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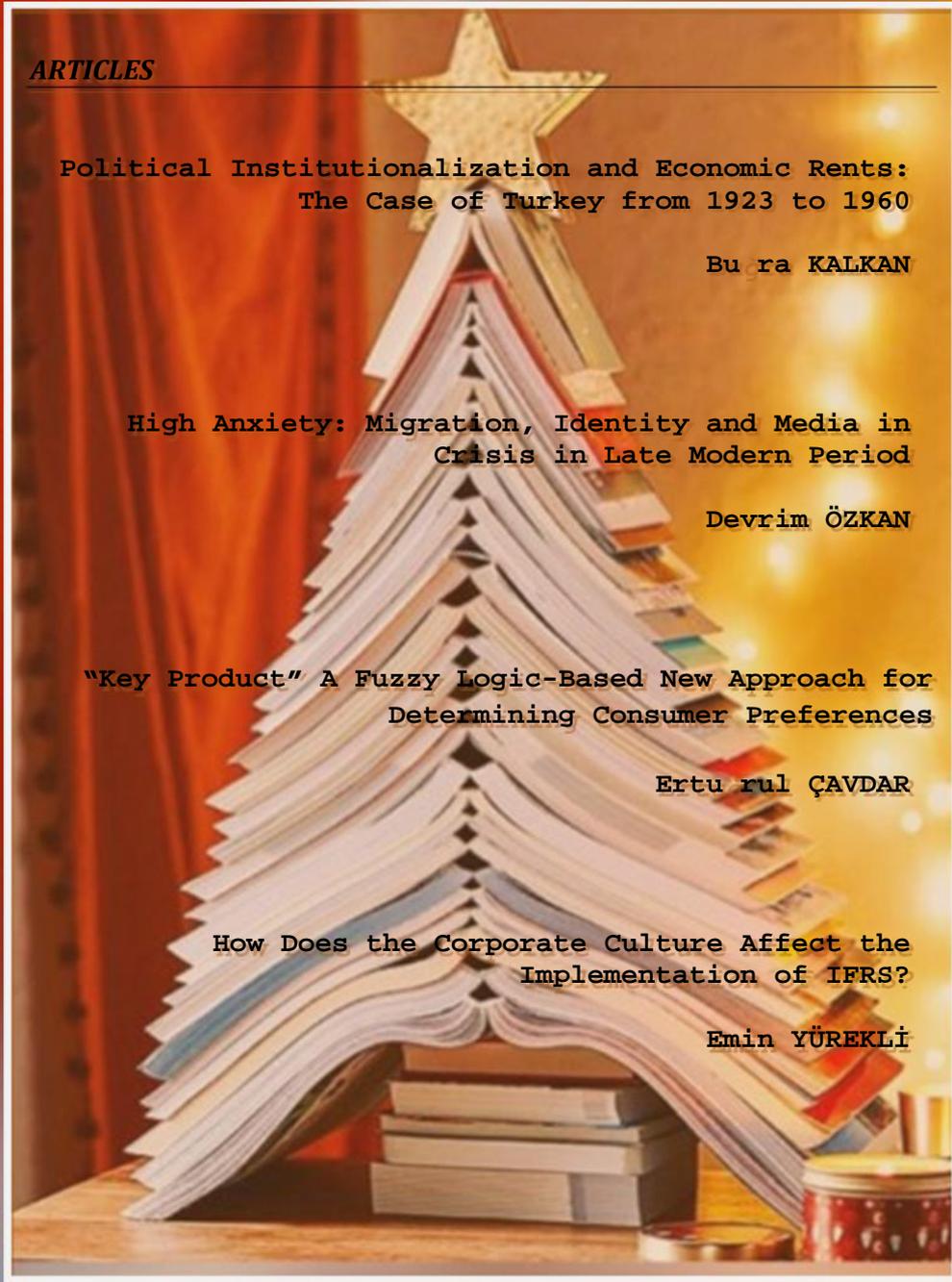
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## **POLITICAL INSTITUTIONALIZATION AND ECONOMIC RENTS: THE CASE OF TURKEY FROM 1923 TO 1960**

**Buğra KALKAN\***

### **Abstract**

The theory of D. North, J. Wallis and B. Weingast (NWW), namely rational choice institutionalism, is applied here to Turkish history from 1923 to 1960. Economic rents are considered as the fundamental mechanisms to stop violence among the powerful groups in order to form a political unity in the emerging states/developing countries. It is asserted here that the Republic of Turkey created economic rents through economic interventionism and centrally planned economy during the mono-party regime years. Therefore, there are strict relations between the political institutionalization of Turkey as a mono-party regime and the interventionist economic policies of the Turkey from 1923 to 1950. High scale of economic rents during the democratic era from 1950 to 1960 also undermined the political freedom in Turkey and destabilized the democratic political system.

**Keywords:** Economic rents, Turkish Republican history, democratic transformation, mono-party regime. P16, P47, D72.

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## **Introduction**

How economic rents are influential concerning the development of the political institutions and the political coalitions is an important subject examined by public choice theory and new institutionalism. Public choice discovers new dimensions of political corruption by showing how political decision-makers are creating privileges for individuals and groups through developing economic rents in democratic systems (Tullock, 1967, 1999, 2005; Buchanan 1999). The technical explanation of the economic rent is as follows: “a return to an economic asset that exceeds the return the asset can receive in its best alternative use” (North, etc. 2009: 19). There might be many rents without the political interference to the economic activities in an economy, but the rents that are interested here is all related to the political influence over the distribution of the economic resources. The political actors can intervene to the economic system to reallocate or redistribute the economic resources in favor of some of individuals or groups while preventing other individuals or groups to utilize these resources. Interest groups in democracies (also in authoritarian regimes) often try to influence the political decision-making processes to benefit from these reallocation resources (Krueger, 1974).

Gordon Tullock (1967), as the first one who examines the large social costs of the economic rents, systematically analyzed the negative effects of the interest group activities on the political system. For Tullock, the fundamental cost of the economic rents is not the gap between the price of a good or service in a competitive market and the price of a good or service in a monopolist market. Rent seeking activities have far-reaching consequences over the political and economic system. Rent seeking let the economic resources to be used in seeking economic privileges rather than motivating individuals and groups to make a profit through producing competitive goods and services. Economic rents prevent to allocate the economic resources to efficient economic productions and waste many productive potential by excluding the people from the productive economic activities (Tullock, 1967: 228-232).

In contrast to Tullock, rational choice theorists Douglass North, J.J. Wallis and Barry Weingast (NWW) claim that the economic rents employ

a necessary and a positive prerequisite concerning establishing political coalitions during the first state of the formation of a political unity. According to NWW, powerful groups that have violence potential in emergent states may agree upon creating economic rents to stop violence among each other and form the political order. NWW explains the actions of the political actors in the light of economic motivations through using methodological individualism borrowed from neo-classical economics. Therefore, NWW assert that many different qualities of political institutions, previously explained through examining ideological conflicts or cultural traits of the actors, can be exposed through examining economic motivations of the political actors. In this regard, political history and development of political institutions in different levels can be explained with the help of economic rents (North etc., 2009, 2012).

NWW is the only theory among the theories examined the economic rents that provide a direct relation between the certain properties of the political system and the scale of economic rents. In this regard, the states that cannot establish their political unity on the rule of law create economic rents to limit the violent conflicts among the powerful groups. Since the main purpose of the groups in question is to increase their economic interests, the level of economic cooperation among these groups and properties of this cooperation determine that to what extent and for whom the rule of law will be enforced. Thus, the high scale of economic rents is an indicator of a low quality and exclusive judiciary system that protects only the “rights” and economic interests of some of the powerful groups. And, the involvement of the larger groups in the rule of law requires a low level of economic rents. Since a developed democracy requires an inclusive rule of law, NWW provides conceptual tools to evaluate the democratization problems of the countries with respect to an economic perspective. Therefore, such an assertion directly relates the scale of economic rents to the structure of the political system.

This study examines the interrelations between the economic policies and political institutionalization in the Republic of Turkey from 1923, the establishment of the Republic, to 1960, the first military coup. The main aim of this study is to show that how democratization problems

of Turkey in the 1950s were related to the economic policies of the era, and how these economic policies were depended on the developmental problems of political institutions of the early years of the Republic of Turkey. Turkey experienced a mono-party regime from 1923 to 1950, and two attempts to transform the system into a democratic regime were also failed in this era. But, after the establishment of Democrat Party in 1946, Turkey had his first fair democratic election in 1950, and Turkish political system transformed into a democratic regime. However, the democratic elections ceased again with the military intervention in 1960.

It has been mostly claimed that the democratization problems of Turkey were strictly related to the top-down modernization projects which firstly stemmed from the Ottoman Empire. According to the center-periphery theory, the cultural gap between the “center” and the “periphery” has deepened as a consequence of the modernization project of the Republic which, in return, has deteriorated the development of democratic culture in Turkey (Mardin, 1973, 2000). There are also old institutionalist explanations that relate the failure of Democrat Party’s democratic rule to the insufficient constitutional development and weak political institutions which failed to limit the powers of the elected governments (Ozbudun and Genckaya, 2009). Although these theories have a great explanatory power, the interrelation between political and economic institutionalization has been neglected in these theories. Marxist researches that have studied which groups have benefited from different economic policies also have not related the scale of economic rents to the development of political institutionalization (Keyder, 1987; Bugra 1994). Economic history has mainly studied economic policies with respect to the economic constraints, historical determinants, and ideological inclinations (Boratav, 2015, Tezel, 2015; Kazgan 1999). Therefore, how political groups have tried to protect their economic interest through controlling political institutions has been greatly neglected.

In this study, in order to contribute to solving the problem explained above, the political process from 1923 to 1960 is examined through using conceptual tools of NWW. First, the theory of NWW is explained, and then, NWW is applied to the historical era. The main purpose of this study is not to construct a totally new explanation for the

historical evolution of the Republic of Turkey but to contribute to a neglected subject area. In this regard, this study is limited to explain how economic motivations of the political actors might have affected the political institutionalization from 1923 to 1960.

### **1. NWW as a Conceptual Framework to Evaluate the Political History**

NWW employ an institutional change perspective through focusing on power struggles over the control of the economic resources between elite groups (North etc. 2009: 30). The theory suggests that the cost of the violence needed for the control over the economic resources during the development of a state, at some point, will exceed the economic benefits of the rents. So it is logical that elite groups will make an agreement on how to share the political power to control the violence, and eventually to reduce the costs of the rent-seeking activities. This is called the natural state or *limited access order* (LAO), as an explanation of the formation of any pre-modern state establishment (North 2009: 32). Thus, NWW claims that the elite oligarchy that forms the state organizations would find the reducing the scale of rent economy in their benefit; because the increase in productivity gained by reducing the scale of rent economy will exceed the loss in rents.

NWW has developed a rational choice institutionalism to understand that how the new-born states, so-called limited access orders (LAO), might transform into liberal constitutional democracies, open access orders (OAO) (North 2009: 21-5). *Access* refers to the openness scale of the economic, political and social organizations to the different potential beneficiaries in a political entity. Only a limited numbers of groups/agents have the right to access to these organizations in LAOs because political, economic and social institutions are formed to exclude the outsiders to access to the wealth creation mechanisms in LAOs (North 2009: 32). This is the fundamental political framework of the developing countries. However, in the developed countries, accessing to these organizations is open to the general public. Whether a country is a limited or an open access order can easily be detected by the scale of the economic rents in that respective country. Because political institutions are built to control the access to the organizations, particularly economic organizations, to create and maintain economic rents. There might be many rents without the political interference to the economic activities in

an economy, but the rents that NWW is interested here is all related to the political influence over the distribution of the economic resources.

NWW also answers how power relations are evolving within the limits of political and economic institutional developments. According to the NWW, economic rents which are private benefits provided by public organizations are essential to form an elite coalition who will have the adequate motivations to build and preserve political organizations (Wallis etc., 2010). Therefore, NWW claims that economic rents are needed to stop or limit the violence among the powerful elite groups and form more or less stable political organizations. Because the existential purpose of the public organizations in developing countries is to serve to private gains of the elite groups, normative recipes depending on the principles of a free society are inadequate to understand the nature of the power relations and the reform possibilities of a developing country. Then, the fundamental question that NWW seeks to answer is that what are the institutional choices do political elites have to decrease the scale of the economic rents and increase the comprehensiveness of the public goods and services.

To explain the transformation process of the LAOs, NWW suggests a taxonomy of the LAO: fragile, basic and mature (North etc., 2012: 21):

Fragile natural states are unable to support any organization but the state itself. Basic natural states can support organizations, but only within the framework of the state. Mature natural states are able to support a wide range of elite organizations outside the immediate control of the state.' Only the mature LAOs can have the necessary institutional conditions that might lead the country transform into an OAO.

Thus, there might be a kind of institutional development which will increase the organizational capacities of the state organization that will result in reducing the scale of rents. Under 'doorstep' conditions, the agreement between elite groups has a potential to start an unintended process of transformation into a freer and a lesser rent-seeking society, or even, an OAO (North 2009: 110). The doorstep conditions are the 'rule of law for elites; support for perpetually lived elite organizations (including state), both public and private; consolidated control of organizations with

violence capacity (including military and police force)’ (North etc. 2012: 17). An LAO with the doorstep conditions is a mature LAO that has the potential to transform into an OAO. With the sufficient increase in wealth and institutionalized political, economic and social organizations, ordinary people, and other groups most probably become more demanding regarding the privileges that elite coalition enjoys for a long time. Moreover, at that point, suppressing all these demands requires using violence that will undermine the doorstep conditions of the elite coalition, which the coalition would not prefer to do so.

## **2. How to Apply NWW to the Turkish Political History**

The lasting effects of historical events on current political and economic institutions are important for the theory of NWW. Although the era of Tanzimat is important for the modernization experience of the Republic of Turkey, effects of the capitulations are more crucial on the economic policy preferences of Turkey. The capitulations started with reciprocal free trade agreements between Ottoman Empire and some of the European countries (mainly France, England, and Italy) in the middle of 17th century. But it rapidly turned into a kind of colonialist economic practice and an alternative economic system where foreigners had several unjust economic and legal privileges against Muslim traders and manufacturers. The fundamental problem concerning capitulations was not the trade deficits created as a natural consequence of the underdeveloped industry of Ottoman Empire. But the real problem emerged since Ottoman Empire could not reform its economic and judicial system to provide the requirements of the modern economic relations depended on the market economy. With the help of their political and military advantages, European countries used the inefficiencies of the Ottoman economic and judicial system as an excuse to construct their own economic system in Ottoman Empire. Under the capitulations, western entrepreneurs had very low tax rates compare to the Ottoman subjects and were immune to the unpredictable emergency levies issued frequently by the Ottoman government whenever the government thought it was needed. And western monopolists also had their own modern courts while Ottoman subjects had to deal with the inefficient and out of date court system of Ottomans, the “Kadi”. Western monopolist didn’t even have to pay the fees for the regular public services. It was almost a kind of commercial apartheid regime. This system was an obvious violation of the equality before the

law in favor of the Western monopolists (for a detailed account, see Kuran, 2011: 209-227).

Leaders of the Committee of Union and Progress (CUP), the modernist political elites of Ottoman Empire who ruled the country from 1908 to 1918, created economic rents such as monopoly privileges and easy credits for the Turkish entrepreneurs who were close to the CUP to fight against the detrimental economic effects of the capitulations. This could be seen as a part of economic modernization policy that supported the native industry through creating “indigenous bourgeoisie”. This economic policy started at the end of the 19th century in the Ottoman Empire and was followed at least until 1980 in the Republic of Turkey (Waterbury, 1993: 214; Keyder, 1987: 71-90; Beris: 146-170). Although creating indigenous bourgeoisie policy could work in both open and closed economy, traumatic effects of the capitulations supported closed economy rather than a free trade regime. Thus, even unequal and discriminative rules of capitulations were abolished in the Republican era, Turkish political elites who were mostly ex-members of CUP preferred to create economic privileges for Turkish entrepreneurs to support economic development in Turkey (for a detailed account, Keyder 1987; Bugra, 1994; Ozturk 2008). So, it is clear that capitulations had lasting effects on economic policies for a very long time.

The military leaders and the bureaucrats who were mostly the ex-members of CUP passed to the Anatolia to join National Assembly for organizing the independence war after the defeat of Ottoman Empire in World War I. And, the Republic of Turkey has been founded under the leadership of Mustafa Kemal Atatürk after the defeat of the Greece in the Turkish War of Independence in 1923. Atatürk, who planned a radical and fast modernization and secularization project for the new Turkish Republic, eliminated his conservative opponents to consolidate his political power right after the Independence War. Atatürk furthered his plan through establishing Republican People Party (RPP), and the radical modernization initiative was started under organizations of RPP in a mono-party regime. In 1924, another political party, Progressive Republican Party, was established by the important military leaders as an opposition to the RPP, but this initiative endured only eight months until it was closed down with the charge of counter-revolutionary activities. The Free Republican Party established upon the demand of Atatürk in 1930 was also closed down in four months. Both of these political parties

declared that they would follow much more liberal politics than the policies of RPP. However, Turkey's political structure was not powerful and complex enough to carry on such liberal politics at the time (Lewis, 1961; Ahmad 1993).

The mono-party regime completed its institutionalization under the charismatic leadership of Ataturk by 1931 (for a detailed account, Tuncay, 1981). The political dominant coalition known as Kemalist elites was emerged as the institutionalization of the RPP completed. Old military leaders turned into politicians and high-level bureaucrats had a privileged status in this Kemalist political coalition. Kemalist coalition rapidly acquired the ability to regulate the commercial relations, manufactural and agricultural production to establish their control over these economic relations. Kemalist coalition started to control the comparatively industrialized territories and utilize the old trade relations established by the capitulations. On the other hand, the landlords were also connected to the central government through commercial concessions, political privileges, and easy credit opportunities. Therefore, relating the institutionalization of RPP to the redistribution of the economic resources is possible through examining how the government redistributes the economic resources among the powerful groups.

The economic history of Republic of Turkey from 1923 to 1960 is conventionally divided into three periods (Kazgan, 1999; Boratav, 2015). The first period is, from 1923 to 1929, called free trade era; the second period is, from 1933 to 1947 (roughly), called import-substituting planned economy; and the third period is, from 1950-1960, called the mixed economy. Reasons for different economic policies in these various periods are conventionally explained by purely economic reasons. In this article, however, the capacity of the political system to provide requirements of rule of law is also examined in respect to the economic policy preferences of Turkish governments. Thus, in this regard, variations in economic policies can also be explained as a part of the development of political institutions, or the political institutions of the dominant elite coalition in Turkey.

From the perspective of NWW, Turkey experienced the fragile LAO from 1923 to 1929. Interventionist economic policies played a significant role to form the dominant/Kemalist coalition during these years. However, after overcoming internal and external challenges, the

dominant coalition started to develop more elaborate and better ordered economic and political state organizations, where all the *private* (economic, social, intellectual) organizations placed in the orbit of the dominant coalition from 1930 to 1946. This was the period of basic LAO in Turkey. From 1946 to 1960, Turkey witnessed a false promise of mature LAO when an independent opposition party founded in 1946, and the government changed through a fair election in 1950. Although the hope did not last long, due to the significant gap between economic and political freedom, Turkey did not regress to the fragile LOA stage after 1961 and strengthened its institutions as a basic LAO.

### **3. The Fragile LAO Years of Turkey, 1923-1929**

The political stability was not developed on the formal rules required by the constitutional democracy, which was needed to form peaceful political debates, in the process from 1923 to 1929. Because of the sharp opinion differences between the Kemalist elites and the conservative opponents – members of the Progressive Republican Party, and the ex-members of CUP who did not join to RPP–, the conflicts resolved through using the coercive power of the state organizations by Kemalist elites. The Kurdish uprisings were suppressed by the Turkish Armed Forces (TAF) during the next two decades. Therefore, because of the peaceful political relations could not be established in this six years period, political stability was not built on pro-liberty impersonal rules of law. But, the political stability shaped around personal political ties emerged around the charisma of Ataturk. Thus, political decisions were made in an exclusive political system rather than in a democratic political environment where everyone has a chance to contribute to the political decisions. From the perspective of NWW, Turkey in this stage was a clear fragile LAO. This means that Turkish government was incapable of supporting independent political organizations, such as another political party or an independent intellectual club, and independent economic organizations. In the absence of the public order generated through impersonal rules and institutions, the political order had emerged out of the agreement among the powerful groups. Although Kemalist coalition eliminated the powerful groups through using both political processes and military intervention (Ahmad 1993: 52-71; Zurcher 1991; Zurcher, 2004: 274-76; Ozkan, 2015: 341-343), examining the creation of economic rents and redistribution of the economic resources is also helpful to understand how the unity was achieved in the

Kemalist coalition. NWW asserts that “the distribution of economic privileges is the key to creating incentives for stable relations within the coalition” (North etc., 2009: 42).

Tuncay asserts that Turkey completed structuring its mono-party regime by 1931(Tuncay, 1981). Examining the institutionalization of RPP through economic policy preferences rather than focusing on the ideological debates of the era help us to understand another aspect of the RPP. From an economic rents perspective, the economic policies concerning transportation, commerce, manufacture, banking and agriculture helped RPP to control the economic resources, in parallel to the political institutionalization of RPP.

The capitulations were abolished with the establishment of the Republic of Turkey but low trade tariff rates were in practice until 1928 because of the Lozan Agreement, the founding agreement of Republic of Turkey. Therefore, the activities of foreign traders and investors descended from Ottoman Empire was enduring in the first years of the Republic. The reaction of the Turkish government against foreign traders was similar to the CUP leaders. In an underdeveloped economy and a fragile political stability, Turkish government saw foreign traders’ power over the economy as an obstacle both for creating indigenous bourgeois and independent industries. Thus, the Turkish government, started to nationalize and monopolize some of the markets, the ports and the railways that were mostly dominated by the foreigners. Right after the establishment of the Republic in 1923, many consumption products, such as alcoholic beverage, explosive substances, and oil, monopolized by private companies. The privileged private companies had the concession to operate the four largest ports with a direct governmental capital transfer, but the railways nationalized by the government (Boratav, 2015: 40-41). Establishing joint ventures with foreigners was also a very common way to attract foreign capital through the monopolizations (Boratav, 2015: 42).

High-level public investment and economic privileges distributed by public offices were legitimized with the lack of private entrepreneur and native private capital. The government actively supported some of the private enterprises, and the public enterprises and public investments were considered as supplementary to the private economy to create an *indigenous bourgeois class* in Turkey (Keyder, 1987: 71-90). Moreover, in 1927, the Law for the Assistance of Industry (this law was also in

practice in Ottoman Empire) was passed that enabled the politicians and bureaucrats to discriminate among the entrepreneurs by arbitrary tax reductions, import exemptions, and subsidies (for a detailed account, see Keyder, 1981). The total investments during the years between 1927 and 1929 were 12 percent of the GDP, and the 9 percent out of 12 was a private investment (Owen, Pamuk, 2002: 32). But, the private entrepreneurs were a small privileged group, and there was not an economic environment where independent individual initiatives had the chance to utilize economic opportunities. Thronburg (1947: 36) summarizes this situation as follows:

What the authors mainly have in mind when they comment on the need for the contribution which private enterprise might make in Turkey is the existing opportunity for creative activity on the part of Turkish citizen regarded as an individual. There has not been much scope for the worker, the peasant, the small trader or possessor of moderate savings to raise his economic effectiveness or improve his status by the application of work, ingenuity or capital to small enterprises under personal control.

It is clear that there were not formal and informal institutions to support free markets and individual economic initiatives in this time period. Besides the lack of an integrated national economy, the low tariff regime could not stop the government to regulate heavily the existing markets and create additional monopolies. Although all these regulations are legitimized by economic constraints of the time, it is clear that economic interventionism had given plenty opportunities to the political decision makers to create economic rents. Examining the financial sector and its relation to the manufactural and agricultural sector shows the role of the political actors to redistribute the economic resources within the Kemalist coalition. The most influential banks of the era were the Agricultural Bank, existed long before the Republic, and the Is Bank, a private bank founded by the members of the RPP including Ataturk himself. The state-owned banks multiplied and diversified after 1934 to govern and coordinate the planned economy. However, to understand the nature of the relations between economic and political institutions, it is important to explain the functions of Is Bank and Ziraat Bank, at least briefly.

The biggest private bank, Is Bank, was founded in 1924 to organize and finance business undertakings by political elites of the time. Mustafa Kemal was holding a considerable amount of Is Bank shares worth to TL 1.500.000 (28% of the total equities) (Tuncay, 2006: 148). The executive board members of the Is Bank were also the deputies of RPP. The first president of the Is Bank, Celal Bayar, also became the minister of the economy in 1932, the prime minister in 1937, and finally the president of the Turkish Republic in 1950. He was also one of the top developers of the planned economy in Turkey. Is Bank functioned for decades as a mediator between the state and the businessman and played a significant financial role to redistribute the scarce financial credits and exclusive enterprise opportunities.

Although the central area of Is Bank was finance, the bank has established many commercial and industrial enterprises with the help of the monopoly power and exclusive rights over many sectors, such as glass, mining, textile and foreign trade (Ozturk, 2008: 255). The basic strategy of the bank was to produce and to sell highly demanded consumption goods with very high prices compare to the foreign prices of the same goods. As early as 1928, Is Bank was holding the % 90 of the total private bank deposits and half of the total national portfolio shares (Ozturk, 2008: 259). Is Bank invested almost half of the total investments made by the national banks (Ozturk, 2008: 259). Long story short, Is Bank started many enterprises in nearly ten different branches of industry until 1930, and multiplied and diversified its enterprises during the planned economy era too. The cooperation between economic state organizations and Is Bank continued to be developed in the planned economy years as well (Kocabasoglu, 2001).

The agricultural production was mostly controlled indirectly through some of the state organizations. The Agricultural Bank was the leading player in the agricultural market and its main purpose was to promote the activities of the agricultural market players. This bank controlled the agricultural loans directly and indirectly through some of the semi-public organizations, such as cooperatives and credit unions. Even though Turkey was an agricultural economy, the agricultural market excluded the 97 percent of the farmers. 97 percent of the farms that had 125 acres or less were only engaging in substance farming that was outside of the agricultural market (Keyder, 1981: 13; Thornburg, 1947: 52).

Because Turkey had plenty of soil with regard to its low-density population, the small farms were not the problem for Turkish farmers. But the main problem was the material insufficiencies that discourage the farmers to produce to the agricultural markets. The inadequate and poorly conditioned roads were making almost impossible to transport the agricultural goods to the markets except for some regions where industrial agriculture was developed beforehand in Ottoman Empire such as the Eagen region (Boratav, 1981; Thornburg, 1947: 52). And the lack of machinery in agricultural production decreased the productivity level immensely. There were only five tractors in Turkey in 1927, and only the 5 percent of the cultivatable area was cultivated during these years (Tokgoz, 2004: 86).

Thus, main users of these farm-related state organizations were big landlords, farmers specialized in industrial agriculture and traders in the agricultural business. These were the small organized groups who could easily exploit opportunities supplied by the farm-related state organizations and exclude newcomers. By 1945, the number of the members of the agricultural credit unions was 225,000 out of the millions of Turkish farmers (Thornburg, 1947: 60). Since the government did not afford the costly agricultural infrastructure investments which would have increased actors in the agricultural market, agricultural traders and big landlords exploited the easy credits and other opportunities.

Conventional Turkish economic history literature asserts that when the end of the law tariff rates agreement accidentally met the start of the Great Depression in 1929, the government had no other choice to raise the tariffs and quotas and began to think about a planned economy dominated by state-owned enterprises (SOEs). Thus, the reasons for the establishment of protectionism and planned economy are related to the failure of the free trade, and the Great Depression (Boratav, 2015). Liberals have also generated a cultural explanation through emphasizing on the statist mentality or statist inclinations of the elites and the bureaucrats as the source of the centrally planned economy (Beris, 2009: 29-55).

For sure there were many economic constraints to explain the economic inefficiencies of the era, but the economic policy and the infrastructure preferences of the government were never so much encouraging for the ordinary citizens to produce for the markets. In this

regard, it can be assumed that there were political reasons of the inclinations towards the development of a centrally planning economy. It is claimed here that economic policies creating economic rents were used as a tool to consolidate the political coalition emerging in the first years of the Republic. Competitive markets need independent organizations (such as companies, unions, and business associations etc.) positioned outside of the direct control of the government. And these autonomous organizations can only live in political systems where the rule of law is enforced for the whole of the society. Therefore, the distribution of the economic resources through the political decisions and the organization to the members of the Kemalist coalition rather than investing in infrastructure to promote the productivity of the ordinary people was the most reasonable choice for the political elites at the time.

#### **4. Strengthening the Basic LAO Through Protectionism and Central Planning, 1930-1946**

Turkish government raised the tariff rates from 13 percent to 46 percent after the restrictive clause of the Lozan Agreement ended in 1929 and started the import-substituting industrialization policies in Turkey (Boratav, 1981, 2015; Owen, Pamuk, 2002). And, with the financial and technical help of Soviet Russia, Turkey tried the economic statism by implementing its first five-year economic planning program in 1934. Even though the economic planning program was far away from being systematic and consistent, the state had a great influence over the economy because of the nationalization of the heavy industry and mining sector.

The protectionism and the planned economy preferences of the government are mostly explained by the economic constraints and the desire for a fast industrialization. The free trade era (1923-1929) created great trade deficits that deteriorated the monetary stability, and the domination of the foreign investors in the economy could not be ended. And, the financial incentives and the economic privileges provided by the governmental agencies could not start the fast industrialization process that the political elites desired most. The decrease in income collected from the agricultural products during the Great Depression in 1929 exposed the

uncontrollable structure of the economic growth depended on the foreign trade. Therefore, all these factors are shown as the reasons for RPP to start protectionism and planned economy program for achieving fast industrialization (Boratav, 1981: 170-175).

However, these pure economic reasons for the policy change are incomplete for not relating the political actors' economic motivations to the institutionalization level of the political system. Considering the fact that high trade tariff rates started to plan in 1925, the only reason for the protectionist policies could not be the Great Depression and the trade deficits (Boratav, 1981: 170). The most dangerous aspect of the free trade regime for the fragile political regimes is that free trade greatly decreases the control of the political actors over the economic resources. Even though economic productivity is low in a closed economy, it is easier for the political elites to determine the economic targets and direct the economic actors according to the governmental plans. Moreover, the scarcity created in a closed economy provides many opportunities to form economic rents, and it is easy for the political decision makers to determine who will be the beneficiary of these economic rents.

As a matter of fact, the high scale of economic rents created by economic interventionism mostly depended on selling many consumption goods with higher prices than the overseas prices of the same goods. Sumerbank, a huge state-owned monopolist in manufacture industry established in 1933, was an interesting case concerning exploiting economic rents through higher prices. Private mills were selling one yard of cotton fabric at 20 cents to Sumerbank, and the Sumerbank was selling it to the public at 40 cents a yard. The exported cotton fabric was 25 cent a yard but public did not have the opportunity to buy the exported goods. Furthermore, the activities of the Sumerbank, the sole buyer of the cotton fabrics, was making it very difficult to open new private mills. Because the new technical equipment was very expensive and the future of the sector was unpredictable, there were not much private investment to the new mills (Thronburg, 1947: 116).

Another good example was that General Administration of State Monopolies. Under the management of this monopoly administration

many consumption goods –such as tobacco, alcohol, coffee, tea, sugar, clothes, gunpowder– were both produced and sold on a very large scale. If the prices of those goods would have been cheaper than the exported goods, then one could have claimed that it was populist economic policy. But the prices were mostly higher than the exported goods, and the government was using these monopolies to raise revenues mostly to transfer resources to the ineffective industrialization projects. State-owned monopolies limited to open small-scale private enterprises, and big private investments were totally depended on governmental permission and financial support. With the protectionist policies, importation of goods was also given as a concession to the some of the big traders and industrialists (Keyder, 1987: 142). After the nationalization of the transportation and the mining companies owned by foreigners in the 1930s, Kemalist coalition got the control of all the important economic resources in Turkey.

Although the public investments surpassed the private investments in this era, it was not an essential threat to some of the privileged private enterprises. The public investments were heavily directed to the railway construction and the heavy industries which were producing intermediate goods for private and state-owned manufactories. Therefore, economic planning was also supported the growth of some of the private industries. However, this private sector growth was developed in the direction showed by the political actors, and the beneficiaries of this system were also determined by the political decision-makers.

Examining the interrelations among the member groups of the Kemalist coalition would better clarify the consequences of the planned economy. As the planned economy with SOEs expanded, the political influence and the wealth of bureaucrats/politicians and their industrial “entrepreneur” friends increased very fast. 74 percent of the founders of the new private enterprises had worked as a civil servant before they decided to change their occupation between the years from 1931 to 1940 (Bugra, 1994: 58). SOEs were producing raw materials and intermediate items as inputs for the privileged private companies, and those private companies were producing consumption goods in mostly monopolized markets. Export-oriented traders, both Turkish citizens and foreigners,

were relatively a small group in the coalition, and their business totally depended on their relations with the “state”. The source of wealth of one of the largest conglomerates of the Turkey today, such as Koc, Sabanci, and Cukurova, can be traced back to the governmental tenders in the 1930s (Ozturk, 2008). The so-called indigenous bourgeoisies of the era were a small minority who ‘enjoyed tariff protection and oligopolies markets, cheap inputs from state-owned enterprises, government contracts, and preferential credit’ (Waterbury 1993: 214). Finally, the big farmers/landlords, only the one percent of the whole peasants, have economic power and traditional influence over their local people and have political power through Assembly and local state agencies. This somewhat small but relatively wealthy group did not have many options rather stay in Kemalist coalition in return for mostly the concessions for agricultural product trade, tax reductions, and easy bank credits.

In the light of these explanations, it is clear that there was no political and economic organization orbited outside of the Kemalist coalition from 1930 to end of WWII. Even though Ataturk ordered his loyal friend Ali Fethi to establish another political party –Free Republican Party– as an opposition group to change the appearance of the mono-party regime in 1930, RPP had to close down the Party very fast, because of the fragility of the political stability. But with the total control over the economic resources, RPP developed much more stable and well-ordered political system until the beginning of the WWII. This era can easily be named as basic LAO from the perspective of NWW. However, with the huge difficulties created by the WWII, the political stability was threatened by the economic inefficiencies that were a result of cumulative effects of protectionism and economic planning. Therefore, it is important to examine the establishment of DP in 1946 and political conflicts experienced after the WWII through relating the problems of economic inefficiencies to the properties of the political institutions of the era.

### **5. The Crisis of the Basic LAO: Second World War and the Need for Economic Liberalization, 1946-1950**

The planned economy in Turkey was basically a rent creating a mechanism that served various and sometimes conflicting goals of the different players

in the state sector, such as bureaucrats, managers of the SOEs, politicians, and the businessmen. Every player acted rationally within the choice structure that was open to them, but the consequences seemed irrational in regard to the declared aims of the planned economy. Even though economic rents created a more or less stable political system, it was also a deadweight loss for the whole society, especially for the poor peasants. Turkey's average growth rate of 9.1% from 1933 to 1939, but Turkey was away from sustaining the basic needs of her citizens (for a detailed account see, Tezel, 2015: 600-603). Mismanagement of SOEs, high prices of consumption goods in the closed economy, crowding out effects of the state monopolies, political corruption, greatly insufficient infrastructure investments, and deteriorated price mechanism were just some of the reasons for the failure of the planned economy in Turkey (Waterbury, 1993: 107-134).

Turkey managed to stay out of the war but the conditions created by the WWII were enough to shake the dominant coalition to reform the political system in order to improve the economic efficiency. With the start of the war, the export revenues fell considerably, and the Turkish Armed Forces drafted half of the men who were working as farmer before the war. And some of the men forced to work for the SOEs and to do public work. While the poverty was increasing so fast in the rural areas, hoarding and black-marketing were enlarging with the growth of scarcity in the cities. Most of the businessmen who had access to the agricultural products and scarce exported goods made a huge amount of money incorporation with the many high-level civil servants, such as city governors (Zurcher, 2004: 199-200).

The government started to confiscate the businesses, fixed the prices of many goods and introduce ration card for basic consumption goods. Apparently, the government could not handle with the black-marketing and hoarding, even though the government equipped with the brutal laws like Martial Law. A hate speech against businessmen, especially the non-Muslim businessmen, promoted by the government, and eventually, the infamous Wealth Levy declared to collect money from the rich businessmen over their total wealth from 1942 to 1944. Non-

muslims forced to pay half of their total wealth while Muslims paid 12.5 percent of their total wealth (Cetinoglu, 2012). Because the Wealth Levy Law required the payment in two weeks, most of the non-muslims sold their wealth to Muslims under the market prices. Taxpayers who could not pay were sent to the labor camps while Is Bank was providing easy loans to powerful Muslim businessmen to pay their due, and even, to exploit the new opportunities created by the WL (Ozturk, 2008: 149).

Although Muslim businessmen with good political connections exploited the opportunities of the wartime to a great extent, the actions of the government became increasingly unpredictable and the revenues of the economic rents were decreasing with the economy in recession. The relation between the authoritarian bureaucrats and politicians of RPP and the businessmen and landlords were tense. But the agreement among the dominant coalition was jeopardized when the government offered a law to distribute the land to the landless peasants in 1945. Although Turkey had plenty of unused lands owned by the state, the law also offered to distribute the private lands bigger than 1235 acres (Karpas, 1959: 117-118). This was an open declaration of war of the government against landlords. And the law also made many businessmen uncomfortable because the “hatred speech” seemed like extended to the wealthy Muslims too. Organized violence and confiscation were the two tools of the state to cope with economic crisis and the social unrest. But when these tools started to threaten the two powerful elite groups, they triggered a great political opposition movement in the Assembly, which was immediately and easily integrated with the various opposition groups outside of the Assembly (Karpas, 1959: 124).

NWW implies that economic liberalization stemmed from the domestic power relations as a requirement for the sustainability of the dominant coalition. The political system was deprived of the minimum economic efficiency to be able to sustain itself at the end of the WWII. First, despite the prevalent coercive power of the state, the government had great difficulties to control the social unrest both in cities and in counties. This increased the possibility of the rise of organized violence that would be out of control of the government all over Turkey. Second, economic recession decreased the revenues of economic rents and the private capital

owners started to look at new investment opportunities that were generally sized by the SOEs or in control of the state organizations. To avoid a violent struggle in the dominant coalition, new markets should have opened to the elites. But the government during the WWII increased its economic interventionism in scale and threatened the property rights of the elite groups. Under these circumstances, a limited economic and political liberalization was in favor of the dominant coalition, even for the bureaucrats. Furthermore, the military bureaucracy, especially the young officers, was also strongly supporting this kind of liberalization. Because, becoming a part of the NATO meant the modernization of the Turkish Armed Forces and more budgetary funds for the military-national security spending (for a detailed account, see Hale, 1994).

## **6. The Fake Hope of a Mature LAO, 1950-1960**

The opposition against RPP among the ordinary people raised dramatically, and the distrust of the landlords and the big industrialist against RPP was grown during the WWII. Under these domestic circumstances, when the US supports for the transition of Turkey into a democratic regime coincided with the Soviet Russia's threat over Turkey, the proper political conditions for the establishment of an opposition party was emerged (Karpas, 1959; Ahmad, 1977; Vanderlippe, 2005). Democrat Party (DP) was founded by the pro-business economy supporter Celal Bayar and the landlord Adnan Menderes right after the WWII. DP that attracted great public support right after its establishment took over the political power through the winning the first fair elections in 1950. DP, that had a comparatively successful first term (1951-1954) regarding the economic and political liberalization, was dragged into economic and political crisis in its second term (1954-1957). And finally, DP was overthrown by a military coup in 1960, and the prime minister Menderes was hanged with a charge of political corruption.

It is an interesting and important political experience that a mono-party regime in the Middle East peacefully accepted the democratic elections. However, examining the composition of the members of the DP makes it easier to understand this democratic transition. The founders and the important members of DP were ex-members of RPP. Thus, interpreting

DP as a new elite coalition is misleading, but explaining DP as a change in the leadership of the dominant coalition is closer to the reality. Furthermore, the democratic system did not allow a third party to flourish. In this regard, it was a limited democratic race.

It is also possible to examine the reasons this important but failed democratic experience from the perspective of NWW. According to the NWW, democracy was mostly an unintended consequence of the doorstep conditions in a mature LAO. Democracy persists when rejecting the demands of the rights of the ordinary people can be more costly than accepting them for the dominant coalition (North etc., 2009: 25-27). However, Turkey was far away from the conditions of the mature LAO at the end of the 1940s. Kemalist coalition could not adequately establish the rule of law for the group members; both state and the private organizations were being run through personal ties and relations; charismatic war leaders who turned into politicians after the LWT were facilitating the relations between 'civil' government with the armed forces.

The political promises of DP and the institutional capacity of the state were totally in contradiction with each other. DP declared to promote entrepreneurship through privatizing the SOEs; to decrease the tariffs and quotas to establish free foreign trade; to invite the foreign investment in Turkey to increase industrial development (Dogan, 1957). DP also promised to improve the public goods and services that people in the rural areas could benefit more. Furthermore, DP declared that the Party was respectful towards religious beliefs which were under heavy pressure because of the secularization programs of RPP. All these claims require a mature LAO. As discussed earlier, becoming a mature LAO means that the private organizations (such as economic, political and religious) can place outside the orbit of the government. Thus the general public can enjoy most of the public goods and services, and the government (executive, legislative and judiciary) must be sophisticated and autonomous enough to keep its commitments concerning the rights of these organizations outside of the dominant coalition (North etc., 2009: 21; North etc., 2012: 14).

It is not difficult to understand the lack of such incentives to form a mature LAO among the elites, especially elites of DP. The Turkish economy was a massive rent creation mechanism dominated by the SOEs and monopolized markets. Moreover, the reformers of DP were still

among the beneficiaries of that system. The most important difference that mattered concerning the economic policy between DP and RPP was that DP became the platform to recruit new elites to the dominant coalition with the acceptance of the election system. However, the claim to institutionalize a national free market economy and the political freedom implied that they had to give up many of their vested interests. Of course, these implications were totally a contradiction with the aims of the elites of DP. Although DP mostly stopped to invest in SOEs to improve the infrastructure and facilitate the development of a national economy, DP did not achieve to build a competitive market economy (Erdem etc., 2009: 9-26). As NWW predicts, however, some of the public services, such as healthcare, improved rapidly. The statistics show that the extent of the public services increased substantially in compare to the mono-party regime (Turkish Statistical Institute, 2007).

Although the DP area is seen as the beginning of economic liberalization, the difference between DP and RPP in regard to their relative economic policy was a matter of degree, not of kind. DP governments were clearly pro-business, but not pro-free market for the most of the time. Despite a limited economic openness, DP also continued to employ the import-substituting industries as its primary strategy in economic policy. However, this time, private entrepreneurs played a greater role in compare to RPP era. With the decrease in the scale of economic rents, the number of the businesses raised 47 percent, and the private sector grew its production 340 percent while the increase in public sector stayed 130 percent in the first four years of DP era. Employment volume also increased 33 percent, mostly due to the growth in private business (Erdem etc., 2009: 13). A considerable number of Turkish holdings established during these years. Therefore, the scale of the economic rents reduced to a level where the main rent creating mechanism was not got hurt, but the number of the economic rent users increased immensely.

The fast increase in economic rent users created two main problems, one for DP and the other for RPP. Although DP achieved high growth rates in the first years of its rule, this economic boom was mostly a product of monetary expansion that was not constrained by market discipline, and the post-war foreign trade boom. And, because of the high

scale of rent creation and deteriorated market signaling, the growth was so fragile. For example, when Turkey had a bad agricultural product because of the weather conditions, an economic crisis raised immediately because of the trade balance deficit and the scarcity in the country in 1953. The foreign currency scarcity as a consequence of the fixed currency regime and subsidized exportation were also good examples of fragilities of the economy during DP governments (Owen&Pamuk: 146-147). DP even started to fix prices and ration coupons to deal with the scarcity and hoarding after 1953.

RPP and opposing media increasingly criticized the government for its economic failures, especially after 1953 when the first economic bust occurred. Because DP did not have the power to reduce the economic rents, the best response to the opposition groups was use coercive power to silence them (Ahmad, 1993: 117). DP even confiscated some of the properties of RPP and tried to restrict the freedom of association as much as possible. Therefore, after three years of the peaceful transition to “democracy”, DP started to use similar coercive power used by RPP against opposition groups. Therefore, DP’s economic policy was so influential on its other policies concerning civil liberties and its political attitudes.

With the increasingly deteriorating economic conditions, DP started to lose not only the old big business groups but also the educated people and the bureaucrats in the cities. However, the fatal group that stopped to support DP was the middle-rank military officers (MROs), mostly composed of colonels and the captains in Turkish Armed Forces. There was a conflict between the middle-rank officers who were the product of the modern military education and the old school generals of Turkish Armed Forces (William 1994, 100-4). While generals of Turkish Armed Forces had several economic and political privileges granted by DP, the social status of MROs was declining in compare to the new merchant class of DP because of the rising inflation rates. Besides that, MROs saw the old generals as an obstacle in front of the modernization of Turkish Armed Forces and their promotion. After joining the NATO, these MROs had many opportunities to notice the weakness and backwardness of TAF more clearly. Moreover, eventually, the military coup was organized by these MROs (Bayramoglu, 2004: 74-77; Akca, 2004).

When DP and its defenders increasingly lost the support of the other elite groups in the dominant coalition, DP frequently used arbitrary, coercive power against all kind of oppositions, with the fear of a coup against the government. Turkish Armed Forces, however, was holding the ultimate violence capacity, not the government. On 27 May 1960, Turkish Armed Forces declared that they overthrew the *authoritarian* government to restore the *democratic* rule and to secure the *rights* of the people. Therefore, unfortunately, the peaceful transition to democratic rule in Turkey ceased with military intervention. For sure, the literature on the reasons for this military coup is very advanced (Karpaz, 1954, 2004; Ozbudun&Faruk, 2009) but, it is fair to claim that the economic inefficiencies created by the high-level economic rents had great influence over the democratic institutionalization problems of the DP era.

### **Conclusion**

The economic policies of a state are never determined only with regard to its economic constraints. The properties of the political institutions provide serious limitations over the kind of economic policies that can be applied. The stable economic growth is only possible if the state can incorporate a large number of individuals and groups in production processes to utilize their productive capacity. This kind of economic growth is strictly related to the recognition and the protection the rights, especially the economic freedoms of the people, by the state. It is not possible for a state to institutionalize a competitive market economy without having an independent judiciary and neutral bureaucratic organizations. For sure, political ideologies and cultural practices have a large influence over politics and economics. However, these factors do not change the fact that political actors also motivated by their economic interests.

Besides the ideological and cultural explanations, one can assert that the economic policies were the result of the requirements needed to support the political unity and political development rather than the economic constraints, from the first years of the Republic to the first military coup in 1960. While Kemalist coalition was struggling for the political power, they were also trying to increase their control over the economic resources. Although Kemalist coalition was organized enough to keep resources under control during the economic planning years, they could not have sufficiently improved the capacity of the political

organizations to cope with the economic inefficiencies caused by the high scale of economic rents.

RPP could not have unified Turkey which was fragmented into regions that were almost without any economic connections around a national economy from 1923 to the beginning of WWII. Because high scale of economic rents decreased the investment in infrastructure to unify Turkey as a national economy, ordinary citizens did not have the opportunity and the motivation to contribute to the economic productivity as an economic actor through market relations. Due to the economic policies that excluded a large number of people for a considerably long time, economic relations were developed through personal relations rather than legal rights and formal rules. The extreme difficulties created by the WWII changed the agreements among the elite groups in the Kemalist coalition, and Turkey transformed into democracy without the development of political and economic relations that a democratic regime based on.

For sure, the democratic election system is not a panacea that solves every political problem. Political freedom can destabilize the economy where the fundamental economic decisions are made by politicians and interest groups. The declared comprehensive economic liberalization program of the DP was not flourished because leaders of DP were among the beneficiaries of the economic rents that they were supposed to destroy, and the political relations were not designed to sustain impersonal economic relations in a market economy. If the economic growth and the resource allocation and distribution were satisfactory enough for the elite groups in the dominant coalition during the DP rule, the number of the groups that supported the military coup in 1960 would be decreased notably. To put it another way, if DP had achieved a sustainable economic growth and political development through decreasing the scale of economic rents and improving the rule of law, more elite groups would have supported their rule.

Today, the rent-seeking activities are still playing a great role in Turkish democracy that slow down the development of the conditions of a mature LAO. As a matter of fact, the political conflicts experienced during the DP era and the economic and the political institutions of the early Republic that set the stage for these conflicts are still effective over the political system of Turkey.

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