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The State and Industrialization in Turkey since the Nineteenth Century

Şevket Pamuk

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The State and Industrialization in Turkey since the Nineteenth Century

Şevket Pamuk

Bogaziçi University

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State Directed Industrialization in Developing Countries

States versus markets is one of the oldest and most enduring debates in economics. As we enter a new era of state led industrialization around the world, this may be a good time to return to the historical record and draw additional lessons.

State directed industrialization in today's developing countries or late late industrializers is a phenomenon of the twentieth century and mostly of the second half of that century. While there was some limited industrialization in today's developing countries during the nineteenth century, state policies to promote industrialization remained quite weak in these countries (O'Rourke and Williamson, 2017). State policies to promote industrialization in developing countries expanded in the 1930s in response to the Great Depression, but only in a small number of independent countries not part of colonial empires. At the time, these efforts were mostly ad hoc and did not have the benefit of a well-developed theory. State directed industrialization in developing countries became a common phenomenon and structuralist" development theory emerged as the prevailing orthodoxy in the decades after World War II. A central idea associated with structuralism was the belief that market failure is a pervasive feature of underdeveloped economies and the state has an important role to play in correcting it.

The neoclassical criticism of this view and the efforts intensified during the 1970s and there emerged a good deal of debate about the pros and cons of state efforts in support of industrialization. However, it was the success of a small number of countries in East Asia led by Japan, Taiwan and South Korea with state led industrialization that shifted the debate. Even though there is no single model within East and Southeast Asia, the most successful examples of state directed industrialization have taken place in that region and these successful cases are often viewed as the standard by which other experiences of state directed industrialization in developing countries are measured and evaluated. (Amsden, 1989; Wage, 1990; Evans,1995).

Since the 1980s a large body of institutionalist literature has argued that the phenomenon of "late development" or "late late industrialization" should be understood as a process in which states played a strategic role in taming domestic and international market forces and harnessing them to national ends. A strong and autonomous state is seen as key to rapid industrialization, providing directional thrust to the operation of the market mechanism. State intervention involved the creation of price distortions so that economic activity was directed towards greater investment. The government not only subsidized industries to stimulate growth, but also set

stringent performance criteria in exchange for these subsidies. The discipline imposed by the government on business behavior constituted a crucial component of the industrial strategy. The mixture of competition and cooperation was central to the success of industrial policy. The logic of the developmental state rests precisely on the combination of bureaucratic autonomy with an unusual degree of public-private cooperation. (Öniş, 1991).

Institutions played a central role in political economy explanations of East Asia's growth, from the developmental state to the micro-institutions of industrial policy. Scholars have emphasized that identifying how states are organized and how the institutionalized relationship between the state and the private sector works is the key to understanding the relative effectiveness of state intervention in the economy. As a result, there was a great deal of emphasis in the earlier literature on the specific set of forms of micro institutions that brought about the best results

The literature emphasized further that for state directed industrialization to have the highest degree of success, not only a capable bureaucracy must have a certain degree of autonomy but it should also develop close ties to the private sector and engage in joint projects with the private sector. The idea of joint projects was originally envisioned by Gerschenkron, Hirschman, Amsden, Wade and others. The key concept "embedded autonomy" coined by Evans pointed to the high capacity attained by the East Asian states with strong political and bureaucratic institutions that simultaneously maintained dense ties with the private sector (Evans, 1995)

An important source of growth in East Asia was the region's very high level of physical and human capital accumulation. Strong property rights constituted one big institutional explanation for how authoritarian governments in East Asia signaled their commitment to the development of the private sector and did well in this regard. Through non-predatory behavior and restraint, sustained over time, governments indicated that the property rights of favored groups were assured. With time, however, it became apparent there were multiple institutional means for solving the many problems that institutionalists highlight—guaranteeing property rights, making credible commitments, pursuing efficient policy making, and limiting rent-seeking and corruption—in a wide variety of ways. A review of these institutional forms showed that few if any of the postulated institutional explanations involved either necessary or sufficient conditions for rapid growth.

It also became more evident over time that institutional arrangements, however crucial, were embedded in more fundamental relationships between political elites and the private sector, it

also became clear the search for a single set of institutions that would serve as the key to industrialization and economic growth in different settings was likely to be futile. It also became apparent that these micro institutions associated with the relations between the bureaucracy and the private sector were endogenous to deeper political processes. (Haggard, 2004)

High degree of bureaucratic autonomy and public-private cooperation were the two central features associated with the success of these policies. Political elites in East Asia enjoyed a degree of political, organizational, and economic independence from private sector actors in the early phases of the region's growth, and this key political fact was reflected in the institutional arrangements. Moreover, the power of the East Asian developmental state has depended on the formation of political coalitions with domestic industry and on the destruction of the left and curtailment of the power of organized labor plus other popular groups. The high degrees of concentration of private and public power associated with the East Asian model was incompatible with widespread political participation. (Öniş, 1991)

States and government-private sector relations in developing countries show a great deal of variation and that variation is reflected in the degree of success with state directed industrialization. The literature emphasizes it is not the quantity but quality of intervention that distinguishes the more successful cases from those of whose outcomes were closer to the averages. At the other extreme from the East Asian cases in terms of success with industrialization have been those developing countries with the so called predatory states. Predatory states are known to prey on their citizenry and provide little in the way of services in return. Control of the state apparatus is often in the hands of a small group of connected individuals. Personalism and plundering at the top destroys any possibility of rules based behavior in the lower levels of bureaucracy, giving individual pursuit of self-interest free rein. These states have enough power to undertake any action they choose without institutionalized negotiation with civil society groups. They have the ability to penetrate society and implement its decisions. Yet, they have little capacity to transform the economy and social structure. Under these circumstances, the emergence or development of a bourgeoisie oriented towards long-term productive investment has not been not possible. (Evans, 1995, pp. 45-47; Kohli, 2004, pp. 1-24).

In between the more successful East Asian cases and the cases of predatory states, are large numbers of developing countries where industrialization has benefited from state interventionism and support, but the results have not been as impressive as those in East Asia. These states were

not necessarily more or less interventionist but they were generally less effective. While the literature on institutional economics has often focused on the forms or institutions through which government policy in support of industrialization has been implemented, the outcomes in these countries did not depend on a single or a set of specific set of institutions but on the relations between the political and private sector elites, and more generally, on the political economy. Problems of internal organization of the state and problems of state-society relations were mutually reinforcing.

The lack of a stable bureaucratic structure makes it harder to establish regularized ties with the private sector. Unable to transform large segments of the bureaucracy, political leaders in these countries tried to create pockets of competence inside the bureaucracy. Their goals were more plural and their political capacities less developed and included in addition to growth, favoritism, re-distribution, power and others. Periodic hostility on the part of the state elites towards private investors undermined long term goals of growth through industrialization. In addition, recurring political instability, inconsistent policies, and pilfering of public resources for personal and sectoral gains have all hurt state-led efforts to promote industrialization and growth.

Debates about state led industrialization have often focused on the more successful cases. This paper will focus on a country not amongst the most successful cases and examine the evolution of state-private sector relations and efforts at state directed industrialization since the nineteenth century. While state-private sector relations will be at the center, I will focus not only on the institutions related to state-business relations but also complementarity among these “micro” institutions and the larger political order. I will argue that rather than the specific micro institutions, it was the state-private sector relations and more generally the political economy that influenced both institutions and the degree of success with industrialization and more generally the growth process. The next section begins with a summary of some basic long-term trends for Turkey’s economy and the role of the government in it since the nineteenth century.

Some Long-term Trends

Turkey is a large developing country. The population of the area within the present-day borders of Turkey has increased at about the same pace as world population during the last two centuries, from about 10 million in 1850 to more than 80 million in 2020. Aside from a brief occupation of parts of the country after the First World War, Turkey has not experienced colonial rule. The area within its present-day borders was part of a large, multi-ethnic empire until the end of the First World War, and modern Turkey emerged as one of the successor states after the end

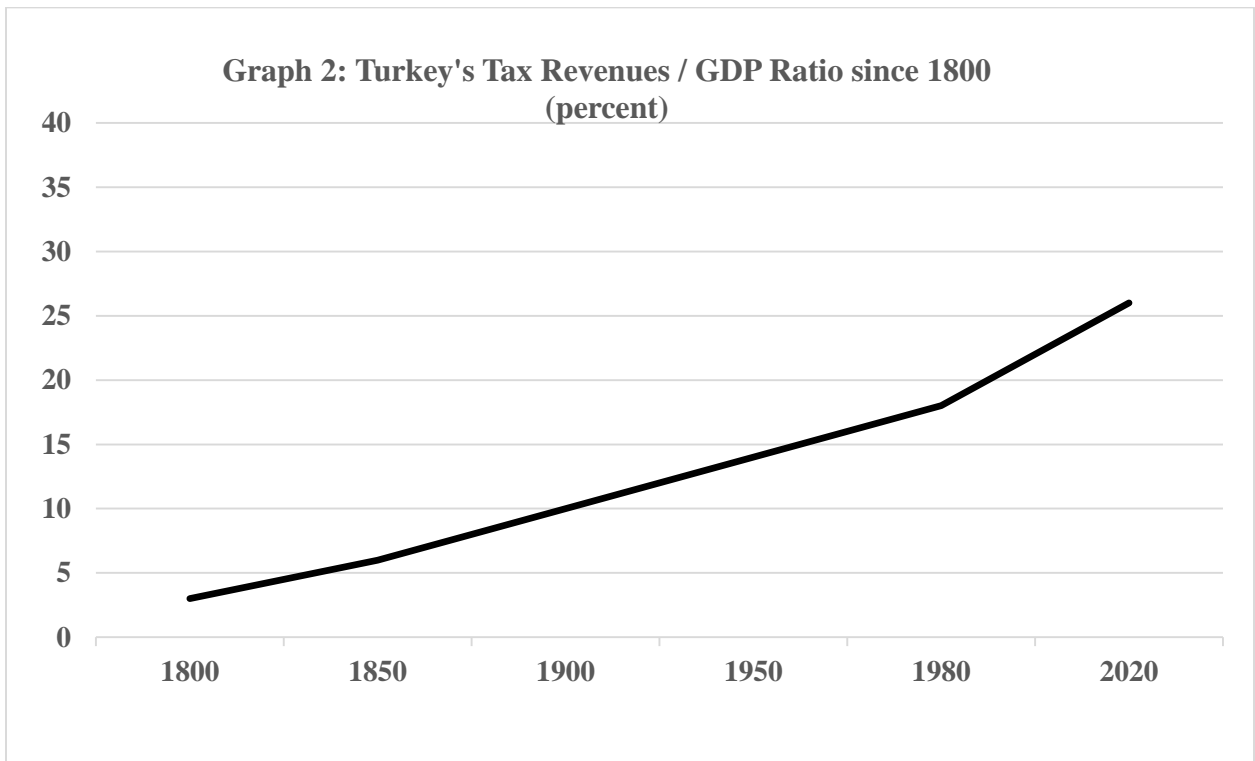
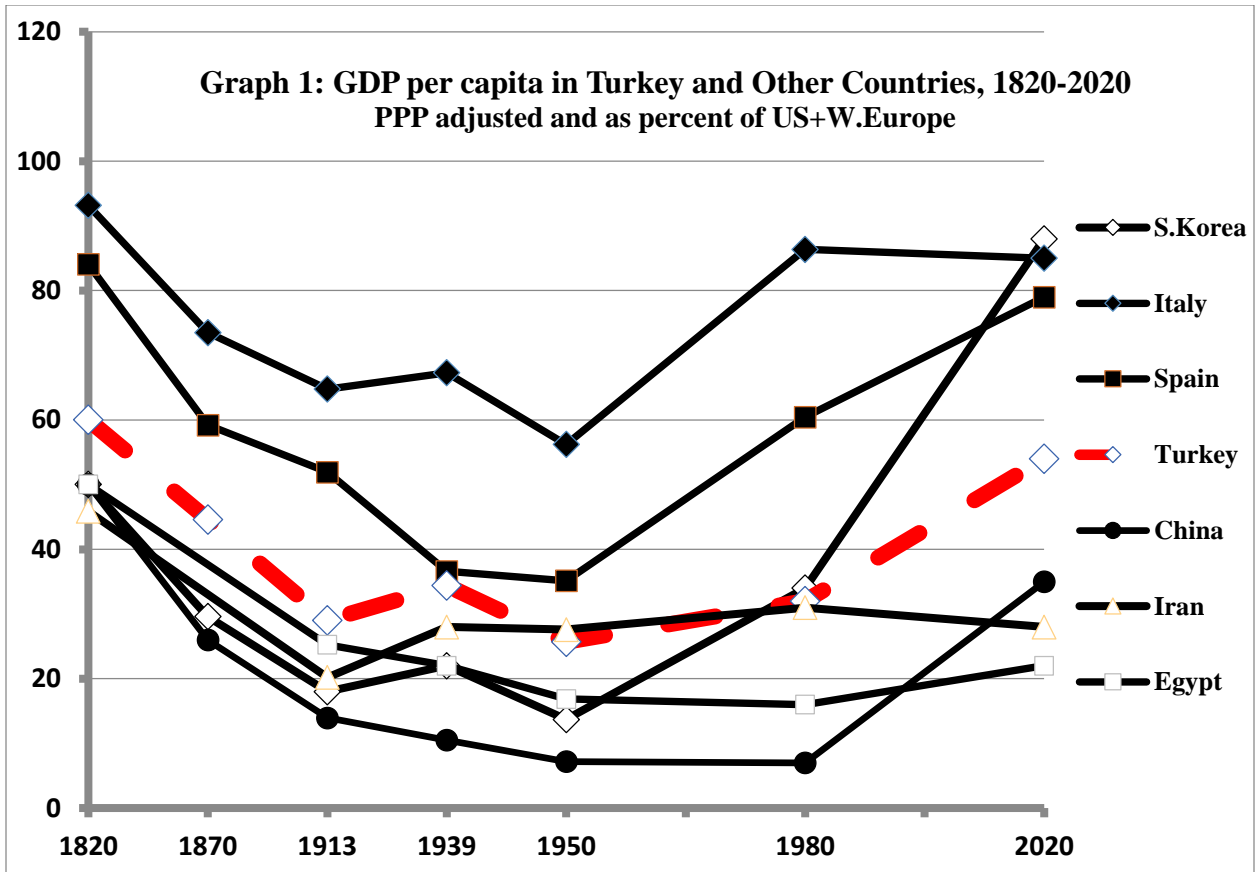
of the Ottoman Empire. As a result, changes in policies and institutions were introduced from within, mostly by its own governments and elites. Turkey's political regime has changed from a monarchy in the Ottoman era to a single party regime in the interwar period to a multi-party regime after 1950. The multi-party system has experienced recurring instability and was interrupted a number of military coups. A more authoritarian presidential system was inaugurated in 2017. (Zürcher, 2004).

Turkey has experienced considerable growth since the nineteenth century. Its long-term rates of growth and levels of GDP per capita remained close to but above averages for developing countries. Turkey's long-run growth rates have been higher than the averages for South America, Africa, the Middle East, and some of the large countries in Asia such as Pakistan, the Philippines, and Indonesia since 1950. In the most recent period since 1980, however, East, Southeast and South Asia, especially China and India, have experienced significantly higher rates of growth than those of Turkey. (Graph 1; Pamuk, 2018).

Like many other middle to high income late industrializing countries, Turkey has experienced divergence and then convergence in relation to the early industrializers during the last two centuries. Per capita incomes in the area within Turkey's current borders declined from 60 per cent in 1820 to about 30 per cent of per capita income in western Europe and the US in 1913 and also in 1950. Turkey has achieved some convergence with the developed countries since the end of the Second World War. Since 1950 the PPP-adjusted per capita incomes in Turkey have increased from about 30 percent to about 54 percent of the per capita incomes in western Europe and the US in 2020.

Gross investment rates in Turkey have increased significantly during the last two centuries but never to levels experienced by the high growth economies in East Asia since 1950 or 1980. They rose from 6 percent of GDP around mid-nineteenth century to 10-11 percent in 1950, to more than 20 percent at the end of the 1970s and to 26 percent in 2020. Foreign direct investment in Turkey remained limited and fixed investments have been financed primarily by domestic savings and external borrowing during the last century.

The rise in the share government in the economy in Turkey during the last two centuries is broadly comparable to the trends many other middle to high income developing countries. Share of tax revenues and government expenditures in GDP have also increased significantly since the nineteenth century, from about 5-6 percent around 1850 to 15 percent at the end of the 1930s, to 20 percent at the end of the 1970s and to more than 30 percent in 2020. (Graph 2; Pamuk, 2018)

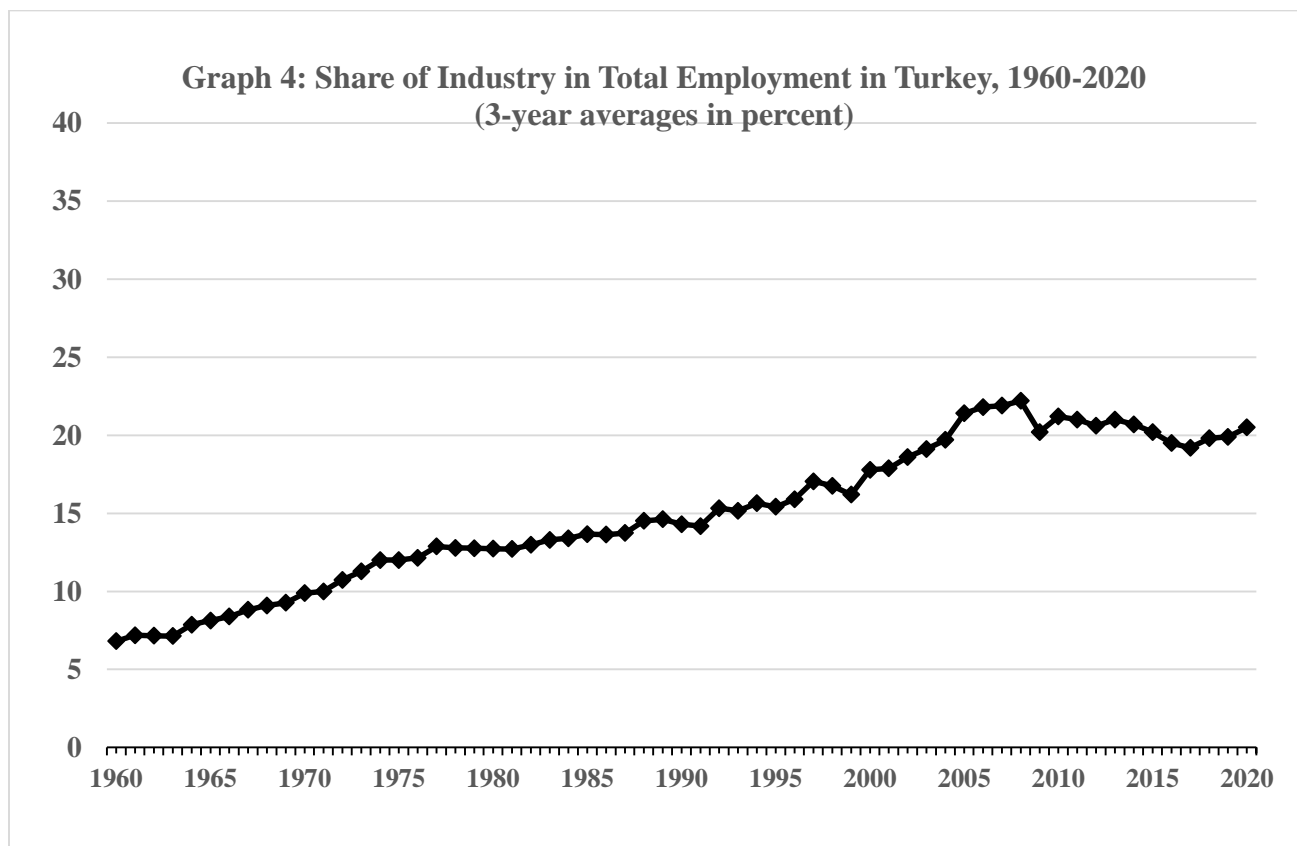
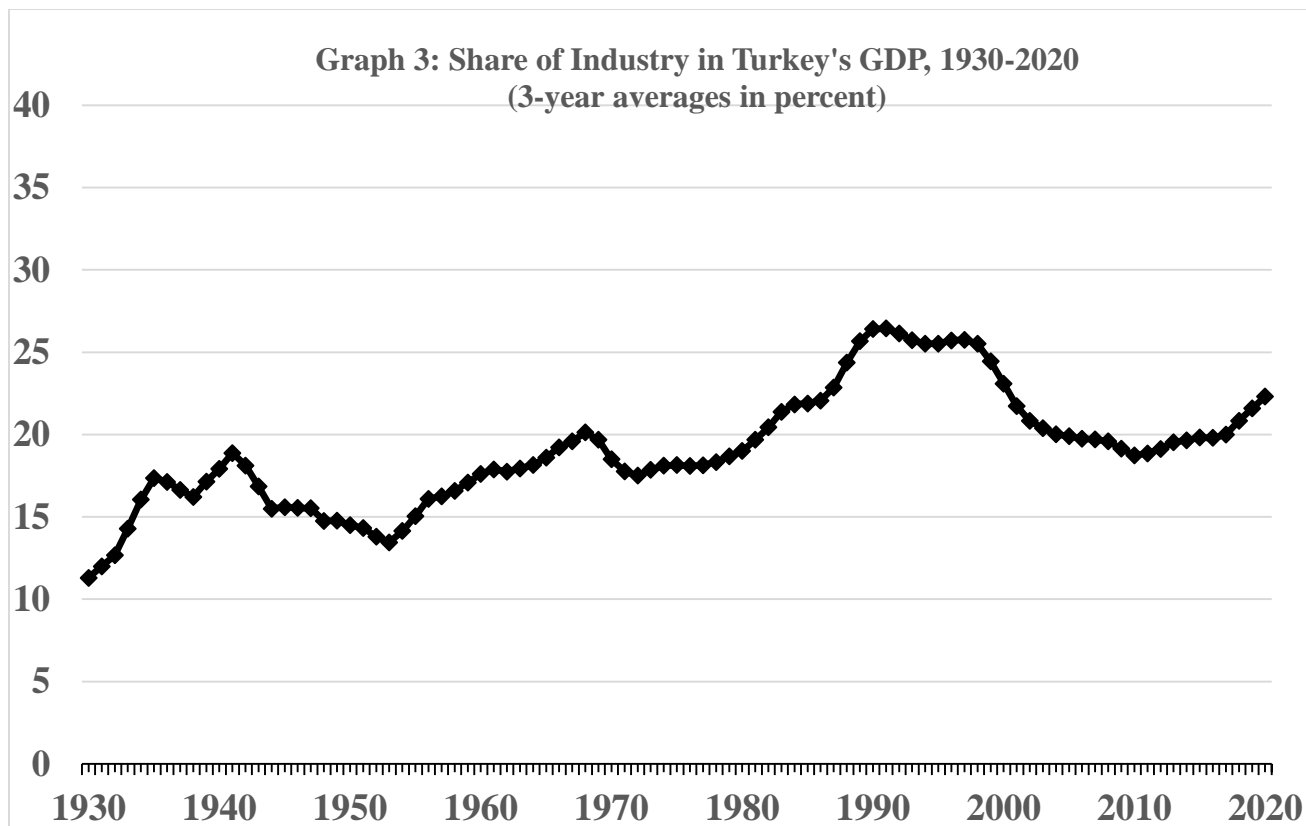


Institutions and Political Economy of Industrialization

Turkey is not particularly rich in mineral resources or oil. Industrialization has been a key strategy for raising incomes since 1930. From 1929 when policies of state led industrialization began to be pursued for the first time until the 1990s, value added for manufacturing and total industry increased at long term rates above that for GDP leading to increases in the shares of industry in GDP and in total employment from less than 10 percent to more than 20 percent. Industry's shares in GDP and total employment have fluctuated around 20-22 percent during the last two decades. (Graphs 3 and 4).

The strategy of economic development adopted by the governments in Turkey in each era has been consistent with the dominant model for the developing countries at the time. The economy remained open and specialized in agriculture under the free trade agreements signed with European states during the nineteenth century. A strategy of protectionism and state-led industrialization was launched in 1930. Industrialization for the domestic market began to be led by the private sector during the decades after World War II. Washington Consensus policies began to be adopted and exports of manufactures growth were promoted after 1980.

Beginning with protectionism and state led industrialization in the 1930s, the state made important contributions to industrialization in Turkey. However, the quality of state interventionism varied over time. It was moderately successful in the 1930s and the 1960s but not very helpful in later periods. In a country where more than half of the labor force earned their living in agriculture until the 1980s, the extent to which the governments were committed to the goal of industrialization varied over time but it was not always strong. In addition, state capacity was not very high and it was often divided between different goals.



The micro level institutions of state interventionism have changed a great deal over time depending upon both the global environment and domestic conditions. As I will discuss in greater detail in the next section, the specific forms or institutions of state interventionism were shaped by both global and domestic forces in each of the four periods. Initially, they were initially shaped by the realities of the global economy often under the influence of leading global powers or the international agencies such as the IMF and the World Trade Organization. However, these institutions needed to interact well with other institutions and they had to be consistent with the existing balances in domestic political economy. For that reason, many of the initial forms or institutions initially intended to regulate the state-private sector relations and direct industrialization were subsequently modified and some were rejected completely. Few could survive for long in their initial form. It would thus be fair to state that the specific forms and institutions of interventionism that survived over time were endogenous to a large degree and depended on the general political economy and the relations between the political elites and private sector.

The quality and internal coherence as well as the independence of the bureaucracy is often singled out in the literature as a key requirement for ensuring the effectiveness of industrial policy. In a country not known for the quality of its education system, excellence or high quality for the bureaucracy as a whole was never a realistic goal in Turkey but attempts were made from time to time to create pockets of efficiency within the bureaucracy. In the nineteenth century, the priority was given to schools for military officers and diplomats always had separate channels of examination and selection. By far the most selective amongst the economic bureaucracy was the recruitment and training of the State Planning Organization which was established months after a military coup in 1960. The agency was inspired in part by the success of East Asian examples and served as the key unit for developing alternative economic strategies as well as economic research but its initial powers did not last very long.

Even though basic strategies of industrialization and the micro institutions related to state-private sector relations changed over time, there were important continuities in the outcomes with respect to industrialization. I will show in the next section that in the longer term the degree of success of state interventionism depended less on the specific institutions of state interventionism but more on the overall environment of state-private sector relations, and more generally, the relations between the political and economic elites and the political economy.

For large parts of the last century, Turkey's political and economic elites have been divided by cleavages and have not been able to put together a lasting coalition in favor of industrialization and economic growth. Their goals have remained more plural and included in addition to growth, favoritism, re-distribution, power and others. The relations between the political elites and private sector were usually dominated by the former and characterized by the dependence of the private sector elites on the political elites. Despite considerable economic growth over time, the divisions within the private sector elites and their weaknesses in their relations with the political elites continued. In turn, the political elites preferred to keep the private sector divided and maintain retail relations with the economic elites. Relations between the bureaucracy and the private sector varied over time but a state of embedded autonomy for the bureaucracy often emphasized as the key to the success of East Asian industrialization was never achieved in Turkey.

In addition, the recurring periods of political and macroeconomic instability also made it difficult to maintain stable relations between the state and the private sector and implement policies of industrialization for long periods of time. As periods of multi-party democracy and periods of authoritarianism including short periods of military rule alternated, the uneven relations between the political and economic elites and retail relations persisted.

As it has been emphasized in the literature, in the absence of bureaucratic autonomy, public-private cooperation easily degenerates into situations in which state goals are directly reducible to private interests. In such an environment, bureaucratic elites will lack the capability to identify dynamic industries to be targeted in the first place and will be in a weak position in terms of monitoring and regulating the activities of firms located in the strategic or favored industries or firms. In short, unless the "autonomy" and "cooperation" requirements are satisfied, attempts to implement East Asian style industrial policies will not be very productive. The extent of favoritism, patronage, corruption varied over time but they persisted. Under these circumstances, state capacity for directing economic development and industrialization varied over time but remained limited.

An important question is whether Turkey's industrialization outcomes were better under more democratic or more authoritarian regimes. Successful industrialization and growth in Asia was achieved under authoritarian regimes in East Asia and many observers have argued that the extreme degrees of concentration of private and public power associated with the East Asian countries at least during the early stages of their industrialization was incompatible with

widespread political participation. In recent decades, social scientists have studied the relationship between regime type industrialization and economic growth. Adam Przeworski et al. reported, on the basis of a large number of sophisticated tests covering a very large sample of countries over the 1950–90 period, there is no connection between regime type and growth and no convincing empirical evidence exists that authoritarian regimes outperform democratic ones. (Przeworski et al, 2000). Dani Rodrik has provided detailed evidence that more participatory regimes have actually done better with respect to economic development. (Rodrik, 2000). Turkey's long term experience is not inconsistent with these conclusions. While Turkey's political regime, more specifically, the relative strength of its democracy versus authoritarianism varied over time, through single party regimes, multi-party regimes interrupted by military regimes and more recently an authoritarian presidential system, on the basis of rates of industrialization and rates of economic growth, we cannot find conclusive evidence one type of regime did better than the other during the last century.

Period 1: De-industrialization under Free Trade, 1840-1914

Present-day Turkey was part of the Ottoman Empire until after World War I. For most of the century until World War I, the political regime in the Ottoman Empire was a monarchy. The nineteenth century was a period of reforms for the empire as the Ottoman government, in response to external and internal challenges and inspired by European examples, launched a series of centralizing initiatives and institutional changes, in military, provincial administration, state finances, law, the judiciary, education, and other fields. The economic elites, landowners, merchants, manufacturers and moneychangers enjoyed a good deal of local power and autonomy but their influence over economic matters, and more generally over the policies of the central government remained limited.

For the success of the reforms, the Ottoman government needed the support of European states. In exchange for the military, political and financial support they offered, European states demanded the creation of a market economy specializing in agriculture and trade, which was open to the outside world and offered special privileges to European companies and citizens of European states. The most important change in Ottoman economic institutions during the reform era was the signing of the Baltalimanı Free Trade Treaty with Great Britain in 1838 followed by similar treaties with France and other European states. Because the treaty could not be terminated unilaterally, it remained in effect with minor changes until World War I. The

European citizens and companies also enjoyed commercial and legal privileges not available to the local citizens.

The capacity of the Ottoman state remained limited during the nineteenth century. Constrained by the free trade treaties, it could not and did not adopt policies supporting industrialization, except for those aimed at securing its own needs. The main economic priority for the central government remained the development of basic infrastructure, most importantly railroads but also ports, roads and others. These were built to some extent with public funds and mostly by European companies. Towards the end of the nineteenth century, the Ottoman government began to take a more direct interest in economic development and focused on the modernization of agriculture as the leading sector.

Ottoman manufacturing activity was able to meet domestic demand entirely early in the nineteenth century. However, crafts based manufacturing output soon began to decline under the pressure of imported manufactures. Cotton textiles provide the most dramatic example. The share of domestic production in cotton textiles consumption declined from 97 percent to less than 30 percent between the 1820s and the end of the century. Other branches of manufacturing shrank to a lesser extent or were not affected at all, most importantly because high transportation costs offered some protection to domestic producers. (Pamuk and Williamson, 2011)

The first wave of modern factories was launched by the Ottoman state in the 1830s and 1840s as part of the initial reforms and essentially to meet the requirements of the army and the state. Many of these enterprises were forced to stop production within a short time, however, due to various problems and shortcomings. The second wave of capitalist enterprises using imported technology began to be established by local entrepreneurs in the 1890's. Because of the free trade treaties in existence, these enterprises could compete against imports only in sectors where transport costs were high, raw materials could be found locally and cheaply, and where low wages created an important advantage. Total employment in large scale manufacturing within present day borders of Turkey did not exceed 5.000 on the eve of World War I (Clark 1974, pp. 65-76; Quataert, 1992; Panza, 2012, pp. 146-69).

Period 2: State led Industrialization during the Great Depression, 1929-1939

After the end of the Ottoman Empire, the modern state of Turkey emerged in the core territories of the empire under a new leadership. The new nation state briefly experimented with a multi-party system in the 1920s but settled on a single party political regime. It continued the Westernizing reforms of the nineteenth century by adding a strong secular dimension to them.

The new political elites were keenly aware that Ottoman financial and economic dependence on European powers had created serious political problems. They strived to create a national economy within the new borders. Industrialization thus ranked high in their economic agenda.

Non-Muslims had been an important part of the economic elites within Turkey during the Ottoman era and most of them either died or left during or after the period of wars, 1914-1922. The new leadership at Ankara moved to establish new economic institutions and pursue policies of protectionism and industrialization shaped by economic nationalism and the goal to create a new economic elite, a Muslim-Turkish bourgeoisie. In the new era, as in the earlier Ottoman period, domestic economic elites remained weak and did not have much influence in the making of economic policies. (Keyder 1987, pp. 71-115; Boratav 1981, pp.165-90; Buğra 1995, pp. 35-95).

In the Lausanne Peace Conference in 1922-23, the new state had to fight hard for the right to determine the new institutions governing the economy's linkages to the rest of the world, especially to European economies. After lengthy negotiations, the commercial and legal privileges of European citizens and companies as well as the free trade agreements were abolished and the new state obtained the right to decide on its own commercial policy and tariffs beginning in 1929.

In the summer of 1929, before the onset of the Great Depression, the government announced new and sharply higher tariffs to support industrialization, and more generally, domestic production. Exchange controls and import quotas were soon introduced in response to rapidly declining export revenues and deteriorating terms of trade. Share of foreign trade in GDP continued to decline for the rest of the decade. As world economic conditions deteriorated, the government decided to step up its commitment to industrialization by announcing in 1930 a new strategy called *etatism*, or state-led import substituting industrialization. (Tekeli and Ilkin 1977, pp. 124-215 and 1982). In the 1930s the role of the state in the economy was expanding not only in the Soviet Union but also in Europe in response to the Great Depression. While the model embraced by the Ankara government did not advocate socialism, it envisaged a more important role for the state sector than the examples across Europe. If one basic reason for *etatism* in Turkey was the considerable autonomy of the central government from the private sector, the other related reason was the weaknesses of the private sector and the dominance of small and medium sized enterprises with simple technology in the manufacturing, banking, mining and other key sectors of the urban economy.

Etatism promoted the state as a leading producer and investor in the urban sector. While tariff rates on imports continued to rise, a five-year industrial plan was adopted in 1934 with the assistance of Soviet advisers. This document provided a detailed list of investment projects to be undertaken by the state enterprises rather than an elaborate text of planning in the technical sense of the term. By the end of the decade, state economic enterprises had emerged as important, and even leading, producers in a number of key sectors such as iron and steel, textiles, sugar, glass works, cement, utilities and mining. A second five-year plan was initiated in 1938 but its implementation was interrupted by World War II.

Etatism also involved the extension of state-sector activities and control to other parts of the urban economy as well. Railways which were nationalized from European ownership as well as the newly constructed lines were transformed into state monopolies. The strategy based on strong protectionism and industrialization created moderately strong rates of economic growth in the urban areas. Value added in manufacturing industry increased at 9 percent per annum during the 1930s. With the contributions of both public and private sector enterprises, the share of imports in the consumption of cotton textiles fell from about 60 percent at the end of the 1920s to 20 percent by the end of the 1930s. (Tekeli and Ilkin 1982, pp. 134-220; Tezel 1986, pp. 197-285; Boratav 1981, pp. 172-89).

The adoption of economic development as an important goal in the early years of the Republic brought with it the methods and institutions of creating a private sector by the state. In addition to policies of protectionism and industrialization, large or small purchases of the state, constructions made, tenders opened for this purpose, loans extended by public and private sector banks began to be developed as methods of creating a new private sector between the Muslim-Turkish segment. However, the relations between the state and the private sector never came close to the characterization of “embedded autonomy” coined for the East Asian cases after World War II.

From a macroeconomic perspective, however, the contribution of the state sector to the industrialization process remained modest until World War II. Overall state capacity remained low during the 1930s. In addition, close to half of all fixed investments by the public sector during the 1930s went to railway construction and other forms of transportation. This substantial commitment reflects the overriding desire of the single-party regime to create a politically and economically cohesive entity within the new

boundaries. In comparison, industry received limited resources, attracting no more than a quarter of all public investment, or slightly above 1 percent of GDP during the second half of the 1930s. (Tezel 1986, pp. 233-37; Pamuk, 2018, pp. xx)

Nonetheless, the state played a key role in the launch of industrialization in modern Turkey. The legacy of *etatism* including the workers' and management skills acquired during the 1930s has undoubtedly had a long lasting impact in Turkey. This experiment also proved to be powerful example for other state-led industrialization attempts in the Middle East, most notably in Egypt, after World War II (Richards and Waterbury 2008, pp. 179-210).

Period 3: ISI led by the Private Sector, 1960-1980

After the end of World War II, domestic and international forces brought about major political and economic changes in Turkey. The emergence of the United States as the dominant world power shifted the balance towards a more open political and economic system. As the government pursued membership in NATO and the country was increasingly drawn into the American sphere of influence, the single party regime abandoned its earlier emphasis on state led industrialization. (Thornburg, 1949). In addition, many social groups had become dissatisfied with the single party regime during World War II. The opposition demanded greater emphasis on private enterprise and the agricultural sector, and a more open economy.

The opposition Democrat Party won the elections in 1950 and launched a new economic strategy abandoning state led industrialization and embracing agriculture where close to three-fourths of the population earned their living. Large increases in agricultural output were achieved in the earlier years. However, the government tried to maintain high agricultural prices and incomes by printing money and buying wheat and other crops. The ensuing inflation and balance of payments crisis ended the experiment of agriculture as the leading sector. One criticism frequently directed at the Democrats in the aftermath of this crisis was the absence of any coordination or long-term perspective in the management of the economy. After a suggestion by the OECD to the government, the prominent Dutch economist and later Nobel laureate Jan Tinbergen was invited to Turkey in 1959 and he recommended some form of planning. However, the Democrat Party leadership was not impressed. After the military coup the following year, one of the first initiatives of the military regime was to establish the State Planning Organization (SPO).

The military leadership and part of the Ankara bureaucracy viewed the SPO as a strong, cohesive and autonomous institution which would direct the import substituting industrialization (ISI) process. In its early years the SPO was an elite organization inside the bureaucracy which was able to recruit some of the most qualified young graduates and provide them good training. SPO developed a strategy of industrialization emphasizing intermediate goods, higher technology content and a longer term perspective. This model contained some elements that resembled the practices that were being adopted in East Asia at the time. The five-year development plans would be binding for the public sector but only indicative for the private sector. In practice, however, the SPO played an important role in private sector decisions as well since its approval was required for all investment projects that sought to benefit from subsidized credit, tax exemptions or access to scarce foreign exchange. The agricultural sector was left outside the planning process. (Milor 1990; Türkcan, 2010).

In contrast, the private sector in Istanbul led by family controlled conglomerates, argued that the public sector should not compete with the private sector, and while the SPO may direct the urban public sector, it should only support the private sector with tariffs, subsidies and incentives. The private sector did not want to be led by and did not want to interact and cooperate with a strong public agency. Instead, it worked with the politicians to weaken the planning agency and its autonomy. It would be fair to say the distrust was mutual. Rather than heavy industry and higher technology, the latter wanted to focus on durable consumer goods and automotive production for the domestic market, forming partnerships with multinational companies wherever necessary. (Keyder, 1987, chapter 7)

As political power shifted to the parliament and the civilian government in later years, the early model was abandoned and the priorities and goals of the SPO began to be shaped increasingly by the private sector, and especially by the large holding companies. Instead of directing an industrialization model that used higher skills and technology to produce more complex products and eventually direct them towards exports, the SPO evolved into a body that distributed various subsidies, tax exemptions, foreign exchange allocations and other privileges to the well-connected segments of the private sector. There was very little monitoring or public accounting of the benefits provided to the private sector. In addition, the state continued to support the private sector especially those close to the government through a variety of related mechanisms, infrastructure projects, state purchases, loans extended by public sector banks. (Milor, 1990; Türkcan, 2010; Toksöz et al, 2023).

State enterprises, both those dating back to the 1930s and those more recently established, were directed to invest in large-scale intermediate goods industries, while private firms took advantage of the opportunities in the heavily protected and more profitable consumer goods. Foreign direct investment in the ISI industries remained modest. Most new technology was obtained through patent and licensing agreements. The large domestic market stimulated manufacturing output during this period. The rate of growth of manufacturing value added was close to 10 percent per annum. However, manufacturing growth depended overwhelmingly if not entirely on input growth. TFP growth remained below 1% per annum (Altug, Filiztekin and Pamuk, 2008).

The years from 1963 to 1977 thus represented for Turkey what Albert Hirschman called the easy stage of ISI (Hirschman 1966). By taking advantage of backward linkages, manufacturing value added increased in both final and intermediate goods, but not the technologically more difficult stage of capital goods. Only a small fraction of the manufacturing output was directed to exports during this period. Share of manufacturing exports in GDP remained below 2 percent during the 1970s. Boosting exports required a new government policy and institutional environment, but strong protection strengthened vested interests in favour of the existing policies. Political instability negatively affected state interventionism during the 1970s. As the earlier focus on industrialization faded, the ISI model led by the SPO lost its effectiveness and an increasing part of state intervention was carried out on a short-term basis driven by politics and patronage rather than long-term rules. Large segments of the private sector remained against membership in the European Economic Community during this period for fear of the effects of competition.

The relations between the bureaucracy and the private sector during these decades deserve greater scrutiny. The absence of a cohesive and stable bureaucratic structure and a poorly organized private sector often dependent of the public sector and the politicians made it very difficult to develop regularized ties and institutions of consultation and cooperation between them. The weaknesses of the public sector, the cleavages and weaknesses of the private sector and the difficulties of cooperation between the two are best understood in historical terms, in terms of the persistence of key institutions. Despite the tradition of a strong state going back to the nineteenth century and even earlier, the public sector often lacked the cohesion and autonomy from both the politicians and the private sector to implement coherent, rules-based policies. It is not surprising that the model of strong, cohesive and autonomous public agency directing industrialization and guiding the private sector during the 1960s did not survive very

long. The public sector became increasingly more fragmented during the political instability and short lived coalition governments of the 1970s as political parties divided up the ministries and tried to maximize the electoral gains. There were frequent changes in the higher echelons of the bureaucracy. The economic bureaucracy thus lost the cohesion and capacity necessary for the implementation of a coherent program of interventionism in favor of industrialization.

The private sector was also fragmented and poorly organized. Cleavages have often made it difficult for different groups to come together and negotiate and cooperate. As a result, individual or small groups interests organized around informal networks have often taken precedence over larger collective interests. The business organizations were dominated by politicians. The major national organization bringing together representatives of the private sector, Union of the Chambers and Commodity Exchanges, was established by law in 1951 and was controlled by the government. Industrialists were not always the most powerful group within the private sector. Governments paid a good deal of attention to the demands of large scale merchants. Leading industrial groups began to organize during this period around holding companies or conglomerates controlled by families. Examples of cooperation within business groups existed but companies and individual businessmen often preferred to engage in bilateral lobbying. A large part if not most of lobbying remained focused on particular and narrow benefits (Öncü 1980, pp. 455-80; Bianchi 1984; Biddle and Milor 1997, pp. 277-309).

The first voluntary organization of the private sector consisting mostly of the owners and managers of the largest conglomerates was established in 1971. TUSIAD was not able to shed image as the club of the rich, however. It also lacked the capacity to design and enforce well defined rules of interaction with the public sector for its members. Members and their companies continued to engage in bilateral lobbying. Politicians and state elites often found it expedient to encourage and take advantage these cleavages by playing one group against the other. In fact, rather than well defined, transparent channels and well observed rules, both the private sector and the politicians often preferred bilateral and opaque ties and particularistic relations.

State interventionism certainly contributed to growth in Turkey during the decades after World War II. However, the low rates of total factor productivity growth, low technology component of industrialization and the weak record of exports suggest that state interventionism has had a mixed record during this period. The limitations of state interventionism need to be examined not only with reference to the specific forms and institutions of state-private sector relations but also in terms of the general environment in which these actors operated. One

important reason why government interventionism produced mixed results was the weaknesses of the two main actors, the bureaucracy and the private sector and their inability to cooperate. Institutions of cooperation, organization and conflict resolution were critically important not only for the state but also for social actors to function effectively in the defense of their interests.

In other words, the problem has not been just that state capacity or the capabilities of the formal agencies charged with enforcement duties was weak. The state in Turkey could not harness the different powers and capacities of the elites and deal with various collective action problems. Various elites often chose to develop formal and informal institutions different from those defined by the state that will serve their interests better. Moreover, at times of heightened political instability, governments, far from establishing and enforcing rules for long-term industrialization, showed a weak outlook, constantly distributing privileges and unable to adequately resist short-term demands. Political instabilities, weak governments and institutions were long-term features of the post-World War II social and political environment. (Öniş and Şenses, 2007)

Period 4: Globalization and Export Growth, 1980-2020

Turkey's democracy and political institutions have remained under pressure ever since the shift to a multiparty political system in 1950. The military coups in 1960 and 1971 gave the armed forces significant power over the regime and veto power on many issues. The coup of 1980 further boosted the power of the military. The 1982 Constitution brought in broad restrictions on freedom of thought and association and cast a long shadow on the political system that would last for decades. By dismantling of the main political parties and prohibiting the prominent politicians of the 1970s from returning to politics, the military regime also caused a great deal of political instability helped the rise of the Islamist parties in the 1990s.

The severe economic crisis at the end of the 1970s made it very difficult to continue with inward oriented industrialization policies. Against a background of falling imports and output, commodity shortages, and strained relationships with the IMF and international banks, the government announced a comprehensive stabilization and liberalization package in January 1980. The military regime that came to power after a coup in September of the same year endorsed and continued the new program. The aim of the new policies was to create a market based, export-oriented economy. Foreign trade was liberalized during the 1980s and controls over international movements of capital were lifted in 1989. Privatization of the state economic

enterprises was delayed until the 1990s and even later, as this proved to be a very contentious issue politically. (Arıcanlı and Rodrik, 1990; Boratav, 2011).

Turkey's export performance since 1980 has been relatively strong. With the support of the manufacturing base inherited from the ISI era, commodity exports rose sharply from a very low base, from \$2.3 billion or 2.6% of GNP in 1979 to \$13 billion or 8.6% of GNP in 1990, and to \$170 billion or 24% of GDP in 2020. Most of these increases in came from manufactures whose share in exports rose from 36% in 1979 to more than 90% after 2000. An important factor in the expansion of manufacturing exports was the signing of the Customs Union agreement with the European Union in 1995, ensuring access to the large EU market. The EU's share in Turkey's exports remained between 40 and 50 percent since the 1960s. Turkey's manufacturing sector has so far been able to resist pressures for de-industrialization that impacted so many other developing countries in recent decades (Rodrik, 2015). Share of manufacturing industry in GDP and in total employment fluctuated between 20 and 22 during the last two decades (Günçavdı et al 2022).

One important problem for Turkish manufacturing has been that it continues to produce mostly standard goods, attempting to take advantage of the relatively low wages. Turkey's most important exports included textiles, along with clothing in the early period, and iron and steel products, chemicals and automotives took the lead in recent decades (Yılmaz, 2011). TFP growth also remained low, averaging less than 1 percent per annum since 1980. One proximate cause of the problem with low technology has been that manufacturing companies have been reluctant to invest in product development and innovation. This is at least partly related to the shortcomings of the education system which has not delivered a labor force with the skills necessary for a more diversified and technologically more advanced industrial sector. (Taymaz and Voyvoda, 2012). Another important explanation lies in the nature of government interventionism. Government support for manufacturing industry or more generally for the private sector often became support for individuals and firms close to the government. As a result, individuals and firms preferred using their resources to stay close to and seek favors from the government, rather than invest in education, skills and technology to improve competitiveness in domestic and international markets. (Toksöz et al, 2023)

In the interventionist model of the import substituting industrialization era, the state had played a central role in the economy, allocating scarce resources such as foreign exchange and often deciding on the winners. The disintegration of the system of protectionism and incentives

of the early ISI era and the emergence of retail relations between the state and the private sector in the 1970s had been much criticized and it was then underlined that this situation was an inevitable outcome of the ISI model. With the adoption of the Washington Consensus policies in 1980, it was claimed that the role of the state in the economy would shrink and its old interventionist role would disappear.

Under the new model, most of the ISI measures of support for industrial activity including sector-based policies were in fact scaled down or dismantled although regional incentives continued. However, four decades after the new policies were launched, the role of the state remained strong. While some important changes occurred in the relationship between the state and the private sector, government interventionism and discretion continued to decide the winners in the economy in the new era since 1980. From its early days, short term politics and favoritism played an important role during the shift to the new policies. Since the new economic policies had not been tied to long-term rules, personal decisions and arbitrary behavior in the 1980s paved the way for far worse practices in the 1990s when political instability increased and fiscal discipline collapsed (Öniş 2004, pp. 113-34).

In the national elections in 2002 the Justice and Development Party (JDP) with Islamist roots came to power and Turkey's experience with Washington Consensus policies entered a new era. In its early years, when the goal of EU membership was still on the table, the JDP government chose to pursue a more conventional policies and tried to avoid favoritism amongst the business groups. (Atiyas 2012, pp. 57-81). As JDP began to consolidate its power after the 2007 elections, however, it began to pursue more discriminatory practices. In fact, promoting a new layer of conservative businessmen loyal to the party became a leading priority. While fiscal discipline was maintained as a key component of economic policy, the government began to undermine the independence and eventually controlled the regulatory agencies established under the 2001 program. In an environment of growing authoritarianism, partisanship in bureaucratic appointments and the awarding of increasing number of government contracts and other forms of support on the basis of political affiliations made clear to all that remaining close to the government mattered. (Öniş and Şenses 2009; Atiyas 2012, pp. 57-81).

Conservative business groups close to the JDP thus began to attain privileged positions in tenders launched by local authorities or the central government, as well as in the distribution of credits by public and private banks. Government influence over public sector banks and over the credit they provided increased in this period. In other words, in the era of neoliberal policies,

when state interventionism was alleged to have become more limited, the capacity of the political power to decide who would profit in the economy, and how they would, was not reduced. In fact, the role of the central government and local authorities in selecting who would win and who would lose in the economy became steadily stronger. In an environment of growing authoritarianism, partisanship in bureaucratic appointments and the awarding of increasing number of government contracts and other forms of support on the basis of political affiliations made clear to all that remaining close to the government mattered. Even though industrial policy formally returned in 2007 after more than a quarter century, it never ranked high in JDP governments' priorities. (Toksöz et al, 2023)

Awarding central and local government contracts to pro-government companies is a common practice in Turkey. However, since the JDP remained in power longer than any other party that came to power during the multi-party period after 1950 and made great efforts to change the administrative and legal legislation, it was able to shape the government-private sector relations and the legal framework governing these relations providing the state much greater room and discretion to choose between business groups, and in turn, create the legal framework for allowing the same business groups to support the party. (Buğra and Savaşkan 2014, pp. 76-176).

Private sector in Turkey, especially has not had a strong record organizing and defending its collective interests. It has been hampered by divisions along the lines of large versus small, secular versus conservative, and the pursuit of more narrow interests by these smaller groups. These cleavages have often made it difficult for different groups to come together and negotiate and cooperate. As a result, individual or small groups interests organized around informal networks have often taken precedence over larger collective interests (Bianchi 1984; Biddle and Milor 1997, pp. 277-309). Along with rising political and social polarization in recent decades, cleavages inside the private sector intensified. Fragmentation of the private sector between politically connected big business and the smaller companies but also on the basis of social preferences increased.

While the secular elites of large scale businesses that had been favored in the previous era were being pushed out, the newly emerging conservative groups connected to the JDP benefited from government support. Beginning in the 1990s, a new business association called MÜSIAD sought to play the same role among conservative business groups TÜSIAD had played as an umbrella organization for large scale and mostly secular business groups since the 1970s. The new association became increasingly powerful as its members gained the inside track on many

government contracts, both national and local. It is not surprising that particularistic relations rather than rules based support flourished under these conditions (Buğra 1998, pp. 521-39; Buğra and Savaşkan 2014, pp. 109-49; Sayarı, 1977 and 2014).

The prevalence of patronage, corruption and similar behavior patterns, especially in the area where politics and economy intersect, thus sharply reduced the effectiveness of and state interventionism. One of the key areas which tended to lose in this environment was technology and industries with higher technological component. Individuals and firms often found it more expedient and easier to use their resources to stay close to and seek favors from the government rather than invest in education, skills and technology to improve competitiveness in domestic and international markets. Those who failed to reach the privileges provided by the government, on the other hand, decided not to invest in long-term projects with higher technology and skill content, or to move their investments abroad.

Conclusion

The success East Asian countries have achieved with state directed industrialization has produced a large literature focusing on the institutions that are associated with long term economic growth. One major concern of this literature has been to identify the key micro forms that have produced the successful outcomes. The literature emphasized that for state directed industrialization to have the highest degree of success, not only a capable bureaucracy must have a certain degree of autonomy but it should also develop close ties to the private sector and engage in joint projects with the private sector.

With time, however, it became apparent there were multiple institutional means for solving the many problems that institutionalists highlight in a wide variety of ways. It also became more evident that institutional arrangements, however crucial, were endogenous to more fundamental relationships between political elites and the private sector. One emphasis of the literature has been on state capacity but the motivations of these states or the reasons why these states and their political elites embraced growth-promoting policies often at the cost of other priorities have not been sufficiently addressed. It also became clear these East Asian forms do not travel well and similar outcomes cannot be repeated in different environments.

Debates about state led industrialization have often focused on the more successful countries. This paper has focused on a country that has more in common with the less successful cases. Turkey is one of many developing countries where industrialization has benefited from state interventionism and support, but the results have varied over time. The study focused not only

the evolution of the institutions related to state-business relations but also complementarity among these “micro” institutions but also macro institutions and political economy in general examining efforts at state directed industrialization in four different periods since the nineteenth century.

The evidence I have reviewed strongly suggest the outcomes in Turkey during the four periods did not depend on a single or a set of specific set of institutions but on the relations between the political and private sector elites, and more generally, on the political economy. Problems of internal organization of the state and problems of state-society relations were mutually reinforcing. I have argued that in the longer term the degree of success of state interventionism depended less on the specific institutions of state interventionism but more on the overall environment of state-private sector relations, and more generally, the relations between the political and economic elites and the political economy.

Even though basic strategies of industrialization and the micro institutions related to state-private sector relations changed over time, there were important continuities in the general political economy and the outcomes with respect to industrialization. For large parts of the last century, the political basis of a strategy of industrialization and growth were not fulfilled in Turkey. The political and economic elites have often been divided and have not been able to put together a lasting coalition in favor of industrialization and economic growth. Their goals have remained more plural and included in addition to growth, favoritism, re-distribution, power and others. The relations between the political elites and private sector were usually dominated by the political elites and characterized by the dependence of the private sector elites on the political elites. Despite considerable economic growth over time, the divisions within the private sector elites and their weaknesses in their relations with the political elites continued. In turn, the political elites preferred to keep the private sector divided and maintain retail relations with the economic elites.

In addition, the recurring periods of political and macroeconomic instability also made it difficult to maintain stable relations between the state and the private sector and implement policies of industrialization for long periods of time. As periods of multi-party democracy and periods of authoritarianism including short periods of military rule alternated, the uneven relations between the political and economic elites and retail relations persisted. Relations between the bureaucracy and the private sector varied over time but they did not come close to a

state of embedded autonomy for the bureaucracy often emphasized as the key to the success of East Asian industrialization.

As we may be entering a new era of state directed industrialization around the world, lessons from the past may be useful for Turkey and other developing countries. The East Asian model of the developmental state was the product of unique historical circumstances and there exist major constraints on its transferability other national contexts. Turkey's experience has also shown that the institutions and policies that work in another environment do not travel well and often do not work well in other environments. Turkey's experience has shown further that the imported institutions needed to interact well with other institutions and they had to be consistent with the existing balances in domestic political economy. Many of the imported forms initially intended to regulate the state-private sector relations and direct industrialization were subsequently modified and some were rejected completely.

As we consider new institutions for state directed industrialization for the future in Turkey and elsewhere, I will emphasize the significance of institutional diversity and the role of experimentation. It is critical to remember that even within East Asia, there were multiple institutional means for solving the many problems associated with state directed industrialization. This diversity suggests the institutional arrangements that we observe in operation around the world today, constitute only a subset of the full range of possibilities. There is no reason to suppose that the developing countries or late industrializers have already exhausted all the useful institutional variations associated with successful industrialization.

Moreover, the range of successful forms in the developing countries today may be inappropriate to the needs of other developing economies searching for more suitable forms. As it has become clear imported blueprints or institutions are often of limited value, it is also becoming evident that more suitable institutions need to be developed locally, relying on hands-on experience, local knowledge, and experimentation. The local-knowledge approach is bottom down and relies on mechanisms for eliciting and aggregating local information. While some best practices, international codes and standards, harmonization can be useful for the more technical issues, larger scale institutional development requires a process of discovery about local needs and capabilities. Some degree of local experimentation has emerged as an effective way of processing and using local knowledge. (Rodrik, 2000; Roland, 2004).

The last words are about the political basis of state directed industrialization. This paper has emphasized that institutional arrangements for state directed industrialization, however crucial,

are always embedded in the more fundamental relationships between political elites and the private sector and more generally the political economy. It was also pointed out the power of states and their focus on industrialization depended on the strength of the political coalitions behind such a goal. Despite considerable economic growth over time, a coalition behind industrialization is rather weak if not lacking at this time, Turkey, and other developing countries, will not be more successful with industrialization until the political basis of such a goal is established.

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