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ROLE OF POLITICAL INSTITUTIONS ON SOCIAL CONFLICTS AND ECONOMIC ACCUMULATION: A CASE STUDY OF TURKEY

Abstract:

There is widespread agreement among economists that society has become an organization through the institutions. However, there is not a consensus about definition of institutions and in which way institutions affect countries economic performance. With pioneering paper Acemoğlu, Johnson and Robinson (2001), defends a new perspective about role of institutions in development process. By using Schumpeterian creative destruction point of view, they have mentioned the importance of power relations and redistribution in order to explain development process. Aim of this paper is to explain social conflict and political institutions role on economic development from the the period nineteenth century to today for Turkey where founded as a secular, nationalist Republic that inheritor of multinational theocratic Ottoman Empire. Founder philosophy of Republic was inherited from collapsing period of Ottomans accompanied with political power relations formed by political institutions. Military- bureaucratic elites whose point of view is positivist, nationalist and Westernism created political institutions supporting their ideas. Political institutions as a main determinant of economic institutions supported their follower. New Republic foundation periods raised their own bourgeois and put constraints other groups. Therefore, social conflicts did not solved by political elites who do not want to lose their political power. This historical period have effected today's society because of cumulative causation too.

Keywords:

institutions, social conflict

JEL Classification: B15

Introduction

"Institution" is an interdisciplinary concept which is used in a wide range of social sciences such as law, economics and sociology. While classic economists Adam Smith and Karl Marx realized the importance of institutions for organizing society, Ricardian perspective excluded the social differences in economics. Institutions were one of *ceteris paribus* phenomenon for Neo Classics. German Historical School, Austria and Veblenian Institutional economics opposed to that universalist point of view. At the beginning of 20. century with the Keynesian economics success, those schools of thought fell out of favor. Coase, Demsetz, Williamson and North who were accepted as the founders of New Institutional Economics, revised Neo Classical view with completing ideas such as institutions, bounded rationality, role of history etc. After 1990's, the New Institutional economics lived its heydays and the institutions became the focus of interest in economics. Its success resulted in the widespread agreement among the economists that society has become an organization through the institutions (Kaufman, 2007; Rosenberg, 1974; Eggerstson, 2003; Chang, 2005; Coase, 1998; Acemoğlu, Johnson and Robinson 2001).

Hodgson (2006) defines *institutions* as "systems of established and prevalent social rules that structure social interactions". Language, money, law, systems of weights and measures, table manners, and firms (and other organizations) are all included in that definition. Institutions shape the norms and values with thought, expectation, and action, therefore it can impose form and consistency on human activities. The founders of old institutional economists Thorstein Veblen and John R. Commons thought that institution as a special type of social structure with the potential to change agents, includes shifts to their purposes or preferences. North (1991), as a common definition preferred by the new institutionalism, defines institutions as "the rules of the game in society or, more formally, the humanly devised constraints that shape human interaction." Therefore, institutional structure shapes incentives in human exchange, whether it's political, social or economics. The agreement among the old and new schools of thought on how much institutions are crucial for organizing the society. However, how the institutions emerged, natural or consciously or how they can be classified, what their roles are on the development process, and whether their functions can be defined clearly or not, are still in controversial area.

Since the institutions have been accepted a lot of controversial area in literature, we need to investigate on how institutions classified. We have used economic institutions, political institutions and political power concepts related to Acemoğlu a.t (2001). We seek to focus attention on the less studied phenomenon of role of these institutions on capital accumulation for Turkey. Firstly, what Ottoman empire institutional heritage for new established Republic has been explained. Secondly how political institutions has served for capital accumulation and social conflicts during one party, multi party regime had discussed. Last part is concluding remark about these institutions effect on Turkey's situation now.

1.1.How Can Institutions Be Classified?

Institutions can be classified into three dimensions (Jutting, 2003):

Level of formality: The level of formality of institutions determines the frame of individuals' interactions. Discriminations between formal (laws, constitutions, penalties

etc) and informal rules (traditions, customs, taboos) constrains are the determinant of the level of formality.

Level of hierarchy: The level of hierarchy mentions about how the society has changed and, how the institutions have been effected by these changes. It divides institutional change into four levels. First level means relatively primitive period of society and informal institutions organize social interactions. Second and third level, indicate how society becomes more complicated, and legal rules, rights and contracts gain importance in the society. In the fourth level, formal institutions become the main determinant of social interactions.

Field of analysis: Field of analysis underlines the different investigation areas for institutions such as political institutions (voting rules, discrimination of political preferences etc), economic institutions (property rights, contracts enforcement etc.), legal institutions(constitutions, legal rules etc) and social institutions (education, family, gender gap etc.)

1.1. 1. Economic Institutions and Political Institutions

Economic institutions are the main determinants of "economic rules of games". These rules include establishing effective property rights, enforcing contracts, creating entrepreneurship and investment intensives. How the economic institutions are designed is crucial for development and capital accumulation period, because they form economic agents intensives in order to organize physical capital, human capital, creativeness, technology, allocation of resources and production. Therefore, they not only have an effective level of efficiency but also show how the resources are distributed between individuals and social groups (Acemoğlu, 2010; 7-8).

Economic institutions can provide higher quality of governance with its regulations in order to motivate investment incentives, thus have a positive effect on development level. Well defined property rights and contracts are accepted as the main motives behind investment, innovation and economic stability. However, they cannot be either, in terms of the qualifications of economic institutions as "extractive" or "inclusive". Because it is accepted that well defined property rights and contracts are not allowed to uncertainty and they feeds profit expectations. Risk of government exploits has decreased with well designed economic institutions (Acemoğlu and Robinson, 2013). Political institutions have been designed for solving social conflicts and they have spread power into different groups instead of collecting them as economic or political elite. It is a state variable which has an effect on economic institutions and they change slowly. Additionally, they put constraint on political power accompanied with the determining way of how they can change. Political power is divided into two groups as *de jure* political power and *de facto* political power. *De jure* political power is determined by the political institutions of society. *De facto* political power is not a constitutional power which comes from illegal activities such as military coup, mutiny, but it comes from legal activities in which pressure groups are used to impose their ideas. Thus, if political institutions are designed and work in a right way, a system does not let the political powers bring commitment problems. It means that political elite commits not to use resources to maximize their own interests, which cause the blockage of chances for development. Democratic political institutions are allowed to check and balance in order to restrict elites' powers. It is expected that political institutions are

more effective than economic institutions (Acemoğlu, Johnson and Robinson, 2005; Acemoğlu and Robinson, 2013).

1.1.2. How did inclusive and extractive economic institutions emerge?

There are four approaches on why a society prefers instructive economic institutions or extractive economic institutions. First approach is the efficient institutions approach. This approach defends that society has chosen surplus value maximizing institutions. Moreover, political institutions have no function on allocations of resources among different social groups. Second approach is the ideology approach which explains cross country differences in terms of ideology perspectives. It underlines that leaders' ideological arguments and their visions about what is suitable for society's welfare is decisive in economic institutions. Third approach is the incidental institution which says that institutions are the result of unplanned human behavior and social interactions in historical background. The last one is the social conflict approach. According to social conflict perspective, economic and political institutions are not constructed via social consensus. Politically powerful groups, political elites, preferences are decisive in how they work. Political elites aim at maximizing their own interests and they do not think about society's welfare. (Acemoğlu, Johnson and Robinson, 2005; Acemoğlu and Robinson, 2006).

1.2. Political Institutions, Political Power and Social Conflict

While individuals interact with each other, they begin to realize others' activities and order their actions according to others. It means that socialization is to take into account of other individuals' behaviors. These collective behaviors cause dependency, competitiveness, conflicts and divisions between individuals and groups while society becomes more complicated, social groups lose their level of equity. Differentiation of society creates class and status (Ergil, 2012; 61-109). Dahrendorf (1958) argues that the difficulty of categorization causes social conflicts. Although all societies have specific qualifications and historical backgrounds, the main focus is on the relations between the "ruler" and the "ruled" ones. Modern theories of strata main argument focus on these points. This approach claims that hierarchy is the main reason for strict class relations (Lipset, 2010).

The other point is the power relations in society. Elite theories, corporist theories, state centered theories and Marxist theories explain power relations in society. Corporist theories suggest that there are several power centers in society and these power centers are distributed between the elite and minor groups, which determines policies of society. State centered theories assert that state has superior power in compare to other classes, and it's independent from society. Elite theories have subtitles. Pluralist elite theory says implies all groups have role on collective decision making process. Democratic elites put a relation between the freedom of elites and democracy (Aslan, 2003). Elitist theory goes back to Pareto (1901) and argues that history of humanity consists of the elites' conflict and their circulations. Marxist theory focuses on class struggle. Wealthy classes are intellectual classes which are the same groups and (relations of production) form the superstructure (institutions except relations of production such as family, religion, philosophy etc.) (Giddens, 2010). Additionally, state is the supporter of capitalism. The role of interest groups, pressure groups and lobbies are decisive in public policies, as mentioned before in literature. Thus, the state is organized by the results of those conflicts among the groups (Çelebi, 2013). Elites tend

to act in a manner of maximizing their own interests in authoritarian style and its ruler class determines the composition of public expenditure and public revenues, redistribution policies and provision of public goods (Ayman, Kurz and Neymen, 1985). It means that public policies are the tools for elites to apply their power on economic and fiscal areas. Acemoğlu predicates the elite creates inefficient institutions to maximize their interests and it's the main obstacle for development and growth of society. Inefficient institutions discourage innovation and investment, therefore capital accumulation, improving technology and development can change power relations and it can cause creative destruction. Thus, new technology and production relations can prevent the elites' taking advantage from national resources. This motivation makes them to prevent establishing efficient institutions for encouraging people for investments and making innovations. Industrialization creates political replacement effect. Political elites think that they can lose their future rants and political power (Acemoğlu, 2003; Acemoğlu, 2005; Acemoğlu, 2008; Acemoğlu, 2006 Acemoğlu, 2012).

Collective decision making indicates how individuals' choices transform into social choices. Marketing and voting systems are the ways of determining the collective decisions. Conflicts among and within the groups make it more difficult than individual choices. Marketing and collective decision making have difficulties about social contribution level, responsibility, enforcement rules and power relations. Collective action problem is analyzed in different perspectives by Truman (1981), Olson (1965), Meltzer and Richard (1981) and Noll (1982).

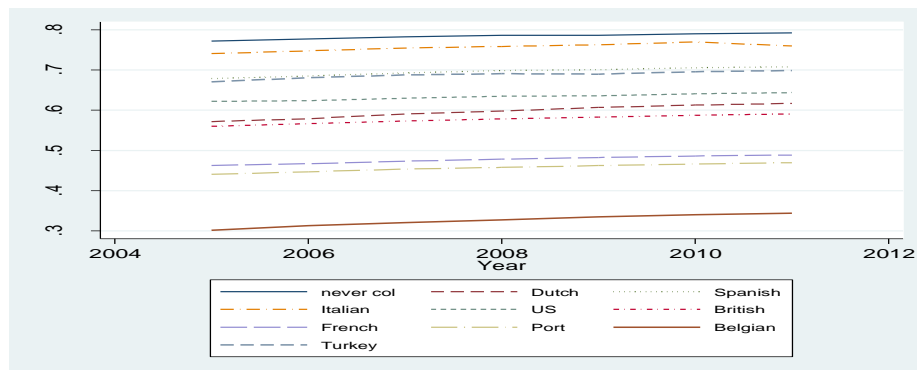
Institutions have role on both power distributions, social conflicts among groups and the collective action problem solving process, which can also be used for solving these problems and diminish the negative effects on institutional structure, development and growth.

2. Role of Political Intitutions and Social Conflict on Capital Accumulation in Turkey

After Ottoman Empire had collapsed, Turkey founded a new independent Republic in 1923. It has changed its economic and political visions several times in relation to international and national dynamics. The transition from one-party system to multi-party regime, military coup and neo liberal period have affected both economy and politics of today, so the path dependency has worked for Turkey's development process. Although Turkey established a secular republic and changed its *theocratic regime*, it was still accepted as the inheritor of Ottomans and continued to keep informal institutions and state traditions in some respects.

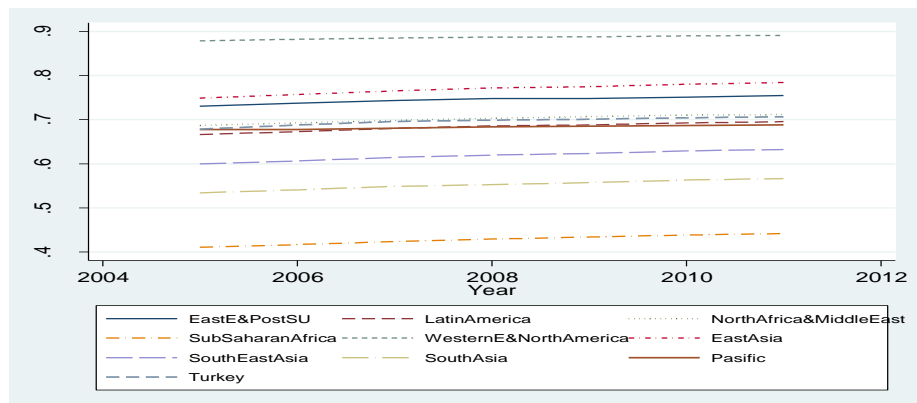
Graph 1. indicates relation between countries colonial heritage and development level. Even Turkey has been never colonized legally, it is development far below the countries classified other never colonised.

Graph1. Development Level and Colonial Heritage of Countries



Sources: Hadenius and Torell Index

Graph2. Development Level and Politic Geography of Countries



Source: Hadenius and Torell Index

Graph 2 indicates Turkey's development level is close to its category "North and Middle East". The founder elite class of Republic were the soldiers whose ideas were Western and positivist accompanied with nationalism. Political systems and constitutions were organized in accordance with these perspectives. So what problem comes from for Turkey. Aim of this case study is to seek historical background of development problem related to political institutions and social conflict.

2.1. How did the Economic and Political Institutions Change in the 19th Century?

İbni Haldun separated Eastern countries' development process into four phases (Berkes, 2013):

- a. Establishment
- b. Stability of order
- c. Instability of order
- d. Collapse

Berkes (2013) applied this methodology to Ottomans. It is used to compare four different phases and its main economic and political institutions.

1. Phase: Production of goods and services were made by the guilds and checked by the state, so there were strict rules in order to prevent profit and scarcity for goods. Wars and invasions were main resources for treasury.

Ottoman Empire was a theocratic patrimonial state. Sultans neither let the local feudality get power nor had any power where they had conquered (İnalçık, 2010).

2. Phase: Soldiers gained power which did not pleased the central authority, so it was prevented by "*Kul System*". *Kul System* means that after a country or land was conquered, Christian's children were chosen to be soldiers or bureaucrats for the sake of state. It was related to his ability, namely they were either educated in *Enderun* and became bureaucrats or not. The main reason for choosing them was that they did not have any relations or bonds with the society. Hence, they could adore to Sultan and sacrifice themselves to the state.

Tax regimes were called "*timar system*" which meant that the state had right to collect taxes for *Sipahis* (soldiers) in order to grow and educate new soldiers.

Classical Ottoman economics principles can be summarized as subsistence, fiscals and traditionalism. It was a closed economy producing enough for its necessities. Central authority never let a capital accumulation or private property rights until 19. century. Reorganization of institutions were selective and it was never a threat for bureaucracy (Genç, 2000; Pamuk, 2004).

3. Phase: Institutions began to conflict with each other. While "*Ulema*" had authority to make religious explanations, they also had right to give advices like supervisor for Sultan and society about religious principles and conflicted areas. They never let any reformation in State for preserving status quo. "*Yeni Çeri*" who were the main parts of soldiers lost their moral values and they began to deal with trade, too.

Sipahis took the advantage from local society during tax collection and they exploited the local society. Therefore, tax system changed accompanied with the right to collect taxes taken from *sipahis* and given to "*Mültezim*" who had tax collection right from auction. Although it was aimed to prevent "*Sipahis*" corruption, it caused local government to become and behave like a feudal power. The result was unpleasant for the society owing to high tax rates and uprising. French revolution and nationalism fed social anomalies.

4.Phase: The last phase was the process of old system's dysfunction and paralysis. Reformation movement began, but it was not enough for preventing the collapse period. All institutions evolved to its opposites when it was compared to the past (Berkes, 2013; 20-24).

One of the main features of Ottoman Institutions was not to have a homogenous administration, such as East Anatolia, Iraq, Egypt, Yemen, Romania, Moldavia and Maghreb where *timar system* were not applied at all. Instead of *timar system*, the state used to let them to preserve their original regime. The cities or regions close to capital city Istanbul had trace of central state but others used to preserve their institutional form (Pamuk,2004).

In 19th century, feudalism lost its power and bourgeois became a powerful class in Europe. However, in Ottomans there was never a bourgeois class, and feudalism gained strength during 19. Century.

State had an agreement with the feudal class (*1808 Sened-i İttifak*) but despite its importance, it was not applied properly. Instead of applying agreement, state preferred

to reorganize the central authority with reformation and modernization. *Gülhane Hattı* (1839) was announced which constrained Sultan's powers. This era was called Tanzimat which meant "putting in order". It was accepted as a step for liberalism. *İltizam* system was demolished and taxes were collected by civil servants of states. Local government lost its fiscal privileges. Central bureaucracy became the dominant group with centralization. French style Bonapartian administration was accepted (İnalçık, 1996; Seyittanoglu, 1996).

The other reason for Ottoman's need for modernization was to reorganize societies' ethnic and religious structure. In 1839, *Gülhane Hattı* and in 1856, *Islahat Fermanı* gave right to non Muslim society and they were equalized to Muslim society (Acun, 2007).

This era society was under the influence of nationalism. Ottoman was a multinational imperial state trying to transform its institutions into Western type institutions. However, it was also successful in liberalizing the state. Despite of giving new rights to the society, sultan still preserved his position and power. This power conflicts' results became a new pressure on society. Soldiers educated in Western type school became the opposition to pressure.

In order to provide the trust of other countries, especially Europeans, the first Constitution was announced in 1876 (*1876 Kanun-i Esası*). The Constitution did not come with class struggles. It was imposed by the Young Ottomans (Tanor, 2014; Soysal; 1987). Equality, property rights and legal rights were given to both Muslims and non Muslims. However, it was far from putting constrains to monarchy.

Until 19. Century, Ottoman maintained its international trade policy. It was allowed to import but not to export goods and services. The priority was society's necessities for production decisions. But in 19. century, the international trade grew with Europe. *Kadıs* who were the judge then and had rights to verdict Islamic rules, were not qualified enough to solve international trade problems and local and foreign merchandise. Trade Ministry was reorganized like an council. Representatives of guilds, domestic and foreign merchandise became the members of council. Later, this council was transformed into a trade court (Akça and Hulus, 2007).

In 19.century, many of the incorporated companies were belong to foreigners. They had privileges stemming from capitulations. Services like banking, auctorial, railway, mines, electricity, water, tunnel etc. were provided by foreign firms which were governed by Paris and London. Until Second Constitutions, except *Ziraat Bank* and *Şirketi Harriye*, there were not any Turkish cooperation established by foreign capital (Toprak,1982, 40).

Capitulations gave rights to embassies to check their society administratively and legally. This situation caused trade groups to emerge related to nations. These groups had crucial roles on trade and economic relations between Europe and Ottomans. 19. century trade was under the influence of non Muslim groups, and Muslims were excluded from business life then (Bugra, 1995).

It can be summarized how Ottoman Empire changed dramatically in terms of its economic and political institutions during 19th century:

1. The manorial system was transformed into tax farming,
2. Change in traditional production system,
3. Influence of industrial revolution,

4. State lost its military and fiscal power, and Muslim society wasn't pleased with this situation,
5. Non-Muslim society had good relations after opening the market to Europe,
6. Bureaucracy gained power instead of *padisah* authority,
7. Western movement gave birth to new ideologies,
8. Ottoman never let any class structure or class have power or never let them become a powerful group,
9. Voluntary vakif system which used to provide public with goods and services were demolished. Centralization redefined the State's responsibilities,
10. 1839 *Tanzimat* or 1856 *Islahat* were not successful enough for equality and property rights. Although the modernization aimed at establishing new rules, the commitment problems were never solved .

2.2. Transformation of Political and Economic Institutions

In 19th century, Muslim and non Muslim groups were under the influence of nationalism originated from French revolution. As a multinational state Ottoman faced many nationalistic movements. Turkish society was the last Muslim group to be a member of nationalist movements. Soldiers having western style education were the most influenced group from nationalism and secularism originated from French revolution perspectives. After the non Muslim groups developed a tendency to become independent with the Balkan War and the First World War, these movements gained acceleration. These soldier-based-groups came together under the name of Committee of Union and Progress (*İttihat ve Terakki Cemiyeti*). When it was established, firstly these groups' main idea was the Ottomanism trying to boost the Ottoman spirit, but after the resistance of other ethnic groups to Ottoman and Balkan War defeat, Turkish nationalism became the new value of the group. The political transformation led to change transformation in economic notions, too (Georgeon, 2013; Akkuş, 2008; Semiz, 2010; Gokbayir, 2012).

As it's mentioned above, the Ottoman production system was organized by *ahis* (a kind of guild) and production used to be implemented under strict rules suitable with Islamic principles, such as not producing for profit, abolishing interest gain etc. The level of production was determined by central state taking consideration of societies' needs. Almost all the international trade and financial sectors were on the hand of Christian society, so the economic power elites were the non Muslims in Ottoman.

After this Turkish nationalism had gained strength in society, a reaction to these economic power of non Muslim society appeared. In this sense, the National Trade Ministry was founded and it was compulsory to be a Turk for working in a factory (Semiz, 2010; Gokbayir; 2012).

In 1838, Balta Limani Agreement was signed between the English and Ottomans, which made Ottoman an open market for Europeans. However, Ottoman production was related to hand bench, so the production structure was not suitable for competitiveness. Capitulation gave priority and privilege to foreigners and caused the state to lose import taxes. The state wished to compensate those losses from export

taxes, which resulted in making the domestic capitalists become losers. It prevented a kind of bourgeoisie sovereignty in economic life (Pamuk, 2011).

19th century internal and external conditions supported foreign merchandise international trade; Non Muslim society was able to use restricted conditions in domestic trade, and Muslim tradesmen became poorer day by day. After Constitutionalism I (1. Mesrutiyet), Turkish people became influential actor and Turkish entrepreneur was stimulated for trade. Since capital accumulations couldn't be provided by savings, it was allowed to have speculative gains like black marketing. Because of war, economy turned into a closed economy, even the basic needs could not be imported, domestic producers increased prices higher than the market price. The gap caused by Armenian decapitation was filled by Muslim and Turkish entrepreneurs. Turkish traders took advantage from the foundation for checking black market just for Muslim society (*Menhi İntikar Heyeti*). Until 1908, 86 incorporated companies were established in Ottoman land. It increased up to 236 companies from 1908 to 1918. In 1914, capitulations were removed by the government in order to prevent foreign merchandise's privileges (Toprak, 1988; 50-71).

1913 and 1914 were the years of Islamic boycott, Armenian deputation and Greek population trade off, so the large part of non Muslim traders (merchandise) left the country. Turkish ideology, such as Ziya Gokalp's ideas, were impressed from French solidarism and Fredrick List's national economy perspective. Related to this ideology, ITC supported Turkish entrepreneurs, for example they established credit and selling cooperation to organize Muslim producers. National Banking system was established. The interesting point was that the members of ITC and newly-founded firm owners were the same people. The party became number one with its bourgeoisie (Sağlam, 2004; Özgün, 2008; Keyder, 2001).

Turkey lost its economic, politic and ideological accumulation after Armenians and Greeks left the Ottoman land. The main problem of the Turkish society was that there was not a national bourgeois class. Therefore, there were not any stimulation for entrepreneur class or industrial revolution. Additionally, the fragmented agricultural earth structure was the reason for low productivity in agriculture. Economy was always under the control of States' strict rules and it was not let any entrepreneur become an independent power from bureaucracy and State (Duman, 2007; 36-37). According to Keyder (1995), the other reason for development problems stem from foreign debts and dependent economic structure. *Düyun-u Umumiye* levied 1:4 of State revenues and it caused budget deficits. Second reason was that the bureaucracy did not let independent bourgeoisie class act, the State continued to maintain its status quo with economic resources. During the war, inflation and speculative gains increased; resources were under the control of the privileged groups who had the capital accumulation. 1908-1918 Turkish firm capital ratio increased from %3 to %38 (Keyder, 1995;38-42).

After World War I, National Independent War exploded and resulted in the victory of Turkish army under the leadership of Mustafa Kemal, therefore in 1923, new Republic was founded. The Turkish Independence war won by a social consensus of merchandise, bourgeois and landlord "*modus Vivendi*".

1.3.The Foundation of Republic and Political Institutions' Roles on Social Conflicts

Turkey was partly founded on the lands of Ottoman Empire. This area was determined by the First World War and Turkish Independence War against Anatolia invasion. In 1918, the collapse of Constitution resulted in a new nationalism with new political institutions in 1922. The aims of new institutions were being a nation and politically democratic Republic. During Independence War, local and regional decision making groups organized the society to become independent. After the war, these groups emerged their political decision making mechanisms, which evolved Turkish Parliament. However, this movement did not include labors or villagers, just the political elite such as religious, social and politically effective groups (Tanor, 2014;225-233).

The founder of Republic aimed at establishing politically and economically interdependent parties. The War not only ruined country but also changed the demography and economic institutions of the country. In 1913, the population was about 15.7 millions, then it increased up to 13.6 millions in 1927. The biggest trade centers were Istanbul and Izmir of which populations decreased by % 40. There were only 1.187.000 wooden cultivators and 211.000 iron cultivators. The poverty stemming from war was taken into consideration by founder of Republic. His economic perspective was inherited by the Young Turkish (Mardin, 2012; 221-222). After war, parties of war period came together in Lozan for Peace Agreement, but the assembly was interrupted because of discussion about capitulations.

The War also changed the class structure dramatically. The uncertainty of political decision making process caused social conflicts and ambiguity on allocation of resource, too (Keyder, 2001). However, Mustafa Kemal never accepted the class struggles as the reason for less development. His aim was to support landowners, businessmen and capitalists. Until Lozan was signed and election was held, modus Vivendi between land owner, businessmen and capitalists was emerged by Mustafa Kemal (Kuruc, 2011;248).

When the Lozan assembly was interrupted, the new State convened the Izmir Economic Congress in order to show its willingness for an independent economy, and declared its economic perspective as liberalism. The main principles of Congress were similar to the nationalist economics point of view. The new capitalist groups, merchandises and land owners were arbiters on decision. It was agreed on that the development would be the main target. In order to develop and make progress, it was aimed to attract both domestic and foreign capitals, to support national industry and entrepreneur, and to provide them with the conditions to control economic resources with moderate protectionism (Boratav, 2013; 46).

In 1924, the First Constitution of Republic was approved. After the regime had founded its political party CHP, the parliament preserved its independence for a while. There were oppositions who supported the old regime. *Terakkiperver Cumhuriyet Fırkası* was another party including the opponents. But in 1925, the supporters of the old regime and theocratic state resisted to the new regime. Hence, the regime soldiers and opponents of the state struggled with each other (*Seyh Said Resistance*), the Parliament approved a law and established a new court (*İstiklal Mahkemeleri*) in order to judge the regime opponents. Thus, the new regime had political, legal and economic power in one hand of CHP (Tanor, 2014; 290). However, this transformation of political institutions created a social conflict among conservative groups such as landowner,

merchandise and bourgeoisie. Therefore, *modus Vivendi* among various economic elites was destroyed. The new regime aimed at making reformation about land structure, which supported this process.

This reformation was about to distribute lands to landless villagers. In 1927, a legal framework was prepared for it. The landowners who supported the riots against the regime were exiled to the West. The state expropriated their lands and these lands were distributed to villagers. In 1929, some of them were forgiven and moved back to their lands. However, they could not take their lands back (Kuruc, 2014).

In 1929, the Great Depression caused a change in economic mind. Liberal policy changed and statism was preferred instead of market mechanism. Statism aimed at speeding up the industrialization which was in progress via plans. Between 1929 and 1934, the state revenue increased from 10.8% to 18% and the bureaucracy controlled more resources when it was compared to the past (Keyder, 2001). Industrial capitalists and bureaucracy were the most powerful groups and they both came out ahead from this period. However, the industry was dependent to the state just like the industrialists were dependent to the bureaucracy, like ITC period (Bugra, 1995).

In 1936, CHP as a founder party equalized the state. The 1940 National Protection Law increased regime power on economy, for example they determined the prices for expropriated products, impose restrictions on labor rights, compulsory labor force made by state for mine, railway, commerce etc.

In 1940, the Wealth Tax was imposed but this tax was accepted as a catastrophe of fiscal history. The Wealth tax provided the State with the right to expropriate wealth of state society. There was not any legal way to object to the tax. The head of finance in Istanbul then was Mr. Ökte and he declared that although there was no way to object Wealth Tax, there were 24.316 objections to Parliament and to other administrative units. These objections were about the mistakes of accounting, double taxation and more taxation than it should be. The 9.141 units of these objections were belong to Muslims, while 15.173 units were belong to non Muslims. Between 1944 and 1947, a crop tax was imposed to the villagers most of whom had small farms. State bought their products less than the market price, so it levied to the products.

The reason for the establishment of a new opponent party DP was due to the conflicts among the elites. DP's formation was related to land policy. In 1945, the regime planned to nationalize the lands more than 500 dun am, which caused the reactions of landowners in CHP. A group of politicians left CHP and they founded DP. Multi party system was a transformation for collective decision-making concerning many issues such as the allocation of resources (Baytal, 2007).

Some critics to CHP's economic policies: the problems about property rights and the distribution of the lands to the landless, nationalization of forests, capital tax levied unequally from non Muslim society were some examples. There were strong patronage relations in production and commerce during the regime. Although opponent party came to change these relations, it couldn't get success in changing these relations. Thus, these relations continued during the multi party regime (Pamuk, 2012).

In 1950, DP had %53 of votes and it came to power. Society got tired of CHP's economic policies and bureaucracy. DP used Marshall aid for reconstruction. They financed development by domestic and foreign debt. While they were supporting the

villagers, they made investments for landowners and trade bourgeois, too. They mentioned about conservative and Islamic values. But in 1954, the economic business cycle reversed and the economy became recession (Tekeli, 2013). Economic recession accelerated social discomfort. DP used its legal power to prevent those social opponents. During CHP period, military bureaucracy used to support political bureaucracy. However, in DP period, they excluded each other. The army thought DP's conservatism could be a threat for the new regime (Öcal, 2009). The economic and politic conflict became inversion among secular Islamist conservatives. Polarization in society and group resulted in military coup in the years of 1960, 1971 and 1980. In 1960, the military coup was against the oppressive DP government. Between 1971 and 1980, the military coup was against the leftist university and social movements.

After 1982, the Islamists supported the banks suitable for Islamic belief such as tax discounts. Thus, holdings supported by republic founders and having secular views, and Islamists Anatolian capitalist groups emerged together. This improvement gave birth to today's political economical perspective of AKP which came to power in 2002.

Concluding Remarks

Economic institutions have crucial role on development, because inclusive economic institutions provide its citizens with numerous opportunities in order to invest, innovate and create. Economic institutions are under the influence of political institutions and political power. When political elites prefer to maximize the society's welfare instead of theirs, social conflicts can be solved by institutions, then.

Turkey's history is a vivid example for showing the roles of institutions on development process. There is still not any inclusive economic institution and political institution or political institutions solving social institutions in Turkey. The problem about legal system is the deficiency for transparency, and the rule of law ethnic terrorism are proof for that it is not successful enough to solve the social conflicts.

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