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## How to Make the Economy “Embedded” in Turkey?

### One question, Two Contradictory Answers

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#### Abstract

This paper aims to discuss the reasons and the consequences of the conflicts between actors with contradictory interests in the neo-liberal institution-building process in Turkey and privatization cases as one of the main components of the neo-liberalization process represents its primary focus. First, it will be outlined how the privatization program was delayed in Turkey until 2000 while it had been adopted in 1984. Secondly, on the basis of the implementation of some privatization deals after the 2000's and its effects, it will be shown (1) how the import-substitution periods' contending actors, that is to say 'traditional' employers' and workers' organizations, have become allies since the second half of the 1990s against the supporters of the neo-liberal transformation process; (2) how 'former' peasants and artisans who had been frustrated for a while by the import-substitution politics have -certainly through the proletarianization and/or the embourgeoisement processes due to neo-liberalization transformation-henceforth become supporters of the new mode of regulation. Finally, it will be shown that it is possible to distinguish the logic of action of these two camps with respect to the interpretation of the notion of embeddedness: while the first group pursues the Polanyian interpretation of the concept, for whom embeddedness refers to the inscription of economy in social, cultural and political rules that regulate goods and services production and circulation forms, the second group seems to go along with the definition made by the new economic sociology that reflects rather the integration of economic action in social and cultural networks.

## **Introduction**

Neo-liberalism has long been understood as a "monolithic bloc" whose logic of action is based on the principle "more market, less state". According to the critical version of this perception, since its emergence neo-liberalism has not given up his goal to dominate the world in the name of the transnational monopolistic capital as much in economic as in the political and the cultural areas. On the other hand, the version "not hostile" to neo-liberalism, as equally totalizing as the critical version, has continued to defend that the more neo-liberalism succeeds in reducing the state, the more markets extend in parallel to individual liberties and political democracies.

Recently we have witnessed the publication of some works that now take into account the diversity of experiences during the implementation of neo-liberal programs in different countries and their various economic, social and political consequences. As this paper aims essentially to discuss the institutional change and transformation of power relations due to the implementation of neo-liberalism in Turkey, it will follow this recent approach focusing on the "variation", more precisely, on the "variegation" of the neo-liberalization processes.

The paper begins, above all, by describing some distinctive patterns of the neo-liberalization process in Turkey, addressing in particular the case of the implementation of privatization. Secondly, the main actors of this controversial process and their attitudes will be considered. Finally, the article will try to demonstrate the parallelism between the variety of logics of action of these actors and the various ways of conceiving the notion of embeddedness in economic sociology.

### **The neo-liberalization "à la turca"**

Taking into account local and national specificities and heterogeneity of neo-liberalization processes has recently become a growing trend in the social sciences.

In this context, the comparative study conducted by Marion Fourcade-Gourinchas and Sarah Babb (Fourcade-Gourinchas and Babb, 2002: 533-579) on the various processes of the implementation of neo-liberalism in four countries (Chile, Great Britain, France and Mexico) provides a rich data. According to the results of this study there are three

interrelated political-economic variables that distinguish each country's neo-liberalization process: (1) size of the annual GDP of each country during the Keynesian period, (2) the volume of social unrest and ability of each nation state to control these conflicts, (3) the rate of inflation. (Fourcade-Gourinchas and Babb, 2002: 538-539).

After analyzing the data according to these variables, Fourcade-Gourinchas and Babb concluded that in Chile and Great Britain, the low growth rates, ongoing social conflicts, and hyperinflation push large fractions of capital and labor to oppose the Keynesian state. As these fractions gained control over the executive, whether through military (Pinochet) or democratic (Thatcher) way, they opened the state administration to new experts who were known by their militant stance against inflation—the monetarists. On the other hand, the Mexican and French moves to freer markets occurred later and in a much less revolutionary and more pragmatic manner.

When the case of Turkey is examined by referring to the variables used by Fourcade-Gourinchas and Babb, at first sight one can notice that Turkey's neo-liberalization experience is more similar with Britain and Chilean cases than French or Mexican's ones. Because in Turkey the neo-liberalization process begins, just in the same way as the Chilean case, by a military coup-d'état carried out in order to put an end to political instability and social disorder related to struggles that was going on in the assembly (between the Kemalist-left and conservative-right parties) as well as in the streets (between revolutionary left and ultranationalist right). And following the 1980 coup-d'état this process carried on, as in Great Britain, with a vigorous ideological attack on mass media against labor unions and social subsidies.

But on the other hand, in Turkey, import-substituting industrialization (ISI) was not defeated as crushingly as in Chile<sup>1</sup> and, at least until 1980 coup-d'état, developmentalist ideology and Keynesian-ISI experience<sup>2</sup> was not questioned by social and political actors with the same rigor as in Great Britain.

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<sup>1</sup> Anyway, Allende was come into power in Chile thanks to support of the people affected by the defeat of Chilean ISI model.

<sup>2</sup> Although ISI was not Keynesian per se, Hirschman (1981) has argued that, by emphasizing the role of state investment in economic development, it drew its inspiration from Keynesian thinking (Fourcade-Gourinchas & Babb, 2002: 537).

While the growth rates of Chilean and Britain economies between 1961 and 1974 were respectively 2.3 percent and 2.7 percent the Turkish economy has grown up between 1963 and 1977 with an average annual rate 6.7 percent (Sönmez, 1982: 61). This increasing trend of Turkish ISI model has turned bad only on the three last years of the 70s, when Turkish people were more preoccupied with politic instability than the defeat of the ISI model.

Also, the military and civilian bureaucracy in Turkey has never been willing to leave the economy in the hands of the neo-liberal politicians and technocrats at least until the 2000's. This fact clearly shows that there is a discrepancy between the views of Turkish and Chilean armies concerning the neo-liberal transformation process. So, it is known that General Pinochet had transferred the direction of the economy entirely to the Chicago Boys after 1975. Therefore, Chile completed his neo-liberal transformation process in six years, while Turkey was still struggling with privatizations 25 years after the 1980 coup-d'état.

All this does not mean that the neo-liberalization process has not begun in Turkey after the 1980 coup-d'état, when the import-substituting industrialization strategy was replaced by export-oriented industrialization, but only to say that the Turkish army, although it adopted the neo-liberal agenda in broad terms, still had some reservations about the implementation of the transition. The army's reserve was especially about the privatization which means the transformation of power relations to the detriment of the given status quo. And these reserves will become more pronounced, especially after the mid-1990 when neo-liberalism is linked with the process of "globalization".

### **Two moments of neoliberalization and privatizations in Turkey**

Jamie Peck and Adam Tickell (2002: 38) in their well known article identify two phases of neo-liberalization: qualified as "roll-back" neo-liberalism the first phase is characterized by the "*destruction and discreditation of Keynesianwelfarist and social-collectivist institutions*"; and the second one called as "roll-out" neo-liberalism, is characterized by "*neoliberalized economic management and market-friendly state building process*".

Although there are some criticisms about the ambiguity of defining the roll-back and roll-out distinction (Graefe, 97), I found it quite heuristic to demonstrate the characteristics of the Turkish neo-liberalization process and especially its privatization pillar.

### **Privatizations in Turkey during the roll-back moment of neoliberalization: Resistance of the state bureaucracy**

In Turkey, contrary to the opinion of the junta, the post-puch 1983 parliamentary election is carried by Motherland Party then led by Turgut Özal. The latter was without doubt a Chicago Boy, a strong advocate of monetarism, a rigorous believer of cuts in public expenditure and also a supporter of de-unionization. In other words, he was the man par excellence of "roll-back" neo-liberalism. Turgut Özal remained in power until 1991 ensuring 5.2 percent of average economic growth. As a believer of neoclassical liberalism, he gave great importance to sweep away the cultural patterns shaped by the "decommodification areas" –or market-free areas- of the Turkish capitalism's corporatist structure. In order to accomplish this task, Özal governments always strove to replace the "clientelism" to "state paternalism" as the "individual interest" to "collective passions" in the sphere of social relations.

In the same mindset, the privatization program is seen by the Özal government as a crucial tool to reduce the strong state presence in the economy. Because the presence of the Turkish state in the industrial sectors, especially so-called "strategic" ones, amounted to a rate of about 40 percent in 1960 and 50 percent in 1970 (Boratav, 1986 : 125). Therefore, privatization should be placed in the heart of the neo-liberalization process in Turkey and in the wake of the cliché "less state, more market" the implementation of the privatization program is triggered with the adoption of a first legal framework relating the privatization (Law No. 2983) in 1984.

While the first privatization sale is carried out in 1986, just after the building of the Privatization Administration (PA), the implementation of the privatization program has been proceeding very slowly, at least until the 2000s. Between 1986 and 2000, only a few small and medium state companies had been privatized by producing an income of \$ 4.6 billion.

As a result, we can note that a major reason of the delay of the privatization process in Turkey was the state bureaucracy's -with its military and civilian pillars- tendency to resist against the privatization in order to avoid losing control over the direction of the economy and as a result of the country.

Undoubtedly the most effective opponent actor of this period was the Supreme Court. As a result of the weakness of the existing legal and institutional framework necessary for privatization, governments' steps had been mostly canceled and blocked by supreme courts.

But it is clear that behind the opposition of the civilian and military bureaucracy to the privatization, there was a historical aversion to the market, or to be precise, to the domination of logic of market.

In fact, the "marketophobia" of the Turkish state bureaucracy goes back to 1930s. At this time, the Kemalist single - party regime substituted 1923-29 liberal mode of economic regulation by a centrally planned "dirigiste" one. This change has occurred without a doubt out of obligation due to the 1929 Great Depression. In other words, the reaction of Turkey against "The Great Transformation" was the institutionalization of anti-market approach within the state bureaucracy.

To depict the intellectual climate of the 1930s in Turkey, the characterization of Wilhelm Röpke who is one of the founders of the "social market economy approach" is exemplary. In his article published in 1934, Röpke described Turkish intellectuals who gathered around the *Kadro* magazine in the 30s in this way: "*The current trend of industrialization in Turkey (...) is strongly influenced by the view of an intellectual circle in Ankara whose members are gathered around the "Kadro magazine" that seem to "Die Tat" circle in Germany. But unlike "Die Tat" circle, "Kadro" is at the same time inspired by the Russian anti-liberal tradition. In other words, the Turkish Kadro movement is extremely nationalistic and anti-capitalist just like "Die Tat" circle but at the same time, it has been also inspired of the Russian model which is both technical-rationalist and anti-romantic.*"

The aversion to markets proper to the 30s spirit is reflected in the distinction made by Werner Sombart in 1915 between the Hero and the Merchant. According to Sombart's

distinction, unlike the selfish logic of action of “the Merchant” who never stops talking about the “rights”, “the Hero”, is always putting forward the virtues such as courage, obedience and altruism insists on the priority of the “tasks”.

It is obvious that senior members of the Turkish state bureaucracy, especially those of the Supreme Court have resisted against the intrusion of the market during the neo-liberalization process with a kind of heroic motivation. And this heroic resistance shapes its ideological discourse by an introversive nationalistic rhetoric which assumes that privatization is part of an attack directed by global actors and its domestic collaborators against Turkey and its independent national state.

Since the neo-liberalization process is implemented in this period by setting up a standard “structural adjustment” program imposed top-down by the IMF, the rhetoric used by the anti-privatization coalition had found support mainly among some of the population who had been already accustomed to the requirements of Keynesian-ISI mode of regulation.

But, while this resistance strategy has been proved to be successful, at least across the "roll-back" moment of neo-liberalization process, it is failed with the transition to "roll-out" neo-liberalism. Because, following the last years of 90's decade, the contradiction between the “double movement" of the capitalism has taken a new shape in Turkey.

### **Transition to roll-out neo-liberalism and the emergence of Islamic entrepreneurship**

The metamorphosis of neo-liberalization process was not only a consequence of the failure of the top-down “structural adjustment” program of the “roll-back” neo-liberalization process, but occurred also due to the globalization process and its inter-community-based global economic integration tendency.

Taking into account this new reality the managers of "global institutions" had to redesign the neo-liberalization program and for its implementation [they had] to find out the new local partners whose emergence was in fact much to do with the results of the roll-back moment of neo-liberalism. In the case of Turkey, new partners of “roll-out” neo-liberalism were represented mainly by the “Anatolian Tigers” composed essentially by



small and medium enterprises (SMEs) whose owners by a majority has adopted more or less Islamic religious values.

Due to the fact that the economic activities of SME employers are embedded in business and social community networks in the Anatolian cities, a process of production for external markets in parallel with a capital accumulation process were triggered with a high speed. Anatolian SME employers simultaneously invented an "Islamic ethos" in accordance with the notion of "social capital" proposed for a while by global institutions. This new ethos is based on the notion of "homo islamicus" which contains both accents "anti-statist" and "anti-oligarchic" echoed even among new proletarians who came in big cities with their traditional and religious values as a result of the massive rural exodus in the 1980s.

The main actor that shaped and spread out this new "Islamic ethos" in Turkey was without a doubt the MUSIAD, acronym for the Independent Industrialists and Businessmen Association. This entrepreneurial organization was established in 1990 as the collective organization of the mostly family-owned SMEs and with its some 3000 members has become within a short time Turkey's largest and widespread business association.

MUSIAD also has proposed that the Islamic ethos of work should be based on the concept of "homo islamicus ". According to *Yarar, the founding president of MÜSİAD, (...) homo islamicus is said to be both entrepreneurial and moral* (Adas, 2006: 127).

The rise of the new Islamic bourgeoisie led to the establishment of a new political party and The *Justice and Development Party* (AKP) was well founded as representative of ascending Islamic business circles by a group of politicians originating from fundamentalist Islamic movement.

So, to sum up, at the turn of 2000 the anti-privatization coalition was facing a new situation. As well as the inevitable rise of Islamic business, just on the eve of the 2002 elections the outburst of an economic crisis in 2001 had apparently led the anti-privatization coalition to change tactic.

## **Privatization boom after 2000s and Tüpraş case**

Between 2000 and 2010, the privatization gains have reached \$ 37 billion in Turkey and \$ 34.2 billion of this gain made during the Justice and Development Party governments.

In his recent article, Ziya Öniş point out to the fact that 2001 crisis is one of the most important factor accelerating the Turkey's mass-privatization experience and he states: *“The 2001 crisis is a deep crisis which has a far-reaching impact in terms of empowering external actors such as the IMF, World Bank and the EU and of breaking down resistance to privatization”* (Öniş, 2011: 716). On the other hand, domestically, the process of political stabilization is being consolidated with the establishment of a single-party government by *Justice and Development Party* after the 2002 elections. From the pragmatic ‘globalist’ perspective of the AKP government, privatization of public enterprises was not an ideological issue and Turkey would benefit from closer integration with the global markets. In a similar vein, the MÜSİAD, as an association of religious employers whose emergence was due to export-oriented development strategy, and Hak-İş, as a trade union confederation whose members are mostly conservative and recently proletarianized due to the massive rural exodus of the 1980s., *“respond to the challenges of the contemporary world economy and criticize the statist model associated with past development experience of Turkey”* (Buğra, 2002: 192).

In such a situation, in the eyes of the “anti-privatization coalition”, it was apparently not possible henceforward to delay or block the course of privatization. The main issue of privatization during the post-2001 period was therefore, “to whom to sell” the public enterprises in the industries of strategic importance rather than to keep them as such. And in the absence of a “right” candidate privatization would be canceled by putting forward legal problems. In the presence of a “wrong” candidate, as seen especially in the early years of 2000, legitimate motives - in one way or another – would be explored or invented in order to cancel the auction and to endeavor to train a “right” candidate for the next auction.

The privatization case of Tüpraş, the seventh European refinery, shows clearly how the new strategy of state bureaucracy works during the post-2001 period. First privatization auction concerning "bulk sale" of 65.76 percent of the public shares of Tüpraş held

January 13, 2004. The tender was awarded to a Turkish-Russian consortium (Zorlu - Tafnet / Efremov Kautschuk GMBH ) with a bid of \$ 1.3 billion. Turkish partner of the winning consortium, Zorlu Holding was considered one of the most powerful of the "Anatolian Tigers" and the most distinctive feature of the conglomerate was to have close ties with the Justice and Development Party, while in government.

But the achievement of the Tüpraş privatization process was disrupted by the lawsuit brought by the enterprise's representative trade union, Petrol-İş. Due to procedural irregularities, the Ankara Administrative Court first decided to suspend the execution and soon after, to cancel of the sale. As this case shows, the labor union - Petrol-İş - and the judicial authority played a decisive role during the cancellation of the first Tüpraş privatization auction.

After the failure of the first attempt concerning "bulk sale" of 65.76 percent of the public shares of Tüpraş, a second attempt was made at 2005. The second tender was awarded to the Koç-Shell consortium, whose 90 percent shares belong to Turkish Koç Holding. What is interesting about this auction was the debate that preceded it about "selling strategic public enterprises to foreigners," which took place in the media until the day of the auction. And in this debate Koç Holding was always considered as one of the "correct candidates" by the advocates of selling public enterprises to the "national capitalists".

And since Tüpraş was bought by Koç Holding which is considered "correct candidate," we have seen the outbreak of the "anti-privatization coalition": while the vast majority of the coalition was satisfied with the result of the privatization auction because of the buyer's identity, only the trade-union of Petrol-İş continued to try to stop the implementation of the privatization. But this time, lawsuits sued by the trade-union in order to cancel the implementation of the privatization were rejected by the Courts. In the same vein with the Tüpraş privatization case, among the 34 public enterprises privatized throughout the year 2005, 33 were bought by consortiums dominated entirely or predominantly by domestic companies, which were credible in the eyes of the state elite.

This case shows that in the post-2000 era, how the actors "in conflict" of the import-substituting development regime became allies in order to counter institutional change generated by the neo-liberalization process. But on the other hand, the new partners of the

“roll-out” neo-liberalism, that is to say Privatization Administration and Justice and Development Party government with the support of SMEs entrepreneurs and the new proletariat, have united in order to the accomplishment in any case of privatization, whose effect would probably weaken the oligarchic status quo inherited from the import-substituting development regime.

## **Conclusion**

All along this paper, I tried to show that the neo-liberalization process and privatization in particular has been a matter of disputes in Turkey between the actors who are for neoliberal “institutional change” and those who are for protecting the status quo inherited. But if we look more closely at these two groups in conflict, we see that their goals are formally the same: to make the economy embedded in society. Because both consider the current situation as an anomaly: for the opponents of neoliberal transformation, the economy was in fact embedded in the nation-state’s institutions since the 30s, but the neoliberal turn has made it increasingly more disembedded. As for the advocates of the neoliberal transformation, interventionist policies were carried out after 30s, themselves in fact have made the economy disembedded in favor of a minority out of touch with society. For the latter, it is the neo-liberalization process that makes the economy more and more embedded in society.

But it is also clear that, although both camps have agreed for embedding the economy in society, they differ with respect to wherein really embedding it. According to the opposition camp, it would be embedded in the institutional framework proper to the planned economy period when markets depended on the state. In this manner, use of “embeddedness” corresponds largely to Polanyian use of the term. That is to say, it corresponds to the use of “*embeddedness as a variable that point out the changing place of the economy in society*” (Gemici, 2007: 11). In contrast, according to the actors of the neo-liberalism-friendly camp the economy must be increasingly embedded in cultural and social networks. We see in this case that the Polanyi's second and methodological use of the concept of "embeddedness", which is also inherited by new economic sociology, is interpreted such as "an analytical proposition". Therefore, today’s rise of Anatolian

Tigers and Islamic Work Ethic, is, for this camp, no other thing than of the expression of embeddedness of the economy in society in Turkey.

Finally, to conclude my presentation, I can say that the “scientific” and “ordinary” uses of the “embeddedness” notion, which is apparently proper especially to “great transformation” periods in the history of capitalism, must be treated on their own as “embedded” in the logic of the regime of capital accumulation whom the actors are part. No need to mention, we have keep in mind the embeddedness of the latter’s position in the power relations. Consequently as our case shows privatization process is considered by some actors in Turkey as a way to make more embedded economy in the society, but for the rest as a reason of that the economy becomes more and more disembedded. And these two contradictory “embeddedness” approaches provides a vivid expression of Polanyi’s "double movement" during the process of neo-liberalization in the Turkish context.

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