the previous period, since its coefficient decreases dramatically to 4.137 (=11.965-7.828). So, most volatility in private GFCF growth during post-2000 period can be explained by volatility in real interest rate, not by political instability.

There are two limitations regarding to results presented in this chapter. First, it may be argued that volatility in private GFCF growth may lead to political instability, in other words causality can also be reversed. Due to low number of data points, it is not possible to run meaningful causality tests on the model. On the other hand, even the direction of causality is not tested, one can judge on the direction of causality based on historical facts. Investment decisions of capitalists in Turkey are highly affected by political situation and political authority. Good relations with government circles and close ties with the state bureaucracy have always brought good opportunities for investment. Considering the fact that rapidly changing governments created a highly

unstable political environment during late 1980s and 1990s, it is expected that political instability has led to unstable investment patterns, not the other way around.

Second limitation of the model is low number of economic control variables. The model tested here includes only one economic control variable, volatility of real interest rate, as interest rate is the major determinant in investment decisions. The model would, however, be more powerful if more economic control variables were introduced. But small number of data points limits the number of control variables included. If the number of data points is big enough, effect of including more control variables on reducing degrees of freedom (and on increasing variance) can be negligible. However, in small data sets, like the one used here, increasing model complexity would severely distort results. Because, as bias-variance tradeoff suggests, adding more predictors to a model will lead to higher variances in estimation, although bias of estimation will decrease.

CHAPTER 7

CONCLUSION

7.1 ISI SSA vs. NL SSA – Major Macroeconomic Indicators

The following table compares the NL SSA with the ISI SSA by three main macroeconomic indicators:

Table 7-1: ISI SSA vs. NL SSA by macroeconomic indicators

	ISI SSA		Neoliberal SSA	
Annual GDP Average Growth Rate	<i>1962-1980</i>	4.81%	<i>1980-2015</i>	4.27%
	<i>1962-1976</i>	6.10%	<i>1980-2011</i>	4.39%
	<i>1976-1980</i>	0.44%	<i>2011-2015</i>	3.33%
Average Unemployment Rate	<i>1963-1980</i>	8.74%	<i>1981-2015</i>	8.88%
	<i>1963-1977</i>	8.63%	<i>1981-2011</i>	8.77%
	<i>1977-1980</i>	9.13%	<i>2012-2015</i>	9.78%
Average Inflation Rate	<i>1963-1980</i>	20.44%	<i>1980-2015</i>	38.39%
	<i>1963-1976</i>	10.94%	<i>1980-2011</i>	42.85%
	<i>1976-1980</i>	57.33%	<i>2011-2015</i>	8.23%

Source: Own calculations from the data presented in previous chapters.

In terms of GDP growth rates for whole periods, ISI SSA is slightly better than NL SSA. On the other hand, whole period approach is not useful here, as ISI SSA had a clear demise during the 1976-1980 period. So, if we compare the effective period of ISI SSA, with 1980-2011 period of NL SSA, the difference in growth rates becomes significant. By promoting 6.10% annual average growth rate during its effective period, ISI SSA *outperforms* NL SSA. As to unemployment rate, difference between two SSAs does not seem significant. However, we observe differences in terms of inflation. In terms of whole periods, ISI SSA has lower average inflation rate than NL SSA. The

difference becomes even more significant if we consider the effective period of ISI SSA only. On the other hand, because of success in inflation targeting during AKP governments period, average inflation rate for the 2011-2015 period of NL SSA has been the lowest of all periods considered. Although NL SSA was unsuccessful in fighting against high inflation during 1980s and 1990s, it has shown a better performance afterwards.

7.2 Key Findings

7.2.1 Import Substitution Industrialization SSA

The ISI SSA was constructed by alliance of industrialist capital and the state bureaucracy (both military and civil). There was no opposition from other factions of the bourgeoisie, although there was a within class conflict among agricultural capitalists and industrial capitalists during late 1950s. The labor class was not a significant political actor during construction of ISI SSA, as it was really weak. After the coup d'état in May 1960, a new constitution was introduced in 1961. This constitution emphasized the importance of planning in development, and established SPO. It also brought principle of separation of powers, which changed the relations of capitalist class with the state. Moreover, a more liberal political environment was created by the Constitution. Although there were limits on the extent of liberal political environment, this new environment led to foundation of several working class organizations during 1960s. The effect of external/international forces was not significant during the construction period.

The ISI SSA was successful in stopping an almost steady decline in GDP growth that lasted from 1954 to 1962. Although there was some volatility in growth rate figures,

overall growth pattern until 1976 can be considered as satisfactory. In terms of two main aims of import substitution industrialization model, which are industrialization and reducing dependency on imports, ISI SSA was successful at the former as there was an increasing trend in percent share of industry in GDP until 1978. On the other hand, ISI SSA was not successful in reducing dependency on imports. It failed in reducing imports due to insufficient growth in capital good industries and increase in oil prices during 1970s. Increasing trade deficit as a result of increasing import share in GDP was mostly financed by workers' remittances.

An SSA needs to stabilize to class conflicts to work effectively. ISI SSA stabilized class conflict by labor-capital compromise during 1960s. During early 1970s, there was an unsuccessful attack to dominate labor. The military memorandum and the following interim government were welcomed by capitalists in this struggle. Two dominant aspects of ideology during the period were statism (related to role of the state in economy) and secularism (as a response to reactionary politics of the DP government of 1950s). Cold War politics affected Turkey's economic relations with the West positively, and this made it easy to find a foreign credit during 1960s and early 1970s.

GDP growth performance during 1976-1980 period was far from being satisfactory, with an average annual growth of 0.44%. Foreign trade performance did also worsen, and current account deficit as share of GDP increased at most years during 1970s. In addition to these economic indicators, class struggle intensified dramatically during late 1970s. Labor share and average real wage showed increasing trends during the same period. By end of 1970s, ISI SSA lost its ability to stabilize class conflict due to

increasing militancy and strength of labor class, and unwillingness of capitalist class to compromise, which then led to final demise of the ISI SSA.

7.2.2 Neoliberal SSA

Two events in 1980, declaration of neoliberal economic policies (J24D) and the coup d'état, mark the beginning of NL SSA in Turkey. Tough military measures and lack of unity among labor class unions prevented labor class from showing any opposition to neoliberal structuring. The military junta suppressed militant labor of late 1970s and its allies from left violently, and two biggest labor union confederations took different positions in their relationships with the military regime. So balance of forces in class struggle during the construction of NL SSA was totally in favor of capitalists. The capitalist class welcomed the coup and neoliberal economic policies. NL SSA was constructed during three years of military regime; and then a period of Özal governments followed. Özal, with his very pro-neoliberal mindset that shaped J24D, was a remarkable political figure of the period, similar to Reagan in US and Thatcher in UK. Two international financial institutions, IMF and WB, also played roles in the construction of NL SSA, more than they had played during the construction of the previous (ISI) SSA.

Construction of NL SSA stopped steady decline in GDP growth of late 1970s, by a dramatic increase from -2.4% in 1980 to 9.5 % in 1987. On the other hand, GDP growth then showed very high volatility, especially during 1990s. National differences within the global neoliberal structure may cause instability in national SSAs. In case of Turkey, there is a correlation between average number of governments and standard deviation of GDP growth rates during three phases of NL SSA. Also, when we

decompose GDP into its components, we observe that private GFCF growth is a major source of volatility in GDP growth. According to SSA theory, for a stable investment pattern, an SSA needs a politically stable government structure. So, political instability seems to cause GDP growth volatility by increasing volatility in private GFCF growth. The results presented in Chapter 6 provide econometric evidence to this claim, which suggest that higher political instability leads to higher volatility in private GFCF growth. This evidence is also shown to be robust to structural break test and to estimation method of political instability index. Structural break test offers a single break date at year 2000, and the model with structural break suggests that political instability leads to volatility in private GFCF growth during pre-2000 period. Moreover, political instability index during the same period is also substantively significant.

In terms of other economic indicators, in addition to those discussed in section 7.1 above, NL SSA can be considered as successful in profit-making until late 1990s. Rate of profits in manufacturing sector, which had had a decreasing trend during late 1970s, started to increase by construction of NL SSA, and then showed an increasing trend. On the other hand, current account deficit became a big problem for NL SSA during 2010-2015 period. In addition to subpar GDP growth, worsening current account balance seems to be another economic indicator of poor performance of NL SSA during the first half of 2010s.

The NL SSA came up with three pillars of neoliberal economic policies: privatization of SOEs, financial liberalization, and liberalization of foreign trade. Total value of privatized SOEs was not significant before 2000s, due to lack of institutional support and due to resistance of the state bureaucracy. On the other hand, starting with

AKP ruling in 2002, privatization revenues have increased on average. The first phase of the NL SSA witnessed many changes in financial system towards a more liberal financial regime, the major of which, full liberalization of capital account, happened in 1989. In terms of foreign trade, export promotion measures were applied and import policy was liberalized during the first and second phases of NL SSA. The other important change in foreign trade policy happened as a result of Turkey's participation to EUCU in 1996, which made Turkey mostly a follower of EU policies in foreign trade agreements. In addition to relations with EU, IMF is another international institution that has a role during NL SSA period in Turkey. The role of IMF in economics was at its highest level during early 2000s due to severe crisis in 2001. Turkey's relationship with IMF has benefited both sides, as IMF, a proponent of neoliberal capitalism, considers the success of NL SSA in Turkey as a success of neoliberal model.

Class struggle has been stabilized via domination of labor by capital during NL SSA period. Except for a few years between 1989 and 1991, balance of power in labor-capital struggle has always been in favor of capitalists. Oppression of the military regime during early 1980s and lack of strong working class organizations afterwards are among the reasons why labor class has weakened. The labor uprising of 1989-1991 didn't last, and the working class couldn't resist to neoliberal policies. Furthermore, neoliberal ideology, by promoting individualism, has eroded the militancy of labor class, which had been very high during late 1970s. In addition to oppression from the state and ideological brainwashing, NL SSA has also provided some material incentives to receive cooperation from labor. Financial liberalization increased access to credit, and people have found more consumer goods available than there had been during 1970s. More importantly,

there have been improvements in the health system, which reflected itself as better healthcare and less out-of-pocket spending for health during 2000s and afterwards.

Individualism is an important feature of the ideology of NL SSA in Turkey. Collectivism has been denigrated by the state and pro-neoliberal mass media. Unlike the previous ISI SSA period, economic planning has not been considered as important during NL SSA period. Consumerism has been promoted regardless of one's own income, since credit opportunities have increased. Moreover, as "Kurdish problem" has intensified since late 1980s, the Turkish society has become more nationalist. In addition to these, secular character of the state has been eroded by rise of political Islam, which has led to increasing Islamization of Turkish society and rise of Islamic capital.

Islamization of society and rise of Islamic capital have affected class conflicts during NL SSA period in three ways. First, Islamic capital has emerged as a significant competitor to established 'secular' capital, and distributional conflicts have occurred within capitalist class. Islamic business association, MÜSİAD, have gained strength especially during AKP governments period; and Islamic firms have started to win more public auctions than they could during 1980s. Islamic financial institutions have collected savings of religious people and, by using increasing funds, have financed Islamic companies. As the size of capital increases within Islamic network, a part of it is used for Islamic charities, which in turn contributes to Islamization of the society. Second, Islamization has affected labor-capital relation. Employers of Islamic firms have emphasized Muslim brotherhood, and have showed hostility towards labor unions. Increasing Islamization of the society has made working class more vulnerable to

religious exploitation. Labor actions against interests of employers, such as strike, can easily be labeled as sin. Third, Islamization has showed its effect within labor class via increasing strength of Islamic-oriented labor unions, which are organized in a labor union confederation called HAK-İŞ. Share of unionized workers represented by HAK-İŞ has increased significantly during the last decade. HAK-İŞ's pro-AKP attitude does usually show itself in lack of support for working class actions against government policies in favor of capital. This lack of unity in organized labor reduces strength of working class in class struggle.

7.3 Prognosis For A New SSA

At the end of Chapter 4, it was argued that subpar GDP growth, increasing current account deficit, and intensifying instability in both domestic and external politics seem to plunge Turkish neoliberal SSA into crisis. Although the time period of this dissertation ends in 2015, economic and political problems stated as indicators of a possible crisis phase of NL SSA have not been resolved yet at the time of this writing. These problems are also closely watched by top independent credit rating agencies. For instance, in a recent press release⁹⁴, Standard & Poor's downgraded foreign currency long- and short-term sovereign credit ratings on Turkey from 'BB/B' to 'BB-/B' due to increasing macroeconomic imbalances, which means Turkey's credit rating moved deeper in 'junk' territory. In addition to economic indicators, Standard & Poor's also emphasizes political instability, and states that "Turkey's relations with key allies and trading partners, including the US and EU, remain complicated."

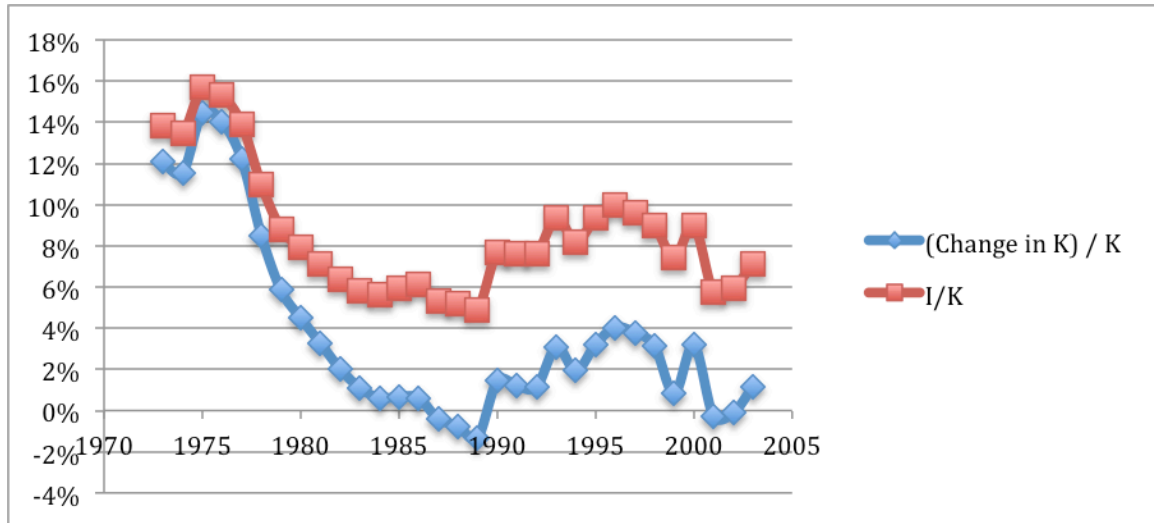
⁹⁴ Standard & Poor's. (2018, May 1st)

There are several possible future directions regarding institutional form of the Turkish economy. The first is continuation of the NL SSA. However, with growing economic problems and unstable political environment (both domestic and international), it is highly unlikely that Turkish NL SSA will survive. The second option is moving beyond capitalism, and establishing a socialist economy. Given current weak and unorganized state of working class, and ineffective political parties of socialists, this option seems almost impossible. The third option, which seems more likely than the first two, is a new institutional structure based on right-wing nationalism. As a result of a constitutional referendum held in April 2017, existing parliamentary system of government was changed to presidential system, which made the regime more authoritarian. Moreover, a political alliance was formed between the ruling party AKP and a right-wing nationalist party (The Nationalist Movement Party) for the coming elections in June 2018. There is also a global dimension of right-wing nationalism. As stated by Kotz (2017), in a current stage of global capitalism, there seems to be a system transformation that “may be replacing parliamentary democracies by right-wing nationalist repressive regimes in many countries.” Turkey can be considered as an example to this case. In sum, current domestic and international situation may lead to a right-wing nationalist institutional structure in Turkey, which may or may *not* be an SSA. Its exact characteristics will be determined by distribution of power in struggles among different interest groups, including, but not limited to, labor-capital struggle.

APPENDIX A

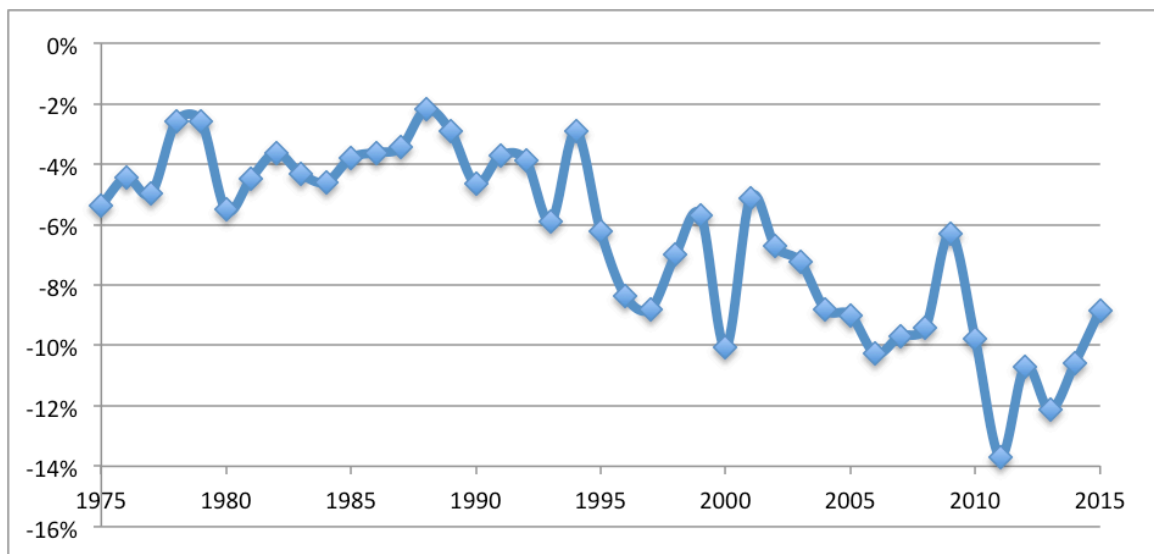
SUPPLEMENTARY FIGURES AND TABLES

Figure A.1: Rate of accumulation in manufacturing sector (1972-2003)



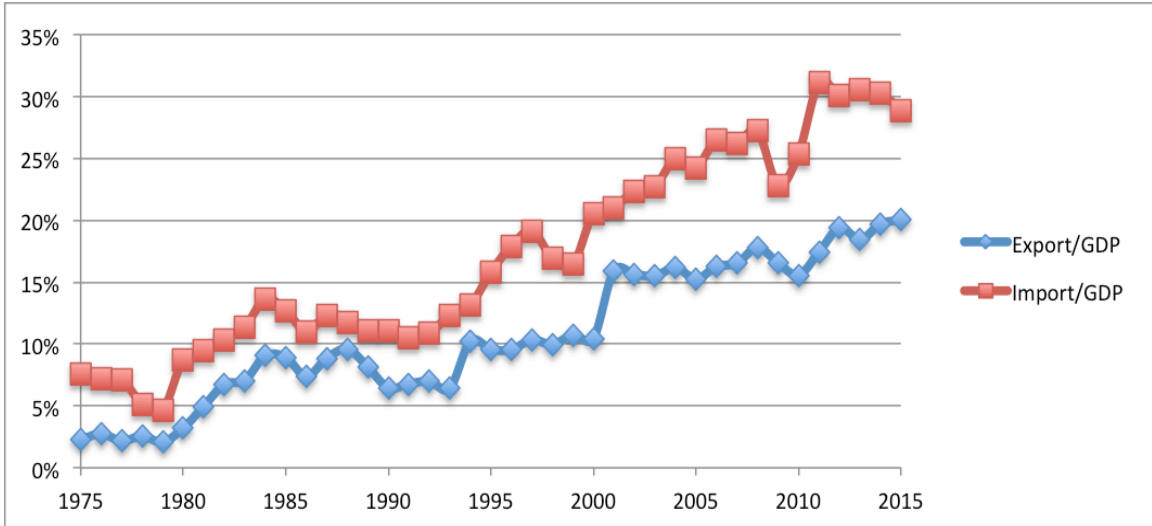
Source: Saygili et. al. (2005) and own calculations

Figure A.2: Trade balance as % GDP (1975 – 2015)



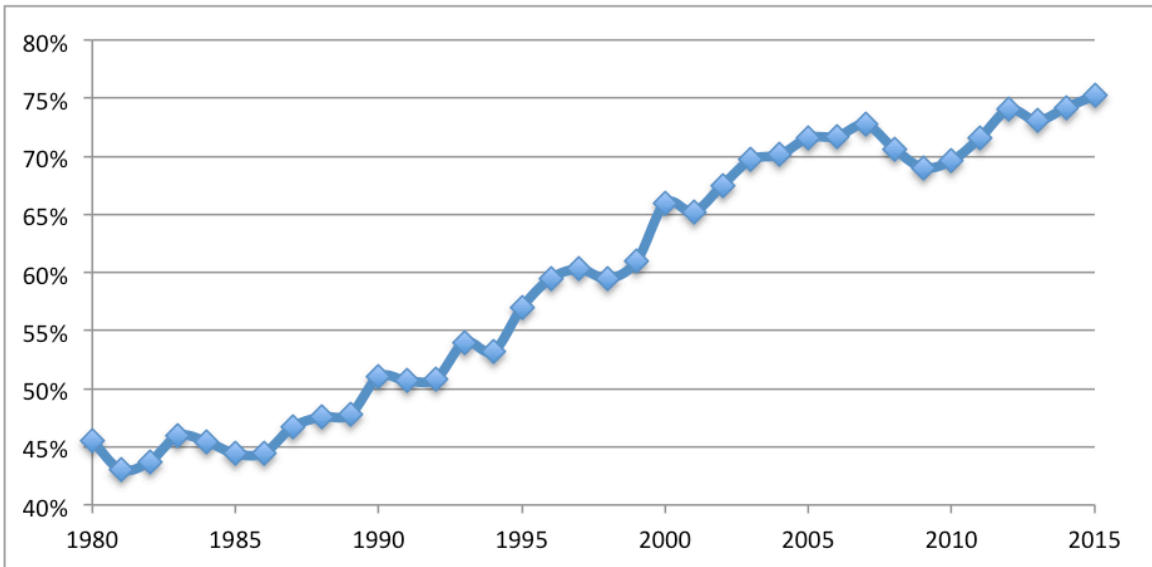
Source: MD (2015)

Figure A.3: Percent shares of export and import in GDP (1980 – 2015)



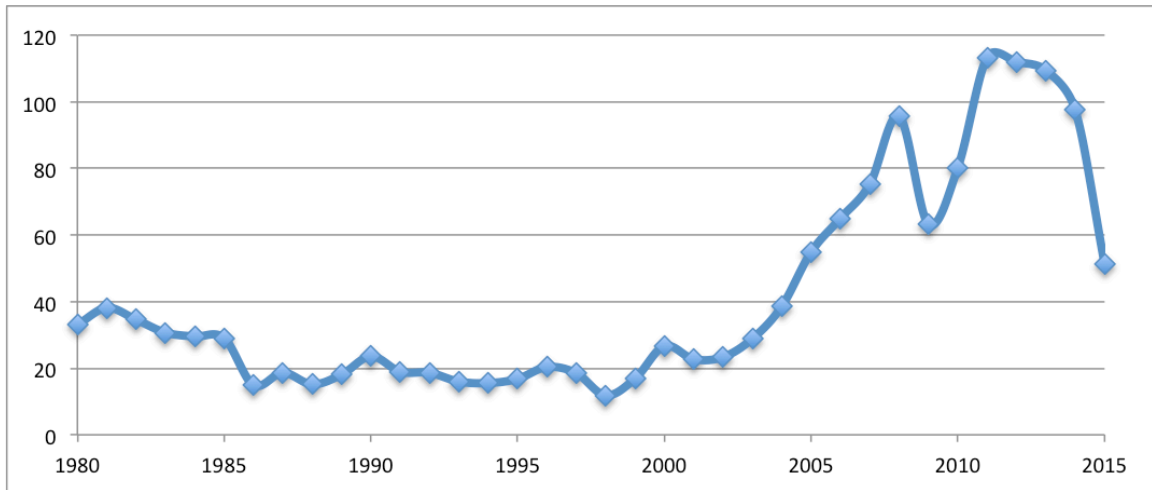
Source: MD (2015) and TurkStat database

Figure A.4: Net energy imports % of energy use (1980 – 2015)



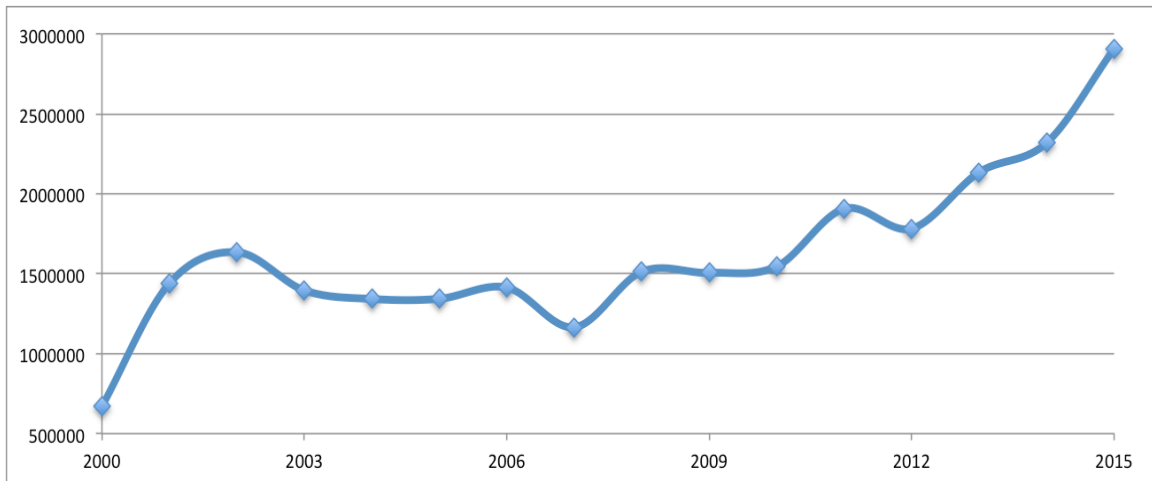
Source: WB database

Figure A.5: Crude oil import price in US\$ per barrel (1980 – 2015, yearly average)



Source: MD (2015) and OECD database

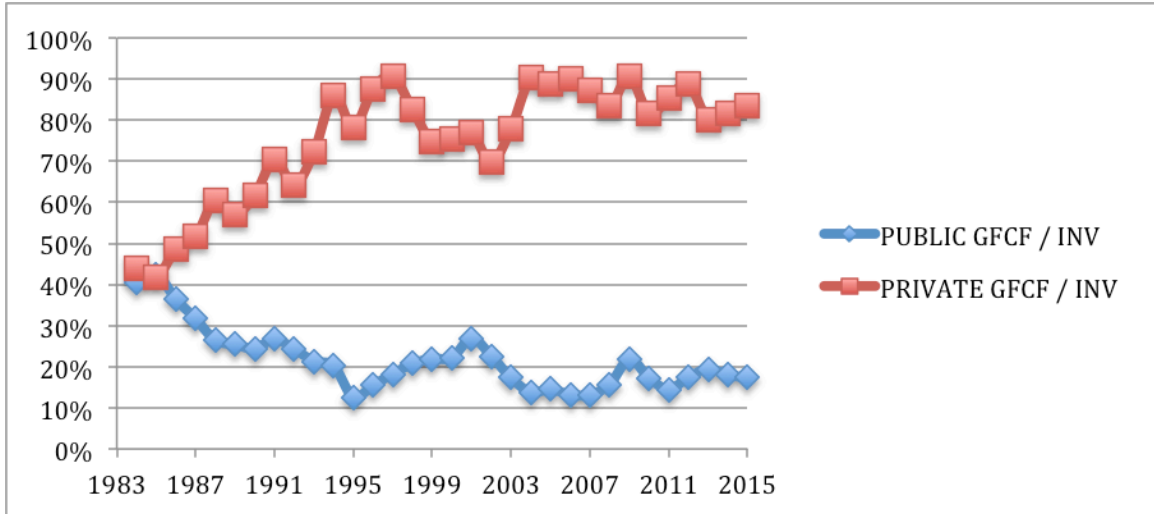
Figure A.6: Exchange rate US \$ / Turkish Lira (1980 – 2015, end of year values)



Source: CBRT database⁹⁵

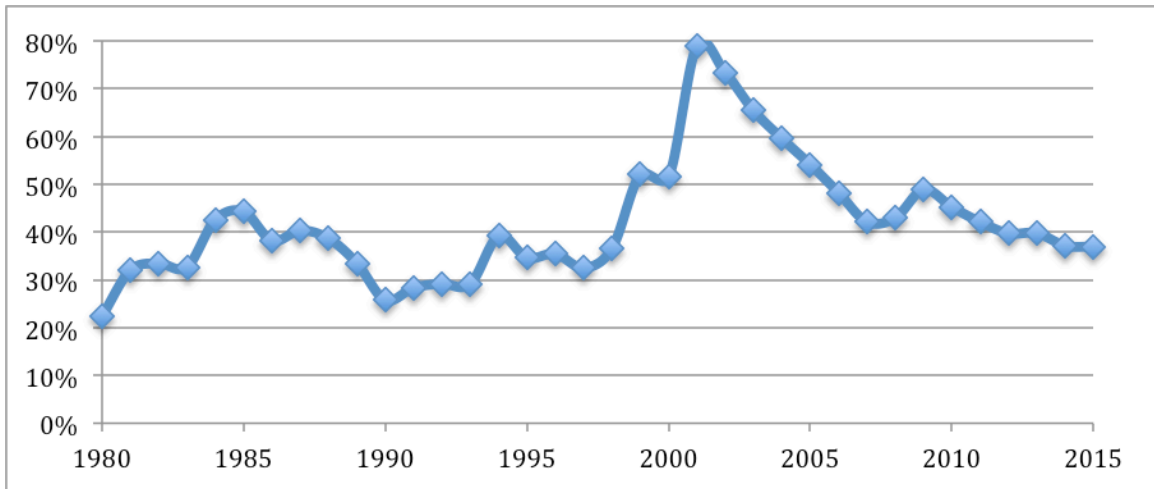
⁹⁵ Turkey revalued its currency by removing 6 zeros from its currency in 2006. In order to be consistent, the monetary values in exchange rate are expressed in the old format.

Figure A.7: Public GFCF vs Private GFCF (1983 – 2015)



Source: MD (2015) and TurkStat database

Figure A.8: Gross public sector debt stock as % GDP (1980-2015)



Source: Abbas et. al. (2010) and database of Prime Ministry Undersecretariat Of Treasury

Table A. 1: Aggregate demand contributions to GDP growth (real values, 1981 – 2014)

Year	GDP Growth	Cons	Gov.Spnd	Export	Import	Investment	
						GFCF	Change Inventory
1980							
1981	4.9	-0.6	0.8	2.6	-0.8	0.3	2.6
1982	3.6	4.3	-0.3	2.2	-0.5	-0.7	-1.4
1983	5.0	4.3	1.4	0.4	-1.1	1.1	-1.2
1984	6.7	2.0	0.3	2.3	-1.4	2.0	1.6
1985	4.2	1.9	-0.3	1.2	-1.0	2.0	0.5
1986	7.0	4.4	1.1	0.1	-1.5	2.7	0.3
1987	9.5	3.5	1.4	2.2	-1.6	3.0	1.0
1988	2.1	0.8	-0.1	2.0	0.5	-0.1	-1.0
1989	0.3	-0.7	0.1	0.0	-0.7	0.4	1.2
1990	9.3	8.7	0.8	0.3	-3.5	3.4	-0.4
1991	0.9	1.8	0.4	0.4	0.7	0.1	-2.5
1992	6.0	2.2	0.4	1.3	-1.3	1.3	2.1
1993	8.0	5.8	0.9	1.0	-4.5	5.7	-0.8
1994	-5.5	-3.7	-0.6	1.9	3.5	-3.9	-2.7
1995	7.2	3.3	0.7	1.2	-3.9	2.3	3.5
1996	7.0	5.7	0.9	3.4	-3.3	3.2	-2.9
1997	7.5	5.7	0.4	3.4	-4.0	3.5	-1.5
1998	3.1	0.4	0.8	2.4	-0.5	-1.2	1.2
1999	-3.4	0.1	0.4	-2.3	0.7	-3.7	1.4
2000	6.8	4.0	0.6	3.2	-4.4	3.5	-0.1
2001	-5.7	-4.5	-0.1	0.8	5.7	-6.5	-1.1
2002	6.2	3.2	0.7	1.6	-3.8	2.4	2.1
2003	5.3	6.8	-0.3	1.6	-4.9	2.5	-0.4
2004	9.4	7.7	0.6	2.7	-5.1	5.4	-1.9
2005	8.4	5.6	0.3	1.9	-3.3	3.9	0.1
2006	6.9	3.3	0.8	1.6	-1.9	3.2	-0.1
2007	4.7	3.8	0.6	1.8	-3.0	0.8	0.6
2008	0.7	-0.2	0.2	0.7	1.2	-1.5	0.3
2009	-4.8	-1.6	0.8	-1.3	4.0	-4.5	-2.3
2010	9.2	4.7	0.2	0.9	-5.2	6.1	2.5
2011	8.8	5.3	0.5	1.9	-3.0	4.3	-0.2
2012	2.1	-0.3	0.6	3.9	0.1	-0.7	-1.5
2013	4.2	3.4	0.7	-0.1	-2.5	1.1	1.6
2014	3.0	1.0	0.5	1.9	0.1	-0.3	-0.2
2015	4.0	3.0	0.7	-0.2	-0.1	0.9	-0.3

Source: MD (2015) and TurkStat database

APPENDIX B

DATA CALCULATIONS AND DETAILS

This section includes details of data sources and calculations for the figures/tables that has “own calculations” in their source info. The list below is ordered as they appear in the text.

- Table 3-2: Average GDP growth is calculated using real GDP values for the start and end years of the period. Let average GDP growth for a period between (t) and (t+k) is equal to “avg” percent. Then:

$$\text{avg}/100 = (\text{GDP}_{(t+k)} / \text{GDP}_{(t)})^{(1/k)} - 1$$

- Figure 3-2: 5-year moving average is calculated as the average of current year and previous 4 years of real GDP growth rate.
- Figure 3-3: I used the sectoral GDP values to calculate the share of industry sector. Atiyas and Bakis (2014) calculate the sectoral GDP values (for agriculture, industry, and services) as follows: For pre-1998 period, they projected 1998 based sectoral GDPs backwards using sectoral growth rate data in MD (2012).
- Table 3-4: Just a standard average of the unemployment data.
- Figure 3-8 and Table 3-5: I got the data for consumer price index (CPI) from TurkStat (2013), and then calculated inflation as percent change in CPI. Averages for periods are calculated by the same method that average GDP growth is calculated (see above description for Table 3-2).
- Table 3-6: Data for domestic saving, current account, and GDP is from MD (2015), data for employment is from OECD database. Average GDP growth is calculated by the same method as in Table 3-2.

- Figure 3-9 and Figure 3-10: TurkStat (2013) provides data on total payments employees (TPE), total value added (TVA), and total number of employees (TNE) in manufacturing sector. I calculated *nominal* average wage as TPE / TNE, and then converted it to *real* wages using CPI data. Labor share is calculated as percent ratio of TPE to TVA⁹⁶.
- Figure 4-2: 5-year moving average is calculated as the average of current year and previous 4 years of real GDP growth rate.
- Table 4-1 and Table 4-2: Standard deviations are calculated by calculating standard deviation of a vector of annual growth rates for a period. Number of governments per year is calculated by dividing total number of governments for a period to length of period in years, and then rounded up to one decimal point.
- Figure 4-3: Memis (2007) calculated this series as follows:

$$\text{Net Profit for year } t = P_t = VA_t - W_t - CFC_t$$

⁹⁶ For further reference, TurkStat (2013) defines TPE and TVA as follows:

TPE: “Includes, all payments in the form of wages and salaries and per-diems gross of income tax, social security and pension fund premiums. It excludes social security and pension contributions and the like payable by the employer. It also includes overtime payments, bonuses, indemnities and payments in kind.”

TVA: Input-Output, where input is “the value of input is calculated by subtracting the value of the end-of-year stock (raw materials, supplementary materials, packing materials and fuel) from the total value of goods and services purchased or transferred, including electricity purchased and the beginning-of-year stock (raw materials, supplementary materials, packing materials and fuel).” And, output is obtained by “subtracting the value of the beginning of the year stock (finished and semi-finished goods and goods purchased to be resold without any further processing) from the total of receipts from sales and services rendered to others, receipts from sales of transfers of electricity plus the value of the end-of-year stock (finished and semi-finished goods and goods purchased to be resold without any further processing) and the production value of fixed assets produced by the establishments staff for own use.”

where, VA : value added, W : wage payments, CFC : consumption of fixed capital (depreciation cost), and then:

the rate of profit = $R_t = P_t / K_t$, where K is net capital stock.⁹⁷

- Figure 4-4: I got the data for consumer price index (CPI) from TurkStat (2013), and then calculated inflation as percent change in CPI.
- Figure 4-11: See the definition above for Figure 3-10.

⁹⁷ A brief comment on the rate of profit series: I tried to extend this series after 2000, but I couldn't due to several reasons. First, the VA and W series provided by TurkStat do not seem consistent after 2003. Second, the mostly used and highly reliable capital stock (K) series, which was also used by Memis (2007), was provided by the two publications of economists who worked for State Planning Organization (SPO). In their earlier work, Saygili et.al. (2002) provided capital stock series for 1972-2000. Then, in their later work, Saygili et. al. (2005) extended the series to 2003. In sum, the scope of reliable data series for the capital stock, as I know, has not gone beyond 2003, yet.

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