Militarization of the Market and Rent-Seeking Coalitions in Turkey

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ABSTRACT

This article analyses the role of historically-determined institutional and political characteristics in determining both the nature of the adjustment process, and its economic and political outcomes, in Turkey. In particular, the author explores the degree to which the formation of rent-seeking coalitions has contributed to the failure of neo-liberal economic reforms in the country. The analysis suggests that the Turkish experience since the early 1980s offers a unique case for studying the relationships between the state bureaucracy, the military, the business sector, civil society, and international economic actors. Unlike previous research in this area, this article focuses especially on the role of the military as an interest group in the process of economic liberalization in Turkey.

INTRODUCTION

The impact of domestic and external economic liberalization and deregulation has been a highly-debated yet unresolved issue in the field of economic analysis especially over the last two decades. Proponents of economic liberalization advocate the self-regulating capacity of markets, which is expected to generate the most efficient allocation of capital and resources on a global scale. In addition to economic outcomes, the liberalization of markets is also expected to ‘trickle-down’ the democratization and liberalization of political life in developing countries (Kleinberg and Bensabat, 2000; Sachs et al., 1997). In semi-industrial countries, the economic programmes which accompany this faith in market liberalization are built upon a common theoretical framework and embody a number of standard policy instruments (Bird, 1998; Calvo et al., 1996; Rodrik, 1996). However, the experiences of developing countries in the 1980s and 1990s demonstrate that
the transition from a centralized, and in most cases authoritarian, state structure to a liberal one is not a linear progression: the countries that have gone through such liberalization processes have done so with widely differing degrees of success.

The divergences in terms of economic outcomes have been thoroughly discussed in the literature,¹ but the same cannot be said of political outcomes. Contrary to expectations, economic liberalization and deregulation of markets did not go hand in hand with political liberalization and consolidation of democracy in many countries. In Turkey, for example, the new economic paradigm has been accompanied by increasing authoritarianism, and an escalation in social conflicts, and ethnic, religious and ideological divisions.

This article will attempt to offer an explanation for this outcome by providing a detailed analysis of some of the economic and political faultlines in Turkey, which prevented or at best delayed the reforms from reversing the highly authoritarian and centralized state structure in the country. It will also examine some of the inherent limitations and deficiencies in the design and implementation of the reform programmes themselves, which slowed the consolidation of democracy, with detrimental effects on business confidence and systemic risk determinants.

Current research primarily focuses on the proposition that historically-determined institutional characteristics and the political environment of a country are of crucial importance in determining both the nature of the adjustment process and subsequent economic performance. This article will argue that the key elements determining the path of post-1980 neoliberal policies in Turkey included the organization of the state structure, the rent distribution among key actors, and the accompanying institutional framework. In particular, it explores the degree to which the formation of rent-seeking coalitions has contributed to the failure of neo-liberal economic reforms in the country. The Turkish experience since the early 1980s offers a unique case study for examining the relationships between different elements, including the state bureaucracy, the military, the business sector, civil society and international economic actors.² Analysing these structural conditions and (in some cases) bottlenecks will, it is hoped, help us to understand why developing countries produce such radically different responses and outcomes to the ongoing economic liberalization programmes around the world.

The main point of departure from previous research in this area is to explore and analyse the role of the military as an interest group in the

¹ There is a large literature on this, but see, for example, Eatwell and Taylor (2002); Fanelli and Medhora (1998); Griffith-Jones et al. (2001); Stiglitz (2000); Taylor (1999, 2001).
² For an in-depth analysis of the relationship between politics and the economic liberalization package of the 1980s, see Boratav (1993); Cizre-Sakallıoğlu and Yeldan (2000); Öniş (1998).
process of economic liberalization in Turkey. Surprisingly, despite the existence of a vast literature on the role of the military in Turkish politics, academic research on its role in the civilian economy remains quite limited. This article, therefore, hopes to fill an important gap in the literature by providing theoretical and empirical evidence on the role of Turkish military as a business actor in the formation of rent-seeking coalitions during and after the economic liberalization programmes of the last two decades.

The following section provides a brief overview of the Turkish free market experiment and the main economic and political fault-lines that accompanied it. The article then goes on to analyse the socio-political impacts of these reforms on different segments of Turkish society. It focuses especially on the development of a military–business alliance before and after the reform programmes of the 1980s, and the mechanisms through which the military managed to sidetrack the impacts of neoliberal reforms on its business establishments.

THE LIBERALIZATION EXPERIENCE OF TURKEY IN THE 1980s: UNFINISHED BUSINESS

From the late 1950s to the late 1970s, the Turkish economy was characterized by an Import Substituting Industrialization (ISI) regime, the main features of which (as in other countries) included strict quantitative controls on international trade, overvalued exchange rates, and severe rationing in foreign exchange and credit markets. During ISI, the accumulation process was highly dependent on policy and politics rather than on markets. Entrepreneurs relied on the state bureaucracy, and on the subsidies which it provided, rather than exploiting the opportunities created by the market itself. The political and economic environment thus created opportunities for wide-ranging rent-seeking behaviour within the business community, as businesses competed for the special set of incentives — in the form of cheap credit availability, cheap foreign exchange, permission to import certain intermediate and final goods, etc. — provided by the state (Balkan and Yeldan, 1998; Boratav, 1993; Öniş, 1992). The pre-liberalization, ISI era thus inevitably gave rise to a narrow distributional coalition between the state bureaucracy and the business community.3

Following a major balance of payments crisis in the late 1970s, and under the direction of the international financial community, Turkey embarked on a profound reorganization of state structures related to economic affairs. The new economic and political paradigm had two main aims: to reduce the

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3. The development paths of a narrow distributional coalition between the state bureaucracy and business community have been analysed by several scholars; see, for example, Boratav (1993); Buğra (1994, 1997); Celesun (1989); Keyder (1987); Öniş (1992).
size of public sector involvement in the economy and minimize the degree of intervention in the organization of market activities; and to stimulate democratization and liberalization of political life in the highly suppressed public sphere of the country.

As in some other developing countries, such as Chile and Argentina, this structural shift from an ISI regime to an outward-oriented free market model was accomplished under military rule, which officially lasted from September 1980 to late 1983, but which effectively continued until the first (post-coup) free elections in 1987. It remains one of the paradoxes of the Turkish liberalization experience that although the new economic paradigm was based on the assumption of rationality of households (and therefore of people) and firms, the political environment was characterized by an assumption of irrationality or inability of people to determine their own fates under free elections with democratic institutions. To suppress any public opposition to structural adjustment programmes, and hence to the new economic paradigm, the military government imposed strict restrictions between 1980 and 1983 on trade union rights and the bargaining power of labour. Even after the re-transition to democracy in November 1983, restrictions on labour continued together with the ban on political parties (and their leaders) which was established before the 1980 coup. The repression of real wages and the subsequent decline in the purchasing power of labourers and civil servants were among the features accompanying the new system. Although multi-party democracy returned with the elections of 1987, the political background of the policy shift — that is, its implementation under military rule — led to a strong commitment among policy-makers to the non-reversibility of the reform programme.4

So far, Turkey’s market-led, outward-oriented growth path has not produced the positive results that had been anticipated. There is disagreement among economists familiar with the Turkish experience about the underlying reasons for this. This article follows the line that developing countries share common structural problems in their institutional settings and that policies that are designed to liberalize their economy (and political/civil life) may also produce ‘frictions, inequalities, uncertainties, discontinuities and an unbalanced-distorted economic structure at the outset’ (Cizre-Sakallıoğlu and Yeldan, 2000: 482). For a country like Turkey, with its strong state hegemony in the form of military, legislative and economic institutions, the lack of democratic accountability and lack of transparency

4. For discussion on this point, see Cizre-Sakallıoğlu and Yeldan (2000: 494–7); Önis and Webb (1994). This can also be interpreted as a sign of the continuing importance of the military in Turkish politics. Despite recent developments in the Turkish bid for EU membership, and the resultant legislative and constitutional changes in the context of human rights and the role of the military in Turkish politics, the constitution which was written by the military government in 1982 is still in force.
in economic and political affairs during the reform programmes have added further to the already large democratic deficit.

In terms of the economy, evidence on the external financial liberalization and investment/growth relationship suggests that uncontrolled financial liberalization in Turkey did not provide a stable environment for long-term real investment projects (Demir, 2004b). Even after more than a decade of financial liberalization, the problems of strict credit rationing with insufficient funds for financing long-term investment projects, and large spreads in borrowing and lending rates, have not yet disappeared (Economist Intelligence Unit, 2003; Sancak, 2002). Furthermore, money markets continue to operate mostly with short-term government securities, while capital markets in private securities remain underdeveloped. As of 2001, around 90 per cent of secondary market transactions were of government securities. Real interest rates jumped up to three digit levels in the course of the 1990s, while domestic asset markets became increasingly volatile and unstable as a result of sudden changes in speculative capital flows. The weak and fragile nature of the Turkish economy eventually contributed to three serious crises in 1994, 1998–99, and 2000–01, each of which was followed by a complete collapse of the economy which could be (partially) stabilized only after IMF interventions and the accompanying ‘rescue packages’.

The collapse of public disposable income in this period inevitably led to public sector over-borrowing. The state became a powerless actor in a vicious cycle generated by the widening public debt and the continuous need for its rollover. Interest payments on public debt (mostly with short-term maturities) could only be financed through new borrowing, once again from short-term sources. The continuous flow of short-term funds, on the other hand, could only be secured by offering higher and higher interest rates, placing an ever-increasing burden on the budget. The share of total public sector borrowing requirement (PSBR) rose from around 4 per cent in 1981 to 16.4 per cent in 2001, while the share of interest payments in the consolidated budget increased from 1 per cent to 23 per cent of GNP in the same period (Central Bank of Republic of Turkey). During this time, the banking sector and other financial institutions became the leading forces behind the capital which manipulated the economy (Akyuz and Boratav, 2002; Boratav and Yeldan, 2002; Demir, 2004a).

There have been several attempts to cover the growing interest burden in the consolidated budget, including: (a) investment cuts, with detrimental effects on future growth rates; (b) reductions in current expenditures (mostly consisting of personnel costs); (c) privatization of state enterprises and layoffs or forced retirement of public sector workers; and (d) cuts in social spending (expenditure on health and education, for instance, has been reduced dramatically). The share of current expenditures in the consolidated budget decreased from around 52 per cent in 1975 to 25 per cent in 2001, while the share of public sector investment expenditures dropped from 20
per cent to 5 per cent for the same period. As a result of this vicious debt-cycle, current revenues are no longer sufficient to pay the interest obligations of the treasury. To service public debt in 2001, the central government had to channel 103 per cent of its tax revenues (about 52 per cent of its total expenditures) to interest payments. In other words, tax revenues are no longer sufficient even to cover interest payments (Central Bank of Republic of Turkey).

Short-term measures — the result of myopia on the part of the politicians, and the nature of IMF programmes that prioritize short-term solvency above long-term development perspectives — have had negative repercussions on the social fabric of the country and resulted in a sharpening of social divisions. Certain endemic aspects of the reform programmes, especially, have contributed to increasing authoritarianism and the consequent democracy gap in Turkey. The first is the top-down nature of programme implementation, which has been a feature of the reforms in Turkey as in many other countries. Another major feature of the new system is what is known as the technocratization of economic life — the increasing number and power of autonomous institutional units which control economic decision-making in the public sphere. As a result, more and more of the responsibilities of the democratically-elected governments have been transferred to these untransparent units, with no consideration for the long-term socio-political effects of this shift. In spite of the initial objective of eliminating corruption and populist decision-making, this technocratization has fed into the existing epidemic of non-transparency and non-accountability in the Turkish public sphere. Another aspect has been the collapse of public sector finance which accompanied — and in some cases preceded — the downsizing of public sector activities in the market. The lack of any form of social safety net has left large sections of the population without any means to provide for their own basic needs and has further increased social tensions and instability. Despite the urgent need for additional and sustainable funds for public finance (as opposed to continuously rolling-over the public debt by new borrowings), policy-makers have been unwilling or unable to implement an efficient and fair tax scheme, thus contributing further to the macroeconomic disequilibrium of public finances and worsening existing social inequalities (Boratav and Yeldan, 2002; OECD, 2001: 17; Rodrik, 1990; Yeldan, 2001: 121–5).

At the same time, widening fiscal deficits have resulted in privatization programmes being perceived as a way of fund-raising for the central budget, rather than as targets for efficiency gains. Corruption scandals, combined

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5. Turkey’s tax system has been characterized by two major problems: (a) the inability to tax effectively, which results in inadequate overall tax revenues; and (b) the highly unequal distribution of the tax burden, with low-income groups bearing a disproportionate share. Another striking feature of the post-1980s post-liberalization era has been the relative — and even absolute — decline in the burden of taxation on capital (Yeldan, 2001: 122).
with high levels of worker layoffs in the aftermath of each privatization, further undermined popular support for the reform programmes. Contrasting lifestyles and increasing polarization of the poor have brought about the danger of large-scale social upheavals, perhaps for the first time in the Republic’s history. Socio-political uncertainty and instability have become endemic and endogenously related with the neoliberal reform programmes in Turkey, which may help explain why international investors remain cautious about the long-term political outlook of the country.

The recent Turkish experience may have important policy implications for other developing countries going through similar forms of transformation in their economic and political structures. In contrast to the generally accepted view that links the free market with a free political system, the Turkish experience suggests that economic liberalization programmes are not a magical formula for eliminating existing structural problems (for a similar view, see Nayyar, 2003). Rather, these ambitious liberalization programmes may themselves create further obstacles for the long-term development prospects of developing countries, and may also become entangled with domestic policy failures and clientalistic business-state rent-seeking coalitions.

In many transition economies, societies are simultaneously going through two massive transformation processes — the political shift from authoritarianism to democracy and the economic shift from central planning to market economy (Nissinen, 1999). For countries that are trying to implement a political transition from a top-down, autocratic state structure towards a democratic, individually-oriented system, the way in which reforms are implemented becomes crucially important for building accountability into democratic institutions and for the sustainability of the reforms themselves. The technocratic style of imposing austerity measures, and the formation of democratically-unaccountable autonomous economic decision-making units, lead to the erosion of already fragile confidence in democratic institutions in such countries, and prevent development of a strong civil society (Nonneman, 1996). A paradox arises: while the new economic programmes are based on the assumption that households and firms behave and make decisions rationally, the institutions created for economic decision-making, as well as the military–bureaucracy alliance, seem to assume that citizens cannot be trusted to decide their own fates through democratically-elected bodies. Hence, in spite of justified arguments about the problem of moral hazard, increasing the autonomy of state institutions in charge of decision-making undermines the democratic accountability of these institutions and makes them irresponsible to the

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6. The 2001 Argentine crisis and subsequent socio-political collapse led to widespread speculation about the situation in Turkey. Many analysts warned of the danger of similar social unrest and upheavals in Turkey (see, for example, Turkish Daily News, 2001a).
effects of economic policies on society, which in turn weakens the public trust in democratic institutions.

THE WINNERS AND LOSERS OF THE TURKISH EXPERIENCE

In Turkey, the ambitious programme of deregulating financial markets, liberalizing commodity markets and integrating with global capital markets was expected to bring about fiscal and monetary stability, enhance business confidence to invest in productive sectors, stimulate stable growth and reduce the inflation rate while preventing rent-seeking behaviour in both public and private spheres. Contrary to these expectations, however, the new hegemony of capital markets has gone hand in hand with deteriorating macroeconomic performance, a growing public deficit, increased corruption and rent-seeking behaviour, further isolation of the state bureaucracy from society, and increasing authoritarianism and crony capitalism.  

The economic collapse has poked more holes in the social fabric of the country. Diminishing real wages, expansion of the informal economy, and social conflicts have increased the existing income gap among different income groups and different regions (Sonmez, 1998, 2001). The worsening economic performance has radicalized the divide between urban and rural, secular and Islamist, and Turkish and Kurdish identity groups, and these politicized fault-lines have, in turn, been used to justify the expanding role of the military while at the same time causing serious concerns among political and military leaders. As a result, while popular confidence in the parliament, political parties, and business groups has diminished, confidence in the military has increased — with negative effects on the democratization prospects of the country. The role played by democratically-elected civilians in the determination of the country’s social and economic policies has become

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7. According to Transparency International’s Corruption Perception Index, the level of corruption in Turkey has got worse over the course of last decade. In the Index, a lower score represents higher levels of corruption: Turkey’s score was 4.1 in 1995, but had fallen to 3.2 by 2004, lower than Colombia, Poland or Syria (see http://www.transparency.org).  
8. For an analysis of the relationship between identity politics and recent socio-economic developments in Turkey, see Ayata (1997).  
9. In 2001, for instance, Turkey’s President Sezer vetoed proposed legislation to reduce subsidies for tobacco farmers, to avoid deepening the crisis being suffered by agricultural workers. On the other hand, the military-dominated National Security Council (MGK) — which was established after the 1980 military coup and which prioritized threats to national security above all other issues — discussed the potential for social uprisings and public unrest in its closed meeting (Radikal, 2001a).  
10. According to the findings of a recent survey by the Turkish Industrialists’ and Businessmen’s Association (TUSIAD, 2002), levels of trust among people for public institutions are highest for the police force, surpassing those for universities, courts or social security institutions. Regarding public trust in the military, also see Narlı (2003).
relatively minor, despite recent developments in the country’s EU membership ambitions. The inability of civilians to control the state apparatus reflects the inability of society to control and adjust the economic programme for its own needs and demands.

A side-effect of the ongoing economic crises in the country has been to further insulate the state from social pressures. The isolation of the political and military classes from the rest of society has strengthened the resistance of these groups to any criticism about their conduct,¹¹ and has added to the fragmentation among different groups in the society.

Attempts to downsize the public sector and reduce state control and regulation in the economy have yielded some anticipated, and some unexpected, results in terms of the relationships amongst the state, the military, business interests, and society. As Nayyar (2003: 96) argues, ‘Democracy and markets are both institutions. The outcome depends on how they are used’. Large groups of people, at individual and regional levels, have been excluded from the decision-making process in these reforms, even though they have to bear the costs. Exclusion was (and is) not at a temporary transition phase but a permanent one, secured by increasing the autonomy of economic institutions. It is not elected officials but a group of technocrats who control economic decision-making. These inherent contradictions within the reform programmes have limited the growth of a civil society which was supposed to develop along with the liberal economic paradigm.

Thus, the neoliberal reform packages of the 1980s have not had the anticipated results. Instead, the increasing power of financial capital in domestic policy formation, through the internationalization of domestic markets, has been accompanied by increasing public debt, deteriorating income distribution, rising systemic socio-political risk (for investment) and the deconsolidation of democracy. The country has witnessed suppression of democratic rights, the division and polarization of society along political, religious and ideological lines, an increase in religion-based fundamentalist and ultra-nationalist parties and civil organizations, and the untransparent functioning of the state apparatus together, as well as the destructive effects of uncontrolled trade and financial liberalization programmes.

MILITARIZATION OF THE MARKET

Against this background, the role of the military as political actor has been analysed in detail by several researchers (including Cizre-Sakalhoğlu, 1997,

¹¹ A recent example of this attitude among the state bureaucracy came in the aftermath of a fast-train accident in July 2004, which left thirty-seven people dead. When asked by a journalist whether those who were responsible for the accident would resign from their posts, the prime minister (undeterred by the presence of TV cameras) replied: ‘know your limits before asking such a question’ (Radikal, 2004a).
2000; Heper and Landau, 1991; Insel and Bayramoglu, 2004; Lombardi, 1997; Parla, 1998). Yet, with the exceptions of Akca (2004) and Parla (1998), its role in the country’s civilian economy has been left almost completely unexplored. A close inspection of the central government budget, for instance, reveals one of the most important elements behind the widening public deficit across the years: despite the ups and downs in the economy and the deteriorating public budget balance, military expenditure has maintained its dominant share in central budget expenditures (Senesen, 1995, 2002). In fact, the government has actually increased the size of its military spending, choosing instead to reduce its spending in the areas of education, health and public investment. In contrast to OECD figures which show that an average of 75 per cent of all tax revenue is used to finance public expenditures on health and education (Oyan and Aydin, 1997), in 1999 the relative shares of expenditure on health, investment and education from Turkey’s central budget amounted to 2.8 per cent, 5.5 per cent, and 11.1 per cent, respectively, while the share of military spending was 14 per cent (Central Bank of Republic of Turkey; Stockholm International Peace Research Institute). Furthermore, as an indicator of its political power, the military is almost completely free from civilian control over its budget. Although in theory any spending from the central budget is subject to parliamentary approval, in practice the defence budget is the only item that passes without any discussion or criticism in the parliament.12

A note of caution may be in order here. Figures for military spending are contested and controversial, and the official figure is likely to be an understatement of the total amount of public spending on the military (Senesen, 1995, 2002). Likewise, it should be remembered that official figures on the size of the budget deficit and the accounts of related expenditures may not represent the true figures: there is considerable underestimation of the size of the deficit and the related expenditures because of extra-budgetary funds (EBFs) (IMF, 2000a; Öniş, 1998; Senesen, 1995, 2002).

Policy-makers in Turkey progressively turned to extra-budgetary means to finance government expenditures, as they are free from the supervision and control of the parliament. In 2001, there were forty-seven EBFs. The scale of rent distribution among various groups in the economy is hidden by the ability of the government to use these funds without intervention from other political actors in the system. For example, a special fund, the Defence Industries Support Fund (DISF) which was established in 1985, receives funding from special levies placed on earned income, alcohol, fuel, cigarette

12. Until recently, under an article which was put into the constitution under the military government in 1982, the major part of military expenditure was not subject to the auditing of the Turkish Court of Accounts (TCA) (Sayistay). In 2003, this article was removed and all military spending was finally opened to the auditing of TCA, despite alleged resistance from the military, as part of the constitutional changes required for Turkey’s proposed EU membership (Alpay, 2004; Altan, 2004; Cemal, 2003).
consumption, bank interest earning collection, etc.\textsuperscript{13} Despite all these transfers from different sources, the DISF is not included in the computation of Turkey’s defence budget, and has a unique position among other EBFs with its exemption from the standard budgetary supervision procedures. Lack of transparency, therefore, appears to be one of the continuing weaknesses of the Turkish public finance system (IMF, 2000a; OECD, 2001: 17–18). In this respect, military expenditures not only contribute to the opaque nature of the decision-making process in the Turkish public sphere, but also help account for rising public deficits (Cizre-Sakallıoğlu, 1997: 151–66; Gabeilnick, 1999: 13; Senesen, 1995, 2002).

Furthermore — independent of total military spending through budgetary and extra-budgetary means — there are also two unique channels through which the military is directly involved in market activities. These are the Armed Forces Trust and Pension Fund (Ordu Yardımlasma Kurumu, OYAK), and the Foundation for Strengthening the Turkish Armed Forces (Turk Silahlı Kuvvetlerini Güclemirme Vakfı, TSKGV). These two special organizations occupy a sizeable space in the country’s civilian economy through their operations in the market, but are still not included in the computation of defence budget.

OYAK was established by parliament in 1961, after the first military coup in Turkey, to provide economic benefits for the military officers.\textsuperscript{14} Article 1 of the OYAK Law\textsuperscript{15} states that: ‘The Armed Forces Mutual Assistance Foundation was founded to be bound to the Ministry of National Defence, and to provide members of Turkish Armed Forces with social assistance set out herein . . . The Foundation shall be subject to provisions of private law under this Law, and shall become a corporate body with financial and administrative autonomy‘. However, the Board of Representatives of this civilian business, according to the same law, is presided over by the Minister of National Defence, or in his/her absence, by the Chief of General Staff. The general assembly includes, among others, the Minister of National

\textsuperscript{13} There are also other sources from which the fund generates income for its expenditures. For instance, Turkish men (under certain conditions) can exempt themselves from compulsory military service by making a lump-sum payment to the state: a share of these payments is deposited in the DISF. There is also a donation-market for animal furs (during the Muslim festival of sacrifice); the military used to compete with religious non-profit organizations and mosques for a share of the donated furs (the total value of which reaches millions of dollars every year), through its sister-organization, the Turkish Air Foundation (TAF). When TAF found itself unable to capture more than a small share of this profitable market, the Ministry of Justice, upon the advice of the National Security Council (MGK), issued an order in 1998 which made it illegal for any organization other than TAF to collect and/or accept the fur donations. For a discussion of this, see Yuksel (1999). For an in-depth analysis of the revenue and expenditure accounts of DISF as well as its effects on overall military expenditures and the budget deficit, see Senesen (2002).

\textsuperscript{14} For a discussion of the reasons behind its establishment, see Akca (2004: 230–4).

\textsuperscript{15} OYAK Law (law no 205), available online at: http://www.oyak.org.tr.
Defence, the Minister of Finance, the Chief of the General Staff, Commanders of Land Forces, Naval Forces and Air Forces (or their Chief of Staffs), General Commander of the Gendarmerie (or his/her Chief of Staff).

According to Article 8 of the OYAK Law; ‘two of three members to represent the Turkish Armed Forces in the Board of Directors shall be elected from among the four candidates to be nominated by the Minister of National Defence and the third member from among the two candidates to be nominated by the Chief of the General Staff by the General Assembly’. The remaining four members of the Board of Directors (out of a total of seven) are to be elected by a special election committee formed for the purpose and consisting of several bodies, ranging from the Ministry of National Defence to the Chairman of the Board of Directors of Banks Union of Turkey.

In contrast to its initial mission statement (to be merely a pension fund for the military), OYAK has developed into a conglomerate consisting of vast holdings in Turkey’s civilian economy, with activities ranging from supermarket chains to real estate, from insurance to tourism.  

It employs around 17,000 people and is currently ranked in the top three conglomerates in the country.

Although it is a major market player, OYAK enjoys several unique and generous sets of subsidies from the state. Firstly, it is exempted from ‘all taxes’. According to Article 35 of the OYAK Law, this includes exemptions from foundations tax, income and inheritance tax (on donations made to the Foundation and the assistance provided to its members or to their legal heirs), stamp duty (in connection with its transactions), income tax (on dues collected from the permanent and temporary members), and expenditure tax (on any kind of revenues of the Foundation). Secondly, its members (army regulars, defence ministry employees, etc.) pay compulsory fees from their monthly salaries, with a 10 per cent compulsory levy being taken directly from the net salary of around 180,000 serving officers. To add to the controversial civilian status of OYAK, the security of the conglomerate is ensured by a special law. Article 37 of the OYAK Law states that: ‘The entire property as well as the revenues of and credits due to the Foundation shall enjoy the same rights and privileges as State property. Offences against them shall be subject to the same legal action as offences against State property’. To provide a shield from market risks, OYAK is also privileged with a unique provision by the state, which enables it to transfer any of its loss-making or bankrupt companies to the state, in the form of State Economic Enterprises (SEEs). Taken together, these privileges give

16. For a detailed list of OYAK-affiliated companies see the OYAK website: http://www.oyak.org.tr
OYAK a virtually untouchable status, highlighting the level of confusion regarding the involvement of Turkish military in the market.

Currently, OYAK has shares in forty companies (twenty-eight of which are majority and twelve are minority stakes) including a supermarket chain; a 49 per cent stake in OYAK-Renault, the biggest car manufacturer in the country; 20 per cent of Turkey’s total cement producing capacity (which makes it the sector leader); 20 per cent of Turkey’s total paper sack production; an 11 per cent stake in the tyre company, Goodyear; and 100 per cent of a leading transportation company. In addition, it owns a major bank (OYAK Bank, including the recently reprivatized Sumerbank), and a portfolio management company which is ranked among the top seven brokerage firms in its sector. It was proclaimed one of the fastest growing conglomerates in Turkey in recent years. Many of these companies are affiliated with (or co-owned by) large domestic and international firms such as Sabanci and Koc in the domestic sphere, and DuPont, Goodyear, Mobil, Renault and Shell in the external market. OYAK also enjoys regional and in some cases national monopolistic and/or oligopolistic market power in many of its businesses, such as in cement or car industries.

Given the unique benefits which it receives, and the highly controversial status occupied by the military in Turkish politics, OYAK can be seen as an example of the militarization of business and the market in Turkey. The business performances of OYAK and its sister companies during the 1980s and 1990s raise serious questions about the role of economic liberalization and deregulation programmes on its business success. The existence of such a large quasi-private (or quasi-military) business actor, armed with several unique legal privileges and provisions, casts some doubts on the efficiency targets of the reform programme. Furthermore, a quick look at the profitability figures of OYAK raises further questions regarding the effects of such special provisions under a liberalized economy where everyone else is forced to play within the rules of the market (Figure 1). The unique position occupied by OYAK has also enabled the military to protect its members from the negative effects of continuous economic crises and

17. The role of the Turkish military in the economy through OYAK and its sister companies has attracted international attention in recent years, especially as a result of increasing pressure from the EU to limit military involvement in politics if Turkey ever wants to move from candidacy to membership status (see Frantz, 2001).

18. The fact that several privatized firms were sold to OYAK, including several cement companies and even a bank (Milliyet, 2001; Sabah, 2001), adds further to this suspicion. One might, for instance, question the objectivity of the privatization agency in choosing among several candidates, one of which is directly affiliated with the military; or one might wonder about the willingness and/or ability of any large business group in Turkey to challenge a military affiliated holding during privatization auctions.
macroeconomic instability, while the rest of society has had no such safety net.\textsuperscript{19} The above analysis suggests that the increasing power of military-owned corporations within the economy not only generated a very distorted market structure but also led to the legitimization of unfair competition against other market players who are not provided with the privileges that OYAK and its sister corporations have been granted.

Figure 1 shows the growth of this quasi-private business group, especially during and after the economic liberalization programmes of the 1980s and

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure1.png}
\caption{Profitability of OYAK Holding, 1980–2001}
\end{figure}

Notes: Actuarial profit data start from 1988. The figures are in 1995 US dollars deflated by US Wholesale Price Index.
Source: OYAK Balance Sheets (various years), available from the author upon request.

\textsuperscript{19} This may explain the ongoing resistance by the military to civilian attempts to reduce the size of military spending in the face of a growing debt burden and an almost bankrupt public finance system. One can argue that reduced public spending on basics such as education and health has little direct impact on the military, thanks to its relative autonomy in determining its own budget and spending decisions without any effective supervision or auditing by the government. This relative autonomy, combined with the benefits provided by OYAK, might have shielded the military from the negative effects of the reform programmes and successive economic crises, while enabling it to resist the austerity measures in a way that no other public institution was able to do. This point is highly speculative and incomplete, and warrants further analysis and elaboration, which unfortunately is beyond the scope of this article.
In the 1990s, a comparison of average profitability (balance-sheet profits in constant 1995 dollars) of the group before and after the reform programmes shows that its average profitability jumped from around US$ 15.74 m in the twenty years 1961–80, to around US$ 99 m in the period 1981–2001. The figures become more interesting once we focus on the profitability figures following the opening up of the capital account of balance of payments in 1989. Between 1990 and 2001, OYAK’s average balance-sheet profit climbed to around US$ 165.74 m, suggesting that OYAK has been one of the benefactors of the economic liberalization programmes in Turkey. Such figures may hint at one of the unexplored dynamics behind the strong commitment of successive governments to the non-reversibility of reform programmes, even after the return to multi-party democracy in 1987.

In addition to OYAK, the military also controls the Foundation for Strengthening the Turkish Armed Forces (TSKGV), a sister corporation established in 1987 that has major shares in thirty defence-related companies with product ranges from aircraft artillery to missiles and telecommunication systems. It employs an estimated 20,000 people. In 2000, its total revenues amounted to US$ 32 m (in current dollars). Like OYAK, TSKGV enjoys certain legal privileges such as exemption from foundations tax, income and inheritance tax (on donations) and stamp duty.

Yet even without the special provisions accorded to OYAK (and to some extent to TSKGV), the strong military presence in the market creates a number of moral hazard problems in both public and private spheres of the economy. There is no public disclosure regarding the military’s access to classified economic decisions, either directly through the National Security Council, or indirectly through its own institutional means, although these may have direct effects on OYAK or TSKGV in the market. For example, was the military informed in advance of the devaluation decision on 23 February 2002, which ended the crawling peg system adopted as part of an IMF sponsored anti-inflation programme? The devaluation led to an overnight depreciation of the currency by 40 per cent, and was preceded by a sharp fall in the stock market together with skyrocketing interest rates which reached as much as 5,000 per cent in the inter-bank money market. Given that OYAK owns a major bank and a brokerage firm, the potential impact on profit margins is undeniable. Likewise, in practice, are insider-trading laws applied

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20. For an in-depth economic analysis of TSKGV, see Akca (2004); Senesen (2002).
21. Until recently, the National Security Council (MGK), a constitutional body established after the military coup in 1980, has been one of the main pillars of military involvement in Turkish politics. It has been located at the centre of Turkish policy-making, where all important decisions on foreign policy, issues of national security, and economic programmes have been made. MGK was made up equally of military and civilians including the Service Chiefs, Generals, the President and the Prime Minister. However, this structure underwent some changes in 2004 as a part of Turkey’s bid to join the EU: the number of civilian members of the council has now increased, and a civilian secretary presides over it.
equally firmly to those financial institutions owned by OYAK and does the Banking Supervision Agency have the same means and leverage towards a bank that is owned by this quasi-military business group? 

Figure 2 presents a comparison of the median net financial profits from non-operational activities (FPNS) — such as profits from foreign exchange transactions, interest earnings and dividends from participations — to sales ratio of OYAK-owned, publicly-traded real sector companies, with other non-financial firms traded in the Istanbul Stock Exchange Market (ISE), using biannual data between 1993 and 2003. It shows the importance of financial market profits compared to operational activities and illustrates the degree to which real sector firms are involved in financial sector investments. According to the data, between 1993 and 2003, the median net financial profits to net sales ratio of the seven OYAK firms was on average 300 per cent higher than the median in the stock market among 152 firms. Figure 2 shows that FPNS ratio for OYAK firms reached as much as 19 per cent and 31 per cent in the first half of 1994 and 2001, periods which coincide with two of the most serious economic crises in the country, in which the domestic currency was devalued by 39 per cent (on 6 April 1994) and 40 per cent (on 23 February 2001). The revenue and expense accounts of TSKGV reveal a similar picture, with an average 71 per cent of all revenues of the foundation between 1987 and 2000 emanating from three sources: stock market earnings, foreign exchange transactions, and interest earnings (Senesen, 2002: 55).

The data also suggest that financial market transactions are a major source of revenue for both OYAK and TSKGV: the questions raised above about moral hazard are therefore quite legitimate. However, given the lack of public disclosure of the individual balance sheet items of either OYAK or TSKGV, the most we can do is suggest the possibility of a large-scale rent-seeking activity caused by the lack of a clear-cut line between the military and its market activities. OYAK’s wide-ranging affiliations with several domestic and international business groups would only multiply

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22. The recent privatization of Sumerbank is a case in point. Sumerbank, which included five separate private banks taken over by the Savings Deposit Insurance Fund (TMSF), was sold to OYAK holding at a ‘cherry pick’ price in June 2001 (Economist Intelligence Unit, 2002; Milliyet, 2001; Sabah, 2001).

23. The OYAK-owned firms included are Adana Cimento, Bolu Cimento, Hektas, Mardin Cimento, Nigde Cimento, Tukas, and Unye Cimento. The data are from ISE online data dissemination system available at its website, http://www.imkb.gov.tr. The financial profits are net of losses and expenses from other operations and include all non-operational profits excluding interest expenses. Sales are on a net basis. A detailed description of the series is available from the author upon request.

24. For an in-depth analysis of the importance of financial sector investments for real sector firms and their impacts on fixed investment behaviour in the context of a comparative analysis of Argentina, Mexico and Turkey see, for example, Demir (2004b).
such effects even further. There have also been allegations of corruption, of questionable relations between the military and the business sector, and fraud scandals involving retired high-ranking army officers, all of which create further suspicion about the role of the military in the economic system of the country.\textsuperscript{25}

\textsuperscript{25} For example, a former Lieutenant General claimed that he had been retired from the army instead of being promoted to the position of Chief General because of his involvement in the disclosure of a corruption scandal. The scandal involved military ambulances purchased from a private company — a company with which one of the retired lieutenant’s former commanders in the army was now associated (Susoy, 2004). Upon retirement, many former generals or other high ranking military officers take up high level executive positions in large business corporations. Several such high level retired officers have been accused of corruption and bribery charges in fraud scandals (Cetin, 1999; \textit{Radikal}, 2001b; \textit{Turkish Daily News}, 2001b). For a more recent example of an alleged corruption scandal in the army, see Ozfatura (2004).
The inability of domestic pressure groups to limit the level of military involvement in politics and the economy is accompanied by increasing pressure from international financial and political organizations to curtail the hegemony of the military in the country.\(^{26}\) In the aftermath of the economic crisis of December 2000, the IMF asked the government to reduce the budget for the armed forces as part of its reforms, in return for US$ 7.5 bn in emergency aid (IMF, 2000b).\(^{27}\) However, despite IMF pressure on the government to include the extra-budgetary funds within the general budget and thereby to increase transparency, there seems to be no policy advice or proposal to subject military-owned businesses to the rules of the market and thereby to eliminate unfair competition against other market participants both domestically and internationally.

It is also surprising that such a large business group is allowed to operate with the help of wide-ranging subsidies, tax exemptions and special provisions, without evoking any apparent reaction from the international financial organizations such as IMF and the World Bank. There has been no publicly disclosed research or analysis by either organization of any possible market distortion caused by OYAK or its sister corporations in the liberalized economic environment of Turkey. Nor has there been any systematic academic research on this issue.\(^{28}\) Although a quick search on the Internet reveals over 30,000 web sites involving the word ‘OYAK’, academic work on OYAK is limited to just a few studies (such as Akca, 2004; Karabelias, 1998; Parla, 1998; Rouleau, 2000; Yuksel, 1999).

The silence of international organizations and researchers on the subject needs further analysis, which is beyond the scope of this article. On the domestic front, the general lack of interest amongst Turkish academics may lie in the country’s institutional and historical setting. As the founding institution of the Republic in 1923, the military sees itself as the guarantor

\(^{26}\) The European Union has criticized the role of the military in Turkish politics and has made proposals to limit its size as a precondition for the EU membership that Turkey has been trying to obtain for almost half a century. Human rights organizations have also raised the issue of the country’s undemocratic legislation, which gives the military the upper hand and enables the army to conduct operations in the Kurdish regions without being subject to the general laws. The greater part of southeastern Turkey, where Kurds constitute the majority, was under martial law from 1980 to 2002. For a discussion on the military and the human rights conflict in Turkey, see, for example, Barkey (1998); Gabelnick (1999); Kilic (1998); Parla (1998); White (1998).

\(^{27}\) The economic crisis of February 2001 hit as the military was in the midst of its largest-ever spending programme on weapons procurement, which was expected to total US$ 31 bn in the next eight years and reach US$ 150 bn by the year 2030. After the crisis hit the country, the military announced that it had postponed defence projects worth US$ 19 bn. As usual, however, civilians were not informed about the details of any accounts or of the projects which were to be postponed (Associated Press, 2001).

\(^{28}\) Senesen (1995) raises a similar issue regarding a general lack of interest among economists on the economic impacts of Turkish military spending.
and supervisor of the national interest, emphasizing so-called national threats as they change over time — the fundamentalist threat, the communist challenge and ethnic Kurdish separatism. The Turkish military staged three coups, in 1960, 1970 and 1980, and issued several ultimatums to the democratically-elected governments of Turkey (Cizre-Sakalloğlu, 1997). Together with the existence of repressive political and legislative mechanisms against independent research and analysis, this continuous military presence has created an environment of self-censorship and kept researchers away from potentially sensitive subjects.

Recent developments in Turkish–EU relations and the recognition in 2002 of Turkey’s status as a candidate for EU membership, however, have led to some radical changes in Turkish politics. As part of the process of complying with EU laws, many legislative and constitutional changes have been undertaken which restrict and redefine the role of military in politics. Although none of these changes has had a direct effect on the military’s involvement in the economy via OYAK or TSKDV, they may be considered cornerstones in the modern history of Turkey’s civilian–military relations. Taking a longer-term perspective, therefore, one should be cautious about making predictions for the future based on the current state of affairs, in which quasi-military business establishments blur the lines between public and private spheres.

CONCLUSION

The Turkish liberalization experience of the last two decades supports the proposition that, in countries which lack democratic institutions and transparency in state affairs, top-down policy-building further strengthens the already autocratic and repressive system of state governance (Haggard and Kaufman, 1998; Kleinberg and Bensabat, 2000; Trimberger, 1978). In Turkey, lack of transparency and accountability, together with a social structure characterized by extreme polarization of incomes and lifestyles, further limited the possibility of a social pact that would have helped build consensus around a stabilization package to halt the country’s economic collapse (Öniş, 1997: 37).

29. MGK played an important role in institutionalizing these continuous military interventions in the country’s political life.

30. Despite such changes, it is still common practice among high ranked military officers to make political statements and warnings at press conferences. A recent example of this was a press conference by the military in July 2004, at which the Deputy Chief of General Staff criticized newly-released former Kurdish deputies for accompanying a political party during a political campaign and for speaking in a language (i.e. Kurdish) other than the official language (Radikal, 2004b).
An interesting feature of the Turkish trajectory in the post-liberalization era has been the persistence of rent-seeking coalitions formed during the ISI era.\(^{31}\) The distribution of political and economic rents across the business sector, the state bureaucracy and the military appears to be the distinguishing element in the Turkish liberalization experience.\(^{32}\) Attempts to downsize and reduce state control and regulation in the economy have yielded some unexpected results in terms of state–business–society relationship. The state bureaucracy and the military have formed organic coalitions with the business class through their direct and indirect involvement in the market, and thereby limited the development of a civil society which is generally assumed to form part of the liberal economic paradigm. This has made it possible for the military to secure its place in the political and economic arena of the country, despite the increasing power and importance of international capital in domestic policy formation through the opening up of domestic markets. Growing public debt and deteriorating income distribution have been accompanied by an increasing militarization of the state and the market, and a deconsolidation of democracy. However, recent developments in relations between Turkey and the EU have created a possibility to use Turkey’s prospective EU membership as an external anchor to make the legislative and constitutional changes necessary to limit military involvement in politics as well as in the civilian economy of the country. Consequently, the political sustainability of neoliberalism and the success of the reform programmes in Turkey (in both political and economic arenas) may well depend on the outcome of the ongoing competition between rent-seeking coalitions and pro-reform groups in the country — a clear sign that politics does matter in the era of economic liberalization.

\textbf{REFERENCES}


\(^{31}\) The development stages of ‘narrow distributional coalitions’ with obvious incentives for free riding in the form of rent-seeking behaviour has been analysed and discussed in detail by several scholars, including Olson (1965, 1982).

\(^{32}\) For a similar view, see Parla (1998: 37).


Radikal (2001a) ‘MGK da Patlama Tespiti’ (Explosion Warning in MGK), Radikal, 26 July.


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