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**PRIVATIZATION IN TURKEY:  
CHANGING PERCEPTIONS AND METHODS OF A DECADE**

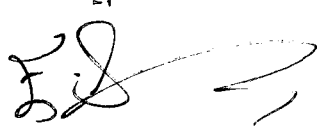
**A THESIS SUBMITTED TO  
THE DEPARTMENT OF POLITICAL SCIENCE AND PUBLIC  
ADMINISTRATION AND THE INSTITUTE OF SOCIAL SCIENCES  
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BİLKENT UNIVERSITY  
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FOR THE DEGREE OF MASTER OF ARTS**

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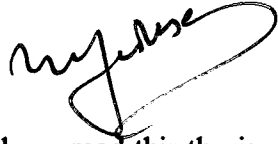
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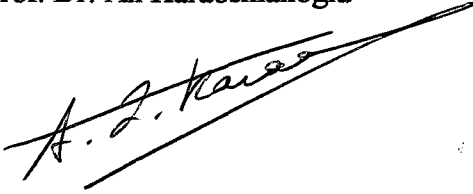
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Prof. Dr. Ali Karaosmanoğlu



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## **ABSTRACT**

Decreasing the role of state in economics generally and of public sector particularly has been a fashionable policy means since the 1980s, being implemented in both developed and underdeveloped countries. Among the developing countries, Turkish experience in privatization has been initiated timely, yet it has been implemented discontinuously due to serious political obstacles.

Appearing first on the policy agenda of the Motherland Party in 1983 and being a party of the "Neo-Liberal Economics" initiated with the January 24 Measures, privatization has been undertaken continually, but not continuously in Turkey up until today. However, the privatization of the 1990s differ from the 1980s in terms of its methods, objectives and assumptions. Although there are some similarities, privatization in the 1990s reflects the ideologies of the new coalition-government formed by the True Path Party and Social Democratic Populist Party in 1991. The second term of this coalition under the leadership of Tansu Çiller gave birth to a polarization and various confrontations about privatization even among the coalition partners which came to surface particularly after the April 5 Measures.

The main purpose of this study is to analyze the Turkish privatization experiences both in the 1980s and 1990s, trying to show the similarities and differences by focusing on the changing perceptions about this particular policy in order to draw some lessons for future prospects.

## ÖZET

Gelişmiş ve gelişmekte olan ülkelerde devletin ekonomiye katkısı ve kamu sektör payının gayri safi milli hasılda azaltılması, 1980 'li yılların baskın politikalarından biri olmuştur. Gelişmekte olan ülkeler sınıfına giren Türkiye 'de, özelleştirme zamanında başlatılmasına karşın, politik engeller yüzünden düzenli olarak uygulamaya geçirilememiştir.

İlk kez 1983 'te Anavatan Partisi gündeminde yer alan ve 24 Ocak Kararları ile başlatılan "Yeni-Liberal Ekonomi" anlayışının bir parçası olan özelleştirmepolitikası, bugüne kadar devamlı olarak ele alınmış ama uygulamaya bir süreklilik getirilememiştir. Buna bağlı olarak, Türkiye 'de, 1990 'lı yıllarda özelleştirme çabaları 1980 'li yıllardakinden metod, amaç ve varsayım açısından farklılıklar göstermektedir. Bazı benzerlikler olmasına karşın, 1990 'lardaki özelleştirme politikası 1991 yılında Doğru Yol Partisi ve Sosyal Demokrat Halkçı Parti tarafından kurulan yeni koalisyon hükümetinin ideolojik farklılıklarını yansıtmaktadır. Tansu Çiller 'in başbakanlığa seçilmesiyle başlayan ikinci ortaklık sürecinde ise, özelleştirme konusunda bir kutuplaşma başgöstermiş ve 5 Nisan kararları ile tartışmalar daha da sertleşmiştir.

Bu çalışmanın amacı ise, değişen politika ve anlayışları gözönünde tutarak, Türkiye 'de 1980 ve 1990 'lı yıllarda özelleştirme politikalarını karşılaştırmak, benzerlik ve farklılıkları ortaya koyarak, gelecek için bazı dersler çıkarmaktır.

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# CHAPTER ONE

## INTRODUCTION

### **A. The Rise of Privatization**

The history of the concept of privatization, which held an important part of the Turkish agenda, is not long. The idea was put forward by M. Friedman, who was one of the the most important figures of supply-side economics in 1970 (1). Privatization was one of the policies that was adopted against unemployment and stagnation coming with the inflation, by understating the role of public sector. Today, both capitalist and socialist governments are trying to adopt privatization in developed and underdeveloped countries. As an economic and political policy, privatization measures have been widely undertaken in more than fifty countries around the world.

The scope of this study is analyzing the privatization attempts in Turkey, including both the 1980s and 1990s by showing the similarities and differences. Chapter One is going to deal with the basic principles of privatization involving conceptual definitions like the meaning of "small state". The aim is laying out the foundations of privatization, so that the analysis will be more clear in the readers' mind. Privatization examples from other countries will also be given to draw up some lessons for Turkey. An overview of the privatization process in LDCs (Less Developed Countries) will be outlined here, as similar objectives and methods were pursued by the Turkish government. On the other hand, British and French experiences are also introduced for comparative purposes. As one of Mrs. Thatcher's contributions into

the international agenda, British privatization became the pioneer in the world paving the way of this policy to many countries including Turkey. I will also be analyzing the French privatization in which the process was not subjected to ideological confrontations, allowing them to make successful privatizations although they were a latecomer.

In the second chapter, the Motherland Party (MP) experience with privatization in Turkey will be examined. This privatization program was one of the new components of the 24 January Measures which was initiated in 1980. Privatization process in Turkey was pioneered by Turgut Özal, which was strategic and pragmatic in character first, when his party came to power with the general elections in 1983.

The third chapter will focus on the privatization efforts of True Path Party (TPP) and Social Democratic Populist Party (SDPP) coalition-government in Turkey after the 1990s. A slow progress was made under the prime ministry of Süleyman Demirel who was the first leader of the coalition (49th government). During his leadership there was an amount of cohesiveness among the coalition partners regarding privatization. Real deadlock and polarization about the divestiture attempts began after Tansu Çiller got the office. As the privatization process was converted into a highly personalized and ideological movement, early convergence in the government was deteriorated. Especially after the April 5 Austerity Measures, which was prepared and activated by Tansu Çiller, confrontations in government and in society at large have started being structural, legal, ideological and methodological in character. Each of these differences will be taken in detail in the following pages.

In the fourth and last chapter, a comparison will be made about the privatization implementations between the MP and TPP-SDPP coalition government. Here again the aim is drawing some policy lessons from today's and past experiences for future prospects.

The liberal policies that were adopted after the 1970s mainly aimed to understate the public sector that expanded continuously. Privatization seemed to be a solution; so different techniques were used in this direction. However, some legal, social, political and economic barriers as a consequence of various sociopolitical traditions and habits are not easily managed (DPT, 1993,p.3). Thus, when privatization is adopted, some economic and political reactions are likely to be faced by that particular government, in all countries where privatization is chosen.

Privatization was one of the most debated issues in Turkey during the 1980s and 1990s. What was reflected in the mass media was solely the "selling of State Economic Enterprises" (hereafter cited as SEEs) which is a reductionist understanding. Yet, this stage of privatization is essential for Turkey. This is because the most visible pattern of privatization in Turkey is the sale of public enterprises (hereafter cited as PEs) to private investors. The statist policies adopted in this country since 1930, which relied heavily on PEs for development as stated in 1924 and 1961 Constitutions, makes the sale of SEEs significant, as the positive inputs of PEs turned out to be negative in the last two decades. Various reasons for this negative outcomes will be explained below.

Privatization is a set of means , rather than an end (2). The ultimate goal is shifting to free-market economics, which is regarded as the most efficient and rational model. In

Turkey, the SEEs are the most important barriers on the way of privatization, because of their status. During the statist era of the 1930s, when SEEs were not included into political manoeuvres -aiming at more votes- they had an important contribution to the industrialization of Turkey. Since there was insufficient capital accumulation, businessmen and a private sector were without sources, therefore; the state played the leading figure in development. Today, SEEs has become subjected to high levels of patron -client relationships as a result of partisanship. This partisanship was inherited from the Ottoman Empire. Since there was a limited institutional permeation of the periphery by the center, the control mechanisms at the local level was inadequate (Sunar and Sayari, 1986,p.166). Thus, nepotism based on local provincial relations increased the importance of political sinecures overtime. The relations between center and periphery in terms of the system of power showed continuity in the following Republican period (3). Thus, the most common cause of inefficiency in Turkish public sector has been political interference especially since the 1970s. Meanwhile, the social welfare function of the SEEs has been reduced to overemployment at the lost of inefficiency.

### **1) The Meaning of "Small-State"**

It is true that when the SEEs are privatized, the state becomes "smaller", *ceteris paribus*. Today, new responsibilities are being added to the "state"s agenda and its services are increasing both in terms of quality and quantity, due to the improvements in techniques, technology, transportation and telecommunications. Consequently, state expenditures rise; therefore, state gets "bigger" by definition. Yet, state being a political entity must be big in socio-politics and small in economics. In terms of free-market economics, the market must be free of state regulations, so

that market-forces such as demand and supply can rule the economy. Rather than intervening into the economy by regulating it from above , the private sector should control the market. One way of this is through privatization, by allowing the private sector to buy PEs. Then, the state will be able to serve its basic functions such as maintaining law and order, building and development of infrastructure, providing military-security, health and education services and establishing the necessary environment by investing both in people and other longterm projects for an efficient economy. Parallel to this line of thinking, Vecihi Ünal stated (in *Türkiye* on 7th of April, 1994) that; the only way of enlarging the social and political state was minimizing the economic one (4).

What is more important than minimizing the state in economy is reducing the state structure in terms of bureaucracy. The sale of public/state assets to the private sector is not enough in achieving success during privatization movement. The first extensive attempt of debureaucratization in Turkey was initiated by the MP under the leadership of Turgut Özal. According to Heper, after the 1980 military intervention, the withdrawal of state elite, particularly from the economic sphere was paralleled by the program of MP government which aimed at a liberal revolution after the January 24 Measures (1990, p. 610). Turgut Özal's goal was decreasing the influence of the public bureaucracy as a whole, because they could not catch-up with the dynamism of his government's policies. The clearest indication of Mr. Özal's attempt at this point was the transfer of some functions from the existing - agencies to newly created ones (5). For example, the Ministry of Finance still carried the responsibility of collecting public revenues, while the newly established Undersecretariat for Treasury and Foreign Trade was to implement economic, financial and monetary policies. This institution, too, was headed by a

technocrat who was brought in from outside the bureaucracy. As can be seen from these restructuring attempts, "small state" does not demand solely the sale of SEEs.

In 1994 with the April 5 Measures, similar methods were used by Tansu Çiller who became the prime minister under TPP-SDPP coalition government, ten years later. Mrs. Çiller also aimed at establishing new institutions for the implementation of privatization like the Department of Privatization (Özelleştirme İdaresi Başkanlığı) which had to be abolished today due to legal restrictions (6). This was partly due to the personalized attempts of Mrs. Çiller about privatization and partly due to the lack of consensus among the coalition members of the 50th government. Social democrats of the coalition government differ from the TPP wing in their understandings on privatization and the role that the "state" should play. SDPP believes in the restructuring of SEEs, rather than selling them immediately to foreign investors. SDPP in fact rejects the ideology of "Neo-Liberalism" which was based on the complete non-interference of state into the free-market (7). TÖYÖK (Institution of Turkish Autonomy Restructuring and Privatization) which was established in 1992, was another point of differentiation among the 50th coalition government under Tansu Çiller. Arguments were focused on whether autonomy should be given first to the PEs like it was agreed in the protocol of 49th government under Süleyman Demirel, or whether SDPP should allow Tansu Çiller to engage in sales of state enterprises to foreign investors directly. SDPP favors a piecemeal and gradual process of privatization, rather than a quick wholesale one based on the block-sales to foreign capital as favored by TPP since 1992.

On the other hand, privatization by MP was a strategic and pragmatic policy choice, being the outcome of the new-economic policy of Turkey based on liberalism and

export-orientation which was initiated by the January 24 Measures in 1980. These measures have attempted at forming both a master plan and sequencing of privatization according to the plan. During Tansu Çiller's coalition, the principles of privatization in the large sense have been given the back seat, and its implementation for fiscal purposes in the short-run has been given priority. Yet, there are slight differences in the outcomes of privatization policies during both periods as will be seen later.

## **2) Political Dimension of Privatization**

If we make a broad definition, privatization is the denationalization of state property by selling them to the public, as well as the liberalization of state control and intervention over the market. In its narrower sense, privatization is the transfer of the responsibilities of state, in terms of production of goods and commodities to the private sector (Özgıda-İş ,1992, p.23).

Privatization whatever its aim or reason is a matter of political will. The ultimate political and social aims of privatization are diffusion of capital by enlarging individual private ownership, and putting the political philosophy into practice (Cevizliođlu, 1989,p.33). This philosophy, put forward by the Neo-Classical economists, takes the form of "Economic individualism", giving support to the idea of reducing state intervention in order not to restrict individual liberties regarding economic activities. This is largely just what the January 24 Measures had aimed at in Turkey. On the other hand as Mat has noted, ownership must be diffused as widely as possible in order for privatization to be effective and fair (1988,p. 5). Yet, the political choice is not independent, rather it is shaped by the social, economic and

political reasons. These may be divided into two main factors :

a) External Factors :

It is not possible for a political authority to be unaffected by international developments. The principle of "lessening the role of public sector within the economy" which was a result of "supply side economics" emerging in the 1970s, was accepted by many governments. Consequently, following England as a pioneer, privatization was adopted in different countries, even among the former socialist block. It should also be mentioned that, some countries (especially developing ones) were influenced by international organizations like International Monetary Fund (IMF) and World Bank (WB) which have been advocates of privatization efforts. IMF and WB in particular were influential especially during the MP rule, by devoting their resources for the reform of SEEs in Turkey.

In 1988, the WB on the other hand, established a task force to assess the role of the private sector in development in order to propose how it could best help member countries in strengthening their private sector's contribution to development (World Bank Group, 1991). WB's country assistance programs are increasingly focused upon the priority of :

- Improving the business environment,
- Restructuring of public sector,
- Financial sector development and entrepreneurial support (8),

all of which aimed at increasing flexibility and reducing risk and uncertainties within the public side of the economy.



#### b) Internal Factors :

Internal factors mainly includes the interest, pressure and occupational groups as well as all communication means and mass media. Public opinion and mass media may shape or lead the political authority by exerting pressure. Interest groups, such as TUSIAD (Turkish Industrialists and Businessmen's Association) in Turkey, may have an advising role so that new alternative policy strategies will be found. Pressure groups on the other hand, like TÜRK-İŞ (Turkish Confederation of Workers' Union), can influence the final decision in accordance with the needs of employees. Thus, in converting ideals into reality, the governments are effected by these items.

### **3) Economic Dimension and Objectives of Privatization**

Economic dimension of privatization mainly aims at three goals. First, the aim is to establish the dynamics of free-market structure within the SEE sector. This can be done by creating suitable grounds for competition, following the goals of profitability by the enterprise, and following the technological inventions. Among these, competition forms the basis of "efficiency", so it is the prime factor. Second goal concerns macroeconomics. Privatization aims at lessening the share of public sector within the economy. When this is attained, consequently the debts of the public sector will decrease. The "rolling back the state apparatus" within the debates in Turkey are based on this assumption. In Turkey, the aim is making the state more effective in its traditional roles such as providing the integrity of the system of rule of law, rather than participating in the production. Third goal is about redistribution, by selling the bonds of PEs to expand the capital, just like what Turgut Özal tried to

manage with the introduction of Revenue Sharing Certificates in 1983 and sale of Teletaş in 1988. Thus, the third goal has social, economic and political implications.

The major reason why SEEs are less effective than the private enterprises in Turkey is that, Turkish SEEs lack the conditions for maximum efficiency. or maximizing efficiency an enterprise needs :

- Increasing market competition,
- Establishing total control over the enterprise by the owners (in Turkey, the bureaucrats within the public sector look after their own interests in order to maintain control in their own hands),
- Accepting the principles of profit maximization (DPT, 1993,p.14).

In Turkey, PEs lack the above characteristics as they show monopolistic structures, as well as serving to other political interests such as partisanship or nepotism in an environment of sinecurism.

As mentioned above, with the MP after January 24 Measures, privatization is a means that a country chooses on its way to the ultimate goal of shifting to free-market economics (9). Although the basic goal is limiting state intervention in economics, it is inevitable that the state will make necessary laws and regulations in order to make free-market economics more efficient. The state must play some role in encouraging the free-market principles as well as simplifying them instead of establishing additional state-led enterprises producing goods and commodities.

A report which was presented in an international seminar sums up the targets of

privatization in mainly three stages (10):

- a) Reducing the financial and administrative burden of the state,
- b) Increasing competition as well as efficiency within the enterprises,
- c) Lessening the role of public sector within economy .

With privatization, some negative outcomes are expected to be eliminated and with the shift of SEEs into private sector, their burden upon the state treasury will be reduced. Those negative outcomes are mainly caused by the inability of PEs in catching-up technological innovations as well as the political choices which favor the increase of manpower costs within them. Because of their monopolistic nature, PEs keep control of the market and they are not under the threat of a potential bankruptcy. Their possible losses will be compensated from the state treasury, which in turn increases their monopolistic power. As SEEs are unresponsive to the demands of the market, they do not increase the quality in production. Besides, decreasing the prices of the goods and commodities overtime, creates additional burden on the government.

Under these circumstances, the efficiency of the PEs decreases eventually. Besides, the SEEs in Turkey lack well established organizational structures. This is basically because the political parties in power have always been subjected to their members' ideologies and choices, so they were not able to establish a continuous and efficient administrative system (11).

The governments which are involved in privatization programs face problems mostly during implementation. These problems vary from those emerging from the

initial definition of liberalism and privatization (12), to the operation (the methods used) of the policy together with its social consequences. These will be discussed in chapters two and three. Temporary unemployment of the privatized enterprise is another outcome to be dealt with by the countries involved in privatization. Having large amount of public employees placed in SEE sector in our country, the unemployment which will be created by privatization becomes more important. PEs in Turkey, have both inert manpower and idle capacity which will be reduced if employment can be shifted to private sector. Overemployment in state enterprises increase the production costs and this is reflected on the products, showing that the right employment policies are not implemented. One solution to this problem is laying-off the workers by paying indemnity. Still, a more appropriate way is managing a reorganization for additional production which could accommodate the excess laborforce. With privatization, a new social class emerges which is formed by the workers who had to leave, yet at the same time can become shareholders to that enterprise (13).

### **B-Privatization Examples From Other Countries**

In most developed and developing countries state ownership of enterprises expanded rapidly in the forty years following the end of World War Two. Governments created PEs mostly to provide services. Yet, PEs often became means for politicians to create independent bases of power. As a result, the debates developed in the 1970s and 1980s about the need to privatize many of the functions performed by PEs motivated many governments to engage in this policy. The

privatization attempts in LDCs together with the British experience as the exemplary model will be summarized here. British privatization is important which demonstrates both in practicing diffusion of capital and giving an inspiration to many LDCs including Turkey. The privatization movements in France which is a latecomer will also be outlined. Aim is to draw some lessons from the French-privatization showing how the policy makers in France developed their programs faster than Turkey, even if they had started later.

### **1) An Overview of Privatization in LDCs**

While the information technology has eroded the economic and national boundaries, there are still man-made barriers to the internationalization of business (Turner and Hodges, 1992, p.22). Dismantling these limits required political leadership and at this point market-oriented leaders such as Mr. Reagan and Mrs. Thatcher took the lead in preparing the world for free-market economy. Increasing the role of "market" in LDCs required a strategy of economic liberalization, involving the removal of various forms of government intervention which "distorted" the market mechanism (Kirkpatrick, 1988, p.9).

One of the most common features of public enterprises in LDCs, like Turkey, has been increasing deficits. PE deficits in LDCs are financed either by borrowing in domestic or international financial markets or by the central government transfers. In mid-1970s, about 25 percent of the PE deficits were met by direct foreign borrowing (14). Between 1976-78, according to World Bank reports, SEEs accounted for one-third of all international borrowing by LDCs. On the other hand, 60 percent was financed from central-governments and banking systems. These PE

sector deficits contribute to inflation and balance of payments difficulties in LDCs.

Seeing privatization as a *panacea* mainly to overcome deficits, rather than mainly a policy option, many LDCs started to implement it (Figure One). Having initiated privatization in principle at the right time (right after the January 24 Measures) in 1983 with the MP together with other developing countries in Asia, Turkey was also included into the 8%. Latin America in particular has the longest history and most successful cases of privatization (Figure Two) within the framework of structural adjustment programs. These programs mainly aimed at achieving a balance between private and public sectors where the scales have heavily been placed in favor of the public side of the economy. Privatization experience in Chile began in 1974. In Mexico, PEs in the tourism (hotel) and car industry have been sold. Brazil also made up a list of 520 companies for partial denationalization (15). Despite these examples, limited divestiture has been taken place in LDCs. Basic reason for this was the difficulty for developing countries to set an appropriate market value for the asset sales and insufficient capital markets to handle the sales. Similarly, the İstanbul Stock Market in Turkey was unsatisfactory in managing the sales when the MP government decided to sell the shares of Teletaş in 1988. Resistance of interest groups were also influential as labor forces were threatened by job-losses.

As far as Eastern Europe is concerned, the emphasis has been on the state regulating, the economy, as a whole. Consequently, the economic and social importance of SEEs were far greater than in the rest of the world. The basic tactic used for the Eastern European countries was privatizing in all possible ways that encourages competition (Gidadhubli-Kumar, 1993, p.1216). Since it is a systemic overhaul, the basic model

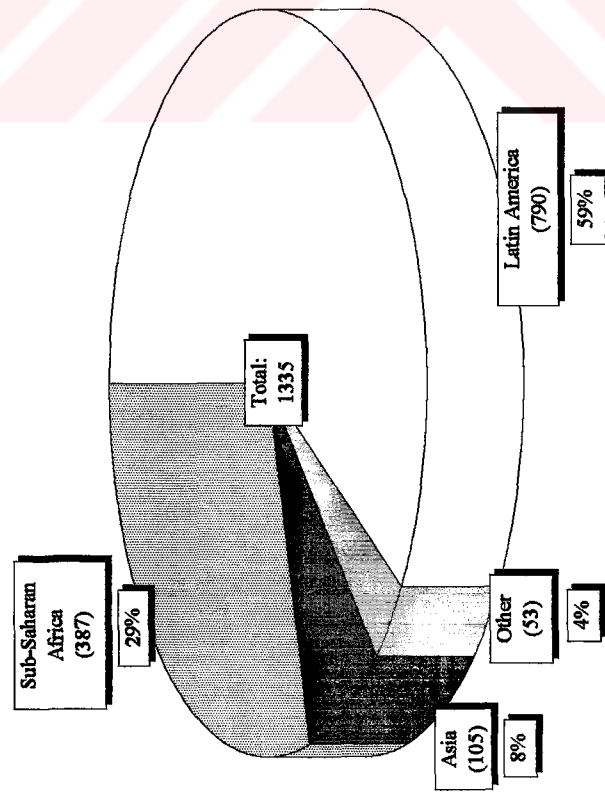


Figure 1) Public Enterprise Divestitures in Developing Countries in the 1980s  
Source: World-Bank data, 1991

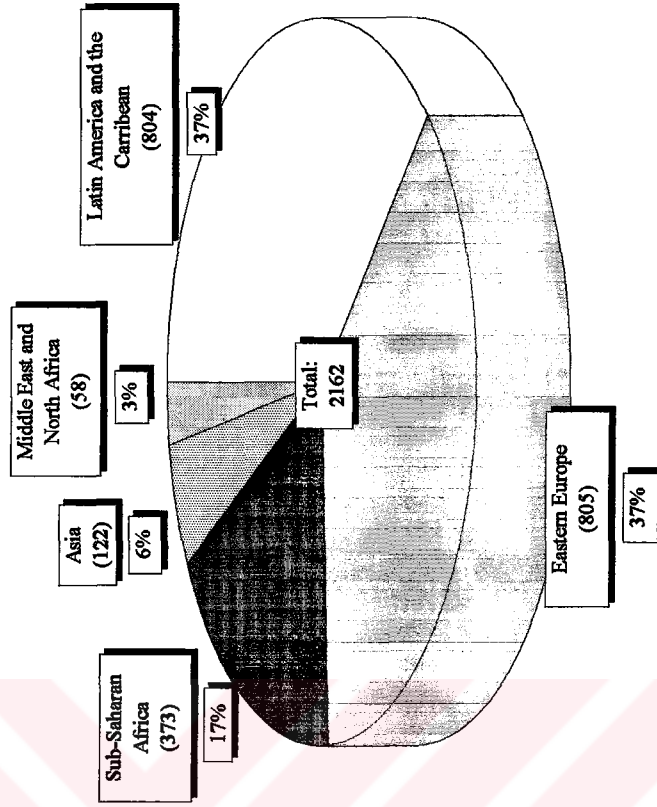


Figure 2) Number of SOEs Privatized in Developing Countries by Region, 1980 - 91  
Source: World-Bank, Country/Economics Department

that was implemented in Eastern Europe was "shock measures" (16). As the pace of privatization was highly rapid, Eastern European countries seems to diverge from the traditional British model of selling productive assets of the state to the private sector in a gradual manner. In sum, their model was a thoroughly ideological one.

Among the LDCs, the Mexican experience in particular can be regarded as a good example of carefully-planned-and-implemented privatization program (Görüş, 1993, p.38). Mexican privatization program started in 1983 as part of IMF stabilization program in the same period. During the 1970s, as the international economic system has been experiencing a rapid increase in oil prices, Mexican state, due to rich oil resources in the Mexican Bay, found itself in a strong position to intervene in the economy. The increase in state revenues pushed the socialist government to pursue a populist policy of social welfare programs. In order to continue its radical development policies, The Mexican state also used foreign borrowing which increased to \$78 billion in 1991 from \$7 billion in 1974. However after the decrease of oil prices in 1982, Mexico was dragged into a debt crisis. This was the time when debt-equity transactions were introduced by the government. When the fiscal damage of 1985 Mexican-Earthquake was added, the inflation jumped to 106 percent in 1985 and to 159 percent in 1987 (17).

The privatization movement which was limited to small scale enterprises initially was enlarged due to the economic fluctuations. 940 SEEs out of 1155 were closed, transferred or sold. At this moment, the income of Mexican government reached about \$ 14 billion. Even during the extensive privatization period, Mexico began divesting by giving priority to small and medium-sized firms. Such sales were simpler and quicker in character and they required little prior restructuring, entailing



minimal political risk. As has already been noted, since small and medium-sized enterprises were more easily absorbed by local private investors and they need less technological updating, the thorny issue of foreign ownership has also been reduced (Kikeri-Nellis-Shirley, 1992,p.48).

The extensive privatization movement started in 1989 under president Salinas, included the liberalization of trade, debt-equity swaps (18) and liberalization of domestic market. An ideal debt-equity conversion is one in which incremental foreign investment is mobilized for the export sector and opportunities for local ownership are established (Basile, 1990, p.152). These conditions might be met in the context of privatization programs and comprehensive policy reforms to improve the investment climate of the host country. In Turkey on the other hand, as reform process is converted into "rapid privatization by all means to foreign investors " without incrementalism after the April 5 Measures by the 50th coalition government under Tansu Çiller, this kind of transaction is hard to be implemented. Initiated in April 1986, Mexico's debt conversion program is being viewed by other debtor nations as a major testing ground (19).

What differs Mexican privatization from the Turkish example is that, a special Privatization Department was established which could work in an environment of consensus regarding the divestiture aims (20). The TÖYÖK which was established in a likely manner in Turkey was not of a success, because of legal constraints and lack of agreement between the 49th and 50th coalition governments. One of the responsibilities of the Mexican Privatization Department was to inform the public and managers of relevant institutions about developments in the divestiture operations within the privatization phase. There is no similarity between

Mexican privatization and Tansu Çiller's implementation as she has highly personalized the privatization activities in Turkey (21). Having the cooperation of Turkish workers within the privatization movement or even the participation of business is not endeavoured in Turkey.

Thus, the lessons that can be drawn from the Mexican privatization movement is that, it is useful to centralize the divestiture decisions within a special department, but the decisions and preparations must be transparent. Privatization policies must also be backed by both media and public opinion. Most important of all, there has to be a social consensus. Turkey started privatization at the right time, but the process has been mistaken and slow. The governments in Turkey since 1983, especially the 50th coalition headed by Tansu Çiller, wanted to implement privatization in a rapid manner, but due to the lack of consensus among political parties in the parliament, media, elite and managers, the policy can not be implemented so fast in reality. Turkey is still busy with the discussions on the program. These discussions also continue even during the austerity measures of 5th April 1994 is being activated, a period in which radical and rapid decisions must be taken. Ideological, definitional, legal and operational struggles seem to be endless. Unlike Mexican experience, in Turkey, the priority is given to sale of big enterprises such as Turkish Electricity Corporation (TEK). When this is the situation, Turkish government has to deal with a sophisticated financial engineering, sensitive labor restructuring and a complex regulatory framework, all of which are impossible to be dealt with simultaneously.

## **2) The French Experience**

Governments have all turned increasingly to privatization of state assets and services, as well as other market oriented reforms to solve their immediate economic problems. In the West, this trend has been especially pronounced in the countries of European Community (EC). France in particular, has been an exception to the neo-liberal trends. France experimented Keynesianism, while its partners were abandoning such policies. This can be traced back to France's dirigist political culture, which shows similar characteristics with Turkey. In France, like Turkey, the public sector is unilinear and deterministic about the implementation of policies. The French case is a good example of bureaucratic state elite attempting to control polity and society from above (22). Turkey at this point is like France with respect to etatism (23). That is, French bureaucracy is centralised. There is a strong state tradition in France where the government has worked to break interest group monopolies (Heper, 1991, p.7). Similar to Turkey, the government in France failed to involve interest groups in the policy making process, controlling the society in an autonomous fashion. Under Jacques Delors' presidency of the French Republic; however, France sought to change its way by mixing traditional liberalism with a "social character" (Feigenbaum, 1991, p.1). That is, privatization measures were hand in hand with the social state programs.

In France, both Socialist and Conservative governments stressed privatization, but they did it for different reasons. Socialist privatization mainly aimed at deregulation (trying to increase efficiency in PEs by freeing them from legal restrictions). Deregulation was largely motivated by the early failures of nationalizations and Keynesianism which directed the French economy. On the other hand, Conservative

privatization aimed at state-asset sales mainly for financial needs. As Feigenbaum had argued, socialist privatization was pragmatic (being piecemeal, gradual and process oriented) like MP privatization program of Turgut Özal after the January 24 Measures, while a more tactical (in the sense of an electoral promise for obtaining votes) path was followed by the Conservatives.

What is unusual about France was the environment which made continuous state intervention acceptable. The French private sector was traditionally passive. The country from which the word "entrepreneur" originated had few of them (Feigenbaum, 1991, p.3). French businessmen have been risk averse and they rarely attempted commercial intentions. In France, similar to Turkey, liberalization was originated by technocrats, rather than by the economic theorists of the Right. The break with statism emerged in 1974, with the election of Valery Giscard d'Estaing to the Presidency. Previous presidents had been conservatives and their ideology was closer to a powerful central state. According to them, public interests and national unity stood in stark contrast to the image of competing selfish interests. The state in Giscard's view on the other hand was inefficient as an economic actor. Still, he faced further difficulties. Neither the administration, nor Giscard's coalition partners were eager to roll back the state apparatus that they in fact controlled. Interest groups also favored existing policies and programs. In 1981, Socialists came to power and gave statism a momentum (24). Most nationalizations had been brought back to profitability under socialist management. This formed the focus of attacks by the conservative opposition. The Socialists allowed problem industries to shed personnel, which resulted in dramatic unemployment rates. Hence, they had actually initiated restructuring of prior SEEs.

Conservatives were interested in denationalization as an electoral strategy. France's goal was spreading ownership so widely that, companies would not easily be renationalized (Vuylsteke, 1992, p.121). After Jacques Chirac came to power on March 16, 1986, Conservatives passed Law-86-763 on July 2, 1986, authorizing the denationalization of about 66 firms. In fact, the aim was to privatize all public sector firms, where the possibility for competitive markets existed until 1991, which was the end of their parliamentary term. Main justification for denationalization was the inefficient public management. Yet, the fundamental reason for privatization was the expected fiscal inflow from the sale of public assets. Estimations were over 200 billion francs. This inflow would be used for industrial policies. The obtained money would allow the government to cut taxes, which would increase profit margins; thus encouraging investments. On the other side, Conservatives were attacked by the charge that, strategic firms would be bought by foreigners. Consequently, the National Assembly enabled foreigners to purchase a maximum of up to 20 percent of any previously public corporation. This was done after Mitterand's refusal to sign the original privatization decree on the basis of national interests. Under the French Constitution, this forced the bill to be resubmitted to the National Assembly, culminating in the control of state upon the sales.

One of the most important efforts of J.Chirac was his attitude towards the banking sector which is the most favored sector in privatization efforts elsewhere as well. Chriac's program for the privatization of banking was part of his government's desire for a broader withdrawal of the state from the national economy (Lancaster, 1990, p.378). The Chirac government planned to sell 65 banking groups including agricultural and industrial ones. For example, Societe Generale, which was one of the best capitalized state owned banks, was also privatized. This sale symbolized the

extent of Chirac's privatization policy. It was argued that, The Right's prior concern for dirigism was now clearly secondary to the 1980s denationalization trend (25). In contrast, when we look at the April 5 Measures initiated by Tansu Çiller, we see that no such regulations have been introduced in the banking system and interest-rate policies in Turkey. State-owned banks in Turkey still continue with their traditional ways of administered and subsidized loan facilities basically for tactical purposes in order to gain votes. As Kardüz has written (in Sabah, April 7th. 1994), today public banks in Turkey are called as "sinecures" due to their credit supplies with low interest-rates in return (26).

In sum, privatization in France aimed at two issues; commercialization and right-valuation (27). While the selling of nationalized industries hardly created a popular capitalism, it might be argued that, the asset sales at least provided significant revenues. These revenues allowed the state to ease the private sector's tax burden and stimulate the economy. Still, only 20 of the firms were privatized by 1992 out of the initial estimation of 60 since 1985, when the government of Chirac started privatization policies.

Yet, there are some lessons that can be drawn from French privatization for Turkey. What is striking about the privatization in France is that, in a semi-presidential system in which the rights of the president is much broader, F.Mitterand seemed not to resist privatization although he was a strong supporter of nationalization movement before. Hence, it can be stated that, the efforts were neither ideological nor were there real conflicts among the interested parties. It was mostly a pragmatic and concerted effort that is why it worked even if France was a latecomer in privatization, whereas in Turkey coming to a consensus even among governing

parties has been nearly impossible.

### **3) Privatization in England : The Model of Popular Capitalism**

The UK experience represents the most radical attempt for dismantling the PEs within a democratic environment so far (Öniş, 1991, p.236). As a result this experiment has attracted widespread international attention. "Successful privatizations" are usually taken as divestitures due to this experience. (Heald, 1988, p.69). Therefore, Thatcher government is widely admired overseas for her determined reduction of the number of enterprises through privatization. In countries which were formerly part of the Commonwealth and which have maintained cultural links with UK, there has been a large amount of straightforward imitation of the corporations and industries (28). Yet, different socio-political environments bring up entirely different priorities on the forefront.

When Prime Minister Thatcher was first elected in May 1979, privatization constituted a minor item on her policy agenda. Between 1979-83, a slow progress was made in order to undermine the role of public sector. Some public assets were sold like Cable and Wireless (1981) and Amersham International (1982). Yet, these were small companies and they were already functioning in a competitive environment. The basic principles of British privatization were; reducing the debts of public sector, diffusing ownership among people and fair distribution of wealth. Still, the ultimate goal was increasing efficiency at the macroeconomic level, rather than those shortterm fiscal and sociopolitical aims (29). The contribution of SEEs to the state treasury was always lesser than the private enterprises (Doğan, 1993, p.127).

The prices of goods and commodities produced by the SEEs which were often monopolistic in nature, were always higher than those of private sector. The SEEs in Britain could not make their own funds, within their own organizations, so they borrowed from the treasury. Thus, through antitrust laws and increasing competition among firms, in the long run, the emphasis was given to the reduction of inefficiency and lack of discipline within SEEs.

The belief of the Thatcher government is that, market itself responds to the choices of people more accurately than any other imposed process. This can again be traced back to the industrial culture of Britain. We see a more "unfettered" model of capitalism in England as compared to the Continental European countries. Some obstacles such as social welfare policies limiting the individualistic market were abolished. Even still, British capitalism was more defensive compared to American model. Meanwhile, it was also argued that, the privatization program of Mrs. Thatcher was driven by political objectives, rather than economic ones (Dobek, 1993 ,p.24). According to Dobek, Thatcher government was careful about the electoral aspect of this policy; the expansion of social groups which were most likely to vote Conservative. He argued that, most of the pro-conservative strata of British society were shareholders, property owners and private sector employees, who were in favor of the status-quo.

Most observers agree that, the privatization program in Britain gained momentum during the second phase of Thatcher administration, following the general elections of 1983. This is also true for the MP government in Turkey as Turgut Özal's privatization implementations got speed after 1987. The sale of British Telecom, which was a state owned telecommunications company in November 1984, formed



the turning point of privatization in Britain. The government sold 51 percent of the shares of B.Telecom. Two and a quarter million applicants received shares. The unexpected success of the sale of B.Telecom encouraged further privatizations. The first major case was the sale of British Gas. This was followed by the sale of British Airlines in February 1987, Rolls Royce in May 1987. By 1987, privatization gained further significance on government's agenda and was identified as the major success of Thatcher administration. Sale of public assets was not the only method used in UK. Self-privatization within the company was also encouraged in several firms. For example, the National Freight Consortium was sold to the employees of the establishment. Yet, a number of enterprises have been sold directly to private companies (30). The important point is that, the government sold its equity stakes in private companies where it did not exert any management control.

From a comparative perspective, the most striking feature of UK privatization was that, it emerged as an instrument for establishing a form of "popular capitalism" (Öniş, 1991, p.240). It became the central element of transforming Britain in the direction of free-market economy and an individualistic society. Privatization was seen as the basis of transforming attitudes, as well as creating an "enterprise culture" (31). In Britain, the number of shareholders increased from two million (5%) of the adult population prior to the sales in 1983, to 9.4 million (23.6 %) of the adult population in 1987. This shows that, the government was able to incorporate a significant amount of the electorate in its privatization program. To accelerate the momentum of privatization in order to include large numbers of small investors into the process, even underpricing of public assets was used. Hence, privatization was seen as an outcome of both economic and political liberalism, increasing participation of people both in politics and economics.

At this point, a question comes to mind about the compatibility of the principles of efficiency and diffusion of capital so widely among people. Here, Vuylsteke argues that, the presence of a minority shareholder may increase efficiency by instilling a greater management autonomy (32). Moreover, developing money and capital markets also increase efficiency of the financial system and make the economy more flexible and liquid in the long-run.

Another reason which was added to the government's popularity with the electorate, was the considerable fiscal impact of the privatization program. Revenues from privatization totaled 2.3 billion pounds between 1979-83, and 10.7 billion between 1983-87. This fiscal contribution led to a reduction in the income tax burden, which was one of the most important targets of privatization in general. However, there were still some public restrictions. Privatization in Britain was initiated only if the firm that was to be subjected to the effort would serve the national interests. To secure this, the British government introduced the "golden share" system (33). Under this procedure, an individual can not hold more than 15 percent of the shares of an enterprise without the permission of the board representing the state share. The manager of these firms had to be a British citizen. Through these kinds of restrictions, the state established a form of indirect control over the privatized organizations.

According to Heald, three particular issues were the most important characteristics of the privatization program in UK (34) :

- Implementation of the program by a desire for financing the existing

expenditure/tax cuts through mechanisms reducing the public sector's real fiscal deficit

- Elimination of the conflicts between denationalization and the promotion of competition through liberalization measures in favor of the former
- Extension of individual ownership by privatization, with the motive of "making everyone a capitalist", by building popular support against renationalizations, so that the efforts would be irreversible.

As it was backed by liberalization meaning the introduction of fair competition to the economic activity, privatization worked in Britain due to Thatcher's consistent commitment to the principles of free-market-economy.

As it was seen in Mexican, French and British experiences privatization was the result of a certain amount of cohesiveness and consensus within the society and among the managers, which are hardly seen in Turkey. Mexico, starting divestitures in 1989, followed a gradual path and implemented privatization in a transparent manner, together with a special department responsible of the policy. France, being a latecomer into this particular movement is ahead of us, because there are no ideological confrontations and conceptual misunderstandings. England on the other hand, is a genuine example of creating a capitalist society. The capital was so successfully diffused to the people that, public opinion, media and employees were giving their consent to privatization, which opened the way of further divestitures to the British government, without constituting any major political risk. The belief of the Thatcher government in "market-forces" and "economic liberalism", rather than in the "state" as the protector of the economic activities of people -like in Turkey- seems to be the real motivator of privatization. Similar type of commitment was initiated with the January 24 Measures of 1980 and continued by the MP coming to

power in 1983 in Turkey. Yet, privatization still was a long way to go due to various obstacles and inability of managers, as will be discussed below.



## NOTES

(1) For more information about M.Friedman and Supply Side Economics, see Coşkun Can Aktan, " Kamu Ekonomisinden Piyasa Ekonomisine : Özelleştirme", p.94-99, 1992.

(2) Ibid.,p.4.

(3) Ibid.,p.168

(4) Economic understanding of "small-state" will be discussed more in detail later in the text.

(5) Ibid.,p.611.

(6) To be discussed later in detail in Chapter 3.

(7) SHP, Öncelikli Hedefler, Nisan 1993, p.22.

(8) Ibid.,p.vi

(9) Ibid.,p.15.

(10) Ibid.,p.21.

(11) Ibid.,p.25.

(12) see p.5

(13) DPT, op.cit.,p.29.

(14) Numbers are taken from Madsen Pirie, Privatization , 1988, G.Britain,p.5-49.

(15) Ibid.,p.5-49

(16) Ibid.,p.1219.

(17) Ibid.,p.39.

(18) In debt-equity-swap transactions, would-be foreign investors benefit from a preferential exchange rate, which in turn benefits the country by helping to extinguish part of its external-debt (Pfefferman,. 1988,p.24). If carefully used, swaps can ease financing constraints and help improve a country's investment climate and credit worthiness.

(19) Ibid.,p.143.

(20) Görüş, op.cit,p.39.

(21) To be discussed later.

(22) Heper (1990), op.cit ,p.606.

(23) Ibid.,p.608.

(24) Ibid.,Feigenbaum,p.4.

(25) Ibid.,Lancaster, p.379.

(26) Ali Rıza Kardüz, "Samimiyet, İyi Niyet, Güven" in Sabah, April 7th, 1994.

(27) DPT, op.cit,p.63.

(28) Ibid.,p.71.

(29) DPT, op.cit ,p.56.

(30) DPT,op.cit,p.57.

(31) Ibid.,p.240.

(32) Vuytsteke, op.cit, p.118.

(33) DPT, op.cit ,p.60.

(34) Heald,op.cit ,p.75.



## **CHAPTER TWO**

### **PRIVATIZATION IN TURKEY**

#### **A- Post 1980 Liberalization Efforts**

The Motherland Party (MP) entered the Turkish political scene in 1983 after the military interim period, as a catch-all party. The leader of the party, Turgut Özal, was a proponent of free-market economy. With a more action-oriented attitude, Mr.Özal introduced and implemented many "firsts" in the Turkish economic and political history. The policies about privatization in particular, being a part of this new political party's agenda and January 24 Measures was "first" implemented in 1984. This first privatization movement in Turkey started, mostly as a pragmatic and strategic attempt, far from being systemic. The aim of this chapter is analyzing the early efforts of privatization in Turkey by looking at its positive and negative outcomes, in order to draw some lessons out of them.

Turkey at the end of 1979 was in an economic bottleneck. The government was unable to pay its debts back. There was also a serious lack of foreign exchange leading to shortages of many consumer goods, which was supplied by the newly developing black market. Parallel to these economic problems, terrorism was escalating rapidly because of the polarization among both the elite and within the society. In May and June of 1979, TUSIAD (Turkish Industrialists and Businessmen's Association) started to advocate liberal economy and criticized the government through media. These advertisements indicated that, the private sector was determined to play an important role in Turkish domestic politics in the future



(Çavdar, 1992, p.227) .

Following the above crisis of Import Substitution Strategy (ISI) which favored overvaluation of Turkish currency, the financial system had come to a halt; it was no longer liquid -in the sense of individual savings being transferred into investments- and there were no foreign currency resources. ISI has focused on national self sufficiency and inward-oriented development in the late 1970s (1). In contrast to 1970s,with MP; Turkey followed a major program of stabilization and deep structural adjustments, in conjunction with the IMF (Öniş and Özmucur, 1990,p.133). This program was basically designed to reduce the amount of state intervention as well as liberalizing the economy. This new approach was a substitute for the traditional economic policy of import substitution (which did not seek to internationalize the Turkish economy) in particular and etatism in general (Heper, 1989,p.463). At this point, ISI and etatism have a close relationship in terms of having the "state" at the top making the economic and industrial policies. So the January 24 Measures aimed at revising the economy(Özbaş,1992,p.8). Basic intention was stopping inflation and increasing devaluations, by bringing stability to the financial regime to be able to rise Turkey's creditworthiness in the international arena. January 24 Measures were taken by the contributions of Turgut Özal, who at that time was the Undersecretary For Economic Planning under Süleyman Demirel's prime ministry. The January 24 Measures have changed the economic policy which was dominant since the early days of the Republic. This new policy mainly aimed at :

- Opening of domestic economics to outside competition,
- Increasing imports ,
- Rolling back the state frontiers or reducing it to minimum in terms of its

intervention in economics,

- Promotion of capital accumulation within the private sector,
- Establishment of the conditions for free-market economy to run itself efficiently without interventions with its institutions of capital market, competitive banking system and necessary technological infrastructure.(TUSIAD, 1992, p.43).

### **1) Opposition Against Liberal Efforts**

Two sources of opposition were faced by the government about January 24 Measures. One was coming from those who made easy money by making stocks and from those dealing with the black-market. Other was coming from the left wing, as they believed in strong statism (state-led economy) (2). On the contrary, what Özal tried to adopt was a free-market economy in which government intervention into the economy was reduced. January 24 Measures were made with the aim of bringing free competition within a certain period of time (3) While January 24 Measures were bringing socio-economic changes, April 5 Measures seems to be more economic, focusing on short term goals.

### **2) A New Era For SEEs**

After the January 24 Measures, the state was capable of promoting stability, growth and efficiency. These measures opened a new chapter in Turkish daily life emphasizing the market forces in economics and reduction of the scope of bureaucracy in politics. With the decreasing role of the bureaucratic-state, civil societal elements were more oftenly coming to the fore, such as the incorporation of business circles into decision making process. Meanwhile, inflation was decreasing

from three digit numbers in 1980 to 25 percent in 1982. Initial investigations about the privatization of SEEs in Turkey, started shortly after the January 24 Measures which undermined the old economic policies totally (4). January 24 Measures mainly gave the impetus for Export Oriented Industrialization (EOI). In order to pursue EOI, the existing economic structures had to be adopted according to the new free-market economics. Within this framework, making of SEEs function parallel to the competition principles, became the basic goal. Therefore, the reform of PEs constituted a central element in this new economic strategy. Yet, the magnitude of privatization remained restricted. The first attempt took place in 1988, eight years after the start of the program.

Price deregulation was the focal point during the initial phase of 1980-83 PE reform. Throughout the pre-1980 era, SEEs were subjected to extensive price controls. The aim was providing subsidized inputs for the private manufacturing sector. Those controls in turn had resulted in chronic losses. After the introduction of price flexibility, SEEs started to make profit for the first time since early 1970s. SEEs which had a total loss of 31 billion in 1983, made a profit of 465 billion in 1984, and 783 billion in 1985. The general counter argument to this was that, the SEEs made profit since the government increased the prices of SEE products. Yet, the SEEs were open to both international and domestic competition which limited the government of MP to increase the prices of SEE goods randomly (5).

## **B- Privatization by the Motherland Party**

Irmak indicated that, privatization was a part of the ideology which became crystallized with the September 12 policies (1992,p.111). On the economic front, the military regime allowed a group of technocrats to take charge. With the backing of military, the stabilization measures were completed. Although the military played a critical role in shaping the state in post-1980 Turkey, the authority shifted from the soldiers to the civilian government with the election of MP in 1983. This new government exercised political control over the bureaucracy. MP partisans were brought to critical posts in important state agencies including State Planning Organization (SPO) and Turkish Radio and Television (TRT). Furthermore, Mr. Özal bypassed bureaucracy by creating new agencies such as Undersecretariats directly tied to his office as well as special funds outside of Treasury (6).

Following the military rule between 1980-83, the process of economic liberalization and democratic consolidation proceeded together (7). The newly elected right-of-center MP, under the leadership of Turgut Özal, showed strong commitment to accelerate the reform process which was initiated in 1980 by the January 24 Measures. The government formed after the 1983 elections reflected MP's organic ties with the private sector emphasizing the free-market principles (Arat, 1990, p.19). In terms of democratic consolidation on the other hand, the MP favored the flourishing of pluralism and civil society by attempting at rolling back the state frontiers through privatization of SEEs. Following the British example, Turgut Özal mainly aimed at making the people participate in the economic decision-making process in order to promote popular capitalism which would enhance the role of civil society and democracy.

One of the earliest measure of the MP administration was privatization which appeared on the policy agenda in 1984. Yet, as mentioned in the first chapter, it is not surprising for the governments who choose privatization as a policy option to face some legal problems and social restrictions. To overcome these obstacles, Turgut Özal used the government decrees having the force of law which strengthened the executive latitude of the MP. Here, the term privatization did not only include the sale of public sector assets, but also liberalization of public services (8). The origins of the Turkish privatization program can be traced back to the foundation of the bureaucratic structure of the Mass Housing and Public Participation Fund (PPF), in 1984. PPF was structured in such a way that it became directly responsible to the Cabinet. It gained autonomy vis-à-vis other traditional bureaucratic institutions like SPO, the Treasury and the Central Bank. The Higher Supervisory Council was also excluded from the implementation of privatization, which was a body responsible for evaluating the performances of SEEs. There was a clear division of responsibilities between the cabinet and the PPF as the two executive bodies for the organization of privatization. Major decisions involving the selection of PEs to be privatized, would be taken by the cabinet. Once a decision was reached, the candidates chosen for privatization were placed under the direct control of the PPF. From then on, the assets would be transferred to this institution. PPF assumed the responsibility for management, possible rehabilitations and the mode of transfer to the private ownership of the concerned enterprise. During the first years of MP government, the centralization of executive increasingly under the prime ministry, seemed to have promoted cohesiveness. In contrast the coordination has become increasingly difficult in matters of privatization.

### **1) Early Efforts of Privatization**

Privatization in Turkey did not directly start as the divestiture of big companies. It was initiated as gradual, strategic and pragmatic policy by the Turgut Özal government. As Pfefferman had observed, as long as the proposed privatization program was devoid of specific targets and operational details, the concept would be more easily accepted by political groups of many different persuasions (9). A pragmatic rather than an ideological approach escapes some problems in the short run in terms of avoiding conflicts in the society and among politicians in general, like the MP government did after 1984. Still, this does not mean to deny the need for a framework, but practical, creative and flexible trial and error approaches respond more to the unique characteristics of countries and of different enterprises. As noted above, the statutory decrees have given Turgut Özal this kind of flexibility (10).

#### **a) Revenue-Sharing Certificates :**

The preliminary stage of privatization in Turkey was the introduction of revenue-sharing certificates (RSCs). The underlying motive for the introduction of RSCs was enabling the people to have a share in the operating revenues of some SEEs. Those SEEs mainly engaged in infrastructure such as communications, energy and transportation. Yet, the first RSCs which were made available in December 1983 was not privatization in its real sense as it did not lead to the actual transfer of public assets to private companies or individuals. The first instance of RSCs included the revenues of the first Bosphorus Bridge, the sales of which were organized by commercial banks on a nationwide basis. The initial response encouraged the government, since the certificates were sold within hours. This made the MP to issue the law 2983, which opened the way to the transfer of the management rights of SEEs as well as the sale of SEEs through public offering (11). The government

proceeded with the issuing of the certificates of Keban Dam and Hydroelectric Power Station in January 1985. The experience with the new RSCs was instructive for the government, as it showed the high demand for such assets by the public. This experience provided the signal to the MP to carry on privatization, while it was a public learning effort as well as a take-off for the government.

**b) Search for a Master Plan and Strategy :**

The MP government in 1985 wanted the proposals of two American firms, Morgan Guaranty Trust Company of New York and The First Boston Corporation, as well as the three British firms; Lazard Brothers and Co. LTD., Chase Manhattan Ltd., and Morgan Frenwell And Co. Ltd. . After the negotiations, an arrangement was signed between the SPO and Morgan Trust of New York in the same year. The government requested the Morgan Bank to make up a master plan for privatization. The criterion in the selection of enterprises was their salability, their market potential and profitability. The bank submitted its report in May 1986, identifying the companies which were suitable for privatization. In their master plan, Morgan Guaranty indicated that ;

"....according to our final decision, there is no serious obstacle for starting the privatization program. Some of the SEE may need limited structural changes, but we believe that the government will appoint some fiscal advisors for the sale of some parts of USAŞ (Turkish Airplane Industry Company), THY (Turkish Air Lines), TURBAN(a chain of state owned hotels), ÇİTOSAN and YEMSAN (two companies engaged in the manufacturing of cement and animal seed respectively) within two years (TUSİAD, 1993,p.58).

This master plan showed the planning and sequencing intentions of MP as part of their strategic sales. Although the ground for privatization was prepared during 1987, still the MP government was reluctant about the implementation, due to the large opposition coming both from the business community and from the social democrats. Consequently MP waited until they obtained a consent for their broad economic program in the general elections of November 1987. In the second term of Özal administration, privatization emerged as a dominant theme.

c) Why did the First Success Story Turn into a Failure ?

In Turkey, the first major case of privatization occurred in 1988. This was the sale of a telecommunications company, Teletaş. The choice of Teletaş was inspired by the successful examples of British Telecom and British Gas. Following the operation, Teletaş was divided into 40.000 shareholders. Originally, 40 percent of the company's shares were owned by the state. In February 1988, the government made available of its 40 percent shares to the public (TKKOI, 1994, p.6). At the end of the sale, 15.4 billion TL was obtained. Consequently, Teletaş became the company with the largest number of shareholders in Turkey. According to TKKOI (Mass Housing Public Participation Institution), Teletaş was a good example as they argued that, diffusion of ownership and capital was created, which was one of the most important socioeconomic goals of privatization (12). But the evidence showed that, the performance of the company, in İstanbul Stock Exchange, failed to answer the initial optimism. The value of the Teletaş shares declined from an initial value of 5000 TL. per unit to 3000 TL. by the end of 1988 (13). The performance of the Teletaş shares showed the fact that, the Turkish capital market was not sophisticated enough for a major transfer operation (14). Part of the blame was attributed to the bad timing of the policy makers. The sales were made during the



restabilization attempts of the government under high levels of inflation.

d) Search for Alternative Modes :

Because of the failure of Teletaş, government's attention was shifted to alternative modes of privatization. This involved the direct sale of state assets to private firms. Although the domestic business community accepted privatization in principle, domestic corporations failed to emerge as serious candidates within the process. Hence, the government turned its attention to foreign investors which would offer better opportunities in technological transfer. During the final months of 1988, a new wave of privatization emerged in Turkey. ÇİTOSAN (Turkish Cement Industry) was sold to French Societe Française which was nullified by Council of State (15). This was followed by the sale of 70 percent of USAŞ shares to Scandinavian Airlines (16). Boğaziçi Airlines was also sold to a consortium including Irish Airlines. So in 1989, the government displayed a firm commitment to privatization, based on the participation of foreign investors. In these terms SÜMERBANK ( the largest SEE majorly involved in textile manufacturing ) and PETKİM ( a company engaged in the production of petroleum products) were identified as the major candidates. Their sale to foreign capital formed the heart of the opposition directed against MP.

### **C- Opposition Against the Block -Sales to Foreigners**

The privatization program based on foreign investments faced political opposition both from labor and private business. Once PETKİM and SÜMERBANK placed within the privatization agenda, this opposition increased. As far as PETKİM was concerned, the idea was challenged on the grounds that, PETKİM was located in a

strategic sector and its transfer into foreign hands would be against national interest. Meanwhile, SÜMERBANK was regarded as the most well-known and widespread, profitable institution of the public sector. TUSİAD, representing the interests of corporate business became the voice of opposition of the sales to foreign investors. In fact, today, with the exception of the marginal parties, all the political parties along the political spectrum seems to accept the privatization in principle. The point of differentiation is about the extent, timing and means of privatization.

Having different approaches to privatization, the opposition parties of SDPP, TPP and Prosperity Party (PP), opposed to MP itself, rather than the privatization programs (17). SDPP even called for the renationalization of the enterprises which were already privatized by the MP government. SDPP attacks on MP mainly focused on the points of: the sales to foreign investors, sale of the profiting SEEs rather than the loss making ones, and the undervaluation in sales. Irmak concluded that, as the privatized assets were not being sold to domestic firms, the sales were serving to the interests of foreigners (18). Cevdet Selvi, the SDPP Member of Parliament from Eskişehir made the below comment at Turkish Grand National Assembly (TGNA) during the investigation on the privatization of SEEs, which was initiated by SDPP :

" Whose property is sold to whom and how? It is very dangerous for Turkey to open the way to domestic and foreign monopolies to be powerful in such a way that, they will lead our economy totally in the future (DPT, 1993,p.99)."

The sale of ÇİTOSAN in particular caused many problems to the MP government.

Five factories of ÇİTOSAN including the Balıkesir, Trakya, Ankara, Söke and Afyon divisions were sold to the Societe Des Çiments Francais (SCF) in 1989 (19). The prerequisite to this sale on the side of Turkish Higher Planning Council (HPC) was that, 40 percent of the shares which were to be transferred to SCF would be offered to the public and employees of these departments within a five year period. After the approval of HPC, the shares were given to the new-owner SCF. Still, problems continued. This execution was opposed on the grounds that, sales to foreigners was not serving to the goals of privatization in Turkey, together with its contradiction to the Constitution. Consequently, in the same year, the sales were blocked by the Council of State. Thus, the restriction of the sale of ÇİTOSAN to SCF was resulted in a loss of trust both in foreign and domestic firms. Internationally , the foreign capital was forced to be reluctant and slow in their investments into Turkish public sector. Domestically, the conflicts between the Executive and Constitutional Court was started, which would last until today.

These political constraints proved themselves by a major setback of MP in the local government elections of March 1989. From then on, opposition parties drew attention to the fact that, the government lacked popular mandate to carry on their privatization policies. On the point of social support, most of the opposition came from the TPP. According to Süleyman Demirel, who was the leader of TPP, it is not enough for a government to be sure about the benefits of the sale of state assets. The most important point to him was, persuading the people in order to get their consent. Still, at the end of 1989, MP continued with privatization programs.

## **D- Concluding Remarks**

The Turkish privatization constitutes an example of elite-engineered social reform which was not backed up from below (20). The impetus and implementation originated within the government as a highly centralized process insulated from outside pressures and feedback. The steps towards privatization included the creation of a new bureaucratic structure, which became independent from other layers of traditional bureaucracy. The Özal government aimed at instituting a Thatcher style popular capitalism. The introduction of RSCs and Teletaş experience of 1988 were designed to accelerate the participation of small investors on a nationwide scale. It was clear that, the development of the capital market was crucial for the project of the creation of popular capitalism to succeed. The MP hoped that the sale of public assets would contribute to the development of a capital market, which in turn would open the way to further privatizations. That is why the attempts to create a capital market was parallel to the attempts of privatization.

An important lesson to be drawn from the MP experiment is that, privatization becomes politically unattractive when it is primarily directed towards foreign investors. At a time of increasing foreign external debts, Özal-government was interested in the participation of foreign firms as a means of attracting foreign capital, technology and management efforts. However, this undermined the government's political power as labor and business opposed to privatization. Although one of the basic intentions of privatization was bringing civil-societal elements to the surface, the decisions were made within a centralized government regardless of interest groups without any transparency. The loss of trust to Turgut Özal's privatization program again showed that, alternative modes of privatization

including direct sales to foreign investors was in most cases far from being politically attractive.

The 1983 election indicated that, MP was a devotee of free-market economics emphasizing the need to bring Turkey into the international competitive marketplace. This initial appeal under Özal's leadership to market rationality had struck a responsive cord with the Turkish electorate (21). MP was able to continue its status as the major party in 1984 and 1987 elections, but national percentage of support was declining which led to a major setback for MP in 1989 local-elections. The unsuccessful privatization efforts and loss of trust within the society was one of the reasons of this setback. Another reason was the climbing inflation again, which reached to 43.2 percent in 1985 (22). The year 1987 corresponds to the lifting of the Constitutional ban on ex-political leaders such as Süleyman Demirel and Bülent Ecevit. This constituted a major challenge to the MP since 1983, as competition once again started at the polls. The Constitutional Referandum of 1987, culminating the competitive political system involving the ex-political leaders, signaled the departure of MP from the moderate style of politics. Main competitor to MP was the TPP being the inheritor of Justice Party (JP) under the leadership of S.Demirel. Mr. Demirel's criticisms mainly focused on the loss of voter-support in MP and constitutional issues. Meanwhile, the rate of inflation reached to 80 percent in 1989. Thus, the period 1987-89 experienced a mutual hardening of attitudes of political parties towards each other, as well as a campaigning by the opposition parties against MP, criticizing every policy they execute including privatization. When the legal-constitutional problems and block-sales to foreigners about privatization in particular was added , a very slow progress was made towards this direction until 1991. What is surprising about the following 49th-50th coalition governments in

Turkey is that, they continued with the block-sales in 1990s which (especially S.Demirel) they had criticized before, being subjected to similar criticisms by the MP (under the leadership of Mesut Yılmaz) this time (23).

Bringing free-market philosophy into Turkey, Özal administration intended to create liberal individuals participating in economic decisions, as well as creating a small-state. Still, the biggest contribution of Özal was in terms of changing mainly the atmosphere and principles about pro-active socio-economic policies. Today, people at all social strata discuss privatization efforts instead of solely reacting. Privatization, being one of the components of this new era coming after the January 24 Measures, was to be a tool for the liberalization of public services and sale of public sector assets. Although the privatization movement during MP was backed by debureaucratization, the capital market and domestic firms failed to support the movement. Most important of all, following the hardening attitudes of political parties towards each other after 1987, the confrontations began lasting until today, which is the most difficult obstacle to overcome on our way to free market economics. Thus, the best suggestion at this point that can be made is creating a suitable environment for dialogue which can lead to the preparation of a general framework for privatization, clearly defining the roles of each part in this movement. The significance of the need for a social consensus will be verified by examples in the following chapter.

## NOTES

(1) Import Substitution Industrialization strategy is used by most developing countries. Basic principle is closing the internal domestic industries to outside competition and imports, so that the infant industries can be developed only by exporting.

(2) DPT, op.cit, p.98.

(3) Özbaş, op.cit, p.12.

(4) Doğan, op.cit, p.176.

(5) DPT,op.cit.

(6) see p.4.

(7) Öniş, op.cit, p.244.

(8) Mat, op.cit, p.11.

(9) Pfefferman,op.cit, p.18.

(10) Ibid., p.23.

(11) DPT,op.cit, p.75.

(12) Ibid., p.8.

(13) Ibid., p.9.

(14) Öniş,op.cit, p.246.

(15) see p.47

(16) DPT,op.cit. p.41.

(17) Ibid., p.96.

(18) Irmak,op.cit, p.112.

(19) DPT,op.cit, p.154.

(20) Öniş, op.cit, p.248.

(21) Ergüder, Üstün " The Motherland Party, 1983-89" in Political Parties and Democracy in Turkey, p.153.

(22) Öniş and Özmucur, op.cit, p.135.

(23) see chapter 3.



## CHAPTER THREE

### PRIVATIZATION IN THE 1990s

#### A- General Outlook of 1990s

In the 1990s, Turkish economy still witnessed some problems. Governments were unable to meet their external debts due to some internal and external reasons. Internally, an inflation rate of 80 percent was inherited from the second half of 1980s, together with a small growth-rate and slow progress about privatization in particular.

Externally, the fiscal impact of the 1990-91 Gulf Crisis was important. Although Turkey stayed out of the regional conflicts by maintaining neutrality throughout most of the post-Second World War period, Gulf Crisis erupted at a time when Turkish perceptions about the restructuring of European security were colored with considerable pessimism because of the collapse of Soviet Union (Sayari, 1992,p.10). Due to Ankara's anxiety about the future of NATO (North Atlantic Treaty Organization), Turkey supported the US position during the crisis. In return, US promised Turkey to increase security assistance and new trade benefits as a reward. Still, the loss of Turkish government was \$ 5-7 billion (1) resulting in the suspension of investments and subsidies within the country. When the foreign debts were added to the situation, conditions within the public sector was worsened which already began to show negative signals since 1988.

As Table-1 shows, according to SPO statistics, profitability of SEEs worsened after 1988. The rate of profitability decreased to 6 percent which was 15 percent

<i>YEAR</i>	<i>PERIODICAL LOSSES OF TURKISH (in Billion TL)</i>	<i>SEE's</i>
1990	-920	
1991	-17625	
1992	-16490	

Table 1) Financial Index of SEEs Regarding Profitability in Turkey (1990-1991)

Source: DPT, 1993, p.80

between 1984-88. Basic reason for this downfall was increasing domestic and foreign debts (2). In 1990, the gap in balance of payments was widening. Foreign debts were \$ 50 billion. This has put Turkey among the four countries having the highest level of foreign debts in the world (3). The inability of the government to compensate for the public expenditures by the taxes also contributed to this rise. In this context, it was accepted that, public sector deficits would reach 27 trillion TL. at the end of 1991.

### **B- The New Government and Reform Process**

TPP and SDPP as a coalition came to power with the 1991 elections replacing the MP. This new coalition government aimed at structuring the institutional and material basis for Turkey's industrialization within a two-year stability program (Boratav and Türkcan, 1993, p.260). First thing to be done was reducing inflation to an acceptable level which the MP government failed in.

Within the program of the new coalition government, problems of Turkish SEEs and privatization still carried weight. During the administration of 49th government under Demirel, the sales of public sector and state enterprises' shares continued, together with the introduction of a new "SEE reform" as a part of the industrial strategies. Yet, the success of the SEE reform was dependent on the success of the whole program (Atasoy, 1993,p.232). In reducing inflation, the coalition government was not only motivated by increasing competition in economics, but by establishing the principles of rationality in public sector as well. The SEE reform was seen as an instrument which would integrate Turkey into the globalized world economics.

The reform was initially based on the principle of a restructuring in management in order to increase efficiency and profitability. This reform being strategic at this moment, also introduced other goals like giving autonomy to the PEs to free them from political and bureaucratic interventions. The aim was the creation of a "professional management". Although privatization of ownership is important, the privatization of management is also essential. This brings us to the point of giving autonomy to the PEs. One of the main reasons for the failure of SEEs was political interference in the enterprise-administration. Thus, giving autonomy to the SEEs had to be underlined together with a strong supervising mechanism in order to maintain continuity. That way the power and responsibilities of the autonomous institution will not be much different from a well functioning firm in the private sector. An autonomous PE can appoint its own managers and if there is need, it can then make arrangements about ownership.

In the restructuring process of the 49th government in Turkey, the lowest common denominator for the TPP and SDPP wing on privatization was the principle of "autonomy". Especially SDPP, always being reluctant about privatization, agreed on first giving autonomy to the SEEs and then privatizing them. Accordingly, privatization should be used to increase efficiency and competition, rather than with the only initiative of changing ownership whatever the costs would be (4). Social democrats' agreement is that, during privatization the priority must be given to the needs and opportunities of the enterprise, rather than imposition from outside. That way, the restructuring of SEEs will happen without creating a burden on the state treasury. Having debated and agreed on these points, the first government protocol regarding the economy was formed, without any divergencies.

On December 20th of 1991 , all the power and responsibilities about privatization was given to PPF together with the transformation of all shares of the state. In 1992, while making decisions about policies like, closure, transformation, privatization, or about unification of PEs, it was accepted that, an autonomous institution had to be established, which later was called as TÖYÖK (Institution of Turkish Autonomy Restructuring and Privatization). The coalition was trying to prepare the necessary legal background in order to implement its reforms. Privatization in particular was to be regulated and implemented by the PPF, until TÖYÖK was legalized. The objective was providing the suitable environment in which SEEs could function according to the principles of efficiency, free-market economy and autonomy through privatization, together with the modernization of fiscal and administrative structures (5). The revenues coming from the SEEs would be partly given to TÖYÖK and partly to state-treasury, later to be used in education, health services or other new investments.

### **C- Tansu Çiller's Coalition Period: Beginning of Polarization About Privatization**

The studies of SEE reform was supervised and directed by the state minister Tansu Çiller, after the coalition program was formed. Under the leadership of Çiller, a draft for the reform was prepared and the first outline was subjected to debate on the 5th January 1992. This draft had differed from the earlier coalition protocol, as it did not include any "reform" except the rapid privatization of SEEs (6). On the 27th of May 1992, the government decided to privatize Turkish Meat and Fish Corporation, Seed Industry and Turkish Milk Industry (SEK). Coalition was expecting an amount of 4-5 trillion TL. from the sales in 1992. But even the achievement of such a small

amount seemed to be difficult. This was mainly because of concerned parties about privatization. Procedural and principle differences seemed to be the first obstacles. The coalition partners, having different perceptions and understandings of privatization, were facing difficulties in finding a lowest common denominator among themselves. Many questions aroused ; whether autonomy should be given to SEEs or whether the block-sales of the 50th coalition government would serve to the interests of foreigners like the SDPP wings accusation against the TPP. When ideological differences and the lack of transparency in decision-making during the course of divestitures were added to the picture, the uneasy nature of the coalition became more clear. Still , the most important point seem to be the "legislation", issues where both statist of the SDPP and neo-liberals of TPP were placed on opposite poles. While the statist lobby was emphasizing the need for preventive measures before privatization, liberals were committed to divestiture implementations whatever the cost would be. All the above mentioned points, which led to a slow and time-consuming pace of privatization in Turkey, will be discussed under separate headings during the following pages. Suffice it to say now that despite this polarization on surface, in principal there are no hardliners completely against privatization. The divergence is on issues of sequencing, choice of firms and means.

### **1) Procedural Differences as Barriers**

In order for privatization to be successful, the opposition must be at a tolerable level and the criticisms need to be constructive. The 50th coalition government which was formed under Tansu Çiller in 1993, did not achieve a consensus on privatization even with her partner in the coalition. TPP's emphasis is on opening up to foreign markets

by such sales, as well as increasing the export opportunities. SDPP on the other hand, gives priority to putting the new technology into effect and "autonomy" first within the existing conditions of the firms. In the first coalition protocol there was no divergence on this point. After the new government protocol with Çiller, problems came to surface about privatization. SDPP regarded that, the restructuring of SEEs was converted into an ideological issue by the TPP with the emphasis on selling-off as soon as possible, whatever the cost would be (7). SDPP emphasized the importance of privatization in the longrun as a means to increase the efficiency of the economy as a whole (8), while the TPP, especially T.Çiller was emphasizing only transfer of ownership from public to private hands. Social Democrats argued that, TÖYÖK having part in the first government protocol which included a wide range of time and sequencing of privatization process was put on the shelf (9).

## **2) Principal Obstacles and Methodological Differences**

Concerning selling SEEs to foreigners, particularly of strategic ones such as PETKİM and PTT, the main reason for objection on the side of SDPP was that, it was against national interest and sovereignty. Social democrats argued that, the service and commodity production will result in the benefit of foreign capital rather than domestic capital accumulation. Thus, the block-sales (10) of SEK (Turkish Milk Industry) and Seed Industry was prevented by Murat Karayalçın (leader of SDPP) on the 28th of October 1993. The reason was mainly undervaluation of the industries. To Karayalçın, the minimum prices determined for those PEs was not fulfilling the expectations. According to Mesut Yılmaz (leader of the main opposition MP) , the current sales of state assets by T. Çiller would lead to great problems in 2000s (Karakoyunlu, 1993, p. 177). He argued that, SDPP will use its preferences along with the worker class and trade unions, thus, playing a constraining role in

privatization process, emphasizing the uneasy character of the coalition (11). Karayalçın on the other side, many times argued that, SDPP was not against privatization, rather they were differing on the methods used by TPP. While Tansu Çiller became the ideological spokeswoman of the neo-liberal aims in her divestiture efforts, social democrats favored a piecemeal approach by providing remedies according to different needs and problems of each and every PE (12) as part of their statist principles.

Right wing of the coalition argued that, privatization could be used to control inflation. In contrast, SDPP indicated that, using the sale revenues to meet the budget deficit through block sales was against the basic principles of privatization. In fact, privatization allows governments to give up some procedures like "savings-precautions" which are difficult to fulfill because of political and economic reasons. Although the basic goal is in macroeconomic terms, privatization can also be used for short term fiscal purposes. That is, SEEs can be sold to achieve some fiscal income. However as Atasoy has argued, this kind of privatization aiming at providing money for the government is regarded as "deceptive" by some pressure groups, parties and journalists, if it is continuous (1993,p.184). Similarly, SDPP underlined that, the Turkish capital market is not sufficient enough to absorb the block sales, consequently, forcing the government to sell PEs to foreigners.

In the eyes of SDPP the concept of privatization was reduced just to a "change in ownership" due to the mismanagement of TPP wing. Statistics showed that, the most commonly used method of privatization in Turkey was block-sales. As Table-2 shows, in 1992 only this method was used, without having public-offering, on the agenda (13).



	1986-91	1992	Total
Block Sales	474'890	2'558'800	3'033'690
Public Offering	1'091'723	0	1'091'723
Sale at İstanbul Stock Market	786'480	73'232	859'640
Total	2'353'021	2'632'032	4'985'053

Table 2) Revenues of Privatization in Turkey, according to methodology (Million TL)

Source: Sabah, January 11th , 1992

P.S. :

\*Block-Sales include the complete sale of the to-be-privatized firm by auction or by bargaining to any private hands

\*Public-Offering includes the sale of (complete or certain percentage of) the shares of to-be-privatized enterprise to the people at large.

As a result of the large amount of block-sales engaged by the 50th coalition government as shown above, another point of difference emerged in Turkey about the methodology, because of the sale of most profitable SEEs such as Turkish Post Telegram and Telephone Agency (PTT) which is also strategically important. As the basic principles of privatization was diverted by TPP according to social democrats, profiting enterprises were placed at the top of the sale-list by Tansu Çiller. Different members of SDPP, several times drew attention in media to the fact that, bureaucrats who would speed up the sale of the enterprises were being appointed to the manager- offices, rather than those who would work for the restructuring of them in order to increase efficiency.

### **3) Ideological Differences**

Although SDPP accepted the divestiture of state assets with some pre-conditions, ideologically SDPP party program is against wholesale privatization. As indicated in their program which was accepted on the second of November 1983 (14), SDPP believes in an economy where planning overrules. They also stressed the social welfare policies and the significance of public services. Their program indicated that, industrialization, independence in foreign relations, equal income distribution and solution to economic problems requires a state-led development and social state. SDPP emphasized privatization to the extent that state plays less role in production, but retains its social and political functions. In this sense, it can be argued that SDPP is no longer as rigid as in the past regarding privatization. Today, they have a more flexible view on divestitures as long as the above mentioned points are taken into account.. The debates on privatization in Turkey are still ideological about its goals, rather than concerning the means or the social outcomes.

In a survey about the aim of privatization, TPP representatives tended to answer in terms of encouraging competition and leaving market dynamics rule. This proves that TPP looks at privatization from an ideological stand while SDPP sees privatization just as a means for economic goals. Increasing productivity and efficiency seemed to be the most important goal among SDPP members (15). The argument that including foreign capital in privatization will strengthen international and political bonds, did not have much support among either the politicians or bureaucrats.

#### **4) Lack of Transparency and Consequent Lack of Trust**

According to the PPF reports, one of the main problems faced during the privatization process in Turkey was the lack of support coming from the public and media (Kök, 1993,p.143). The reason why there is no support from below and mass media is the lack of transparency and consistency by the 50th government. As has been argued, one of the principle lessons from prior experience is that, every privatization transaction must be transparent (16). Transparency can be ensured only through clearly defined procedures, disclosure of purchase price and buyer, well-defined institutional responsibilities and adequate monitoring of the program (17). These characteristics are the missing ones in T.Çiller's implementations. Relatedly, it is hard to talk about a trust on the part of society and other politicians. Recently, privatization decisions are still been taken behind closed doors as the government was in a rush, willing to create swift -privatization without informing the public and taking precautions. The general complaints focusing on issues like; underpricing, sales to foreigners and block-sales are all results of Tansu Çiller's effort to speed up the process. This is giving birth to a feeling of distrust among different strata including the mass-media, public-opinion and politicians as well.

Overall, this lack of transparency has led to a perception of unfair bargaining terms, which have higher costs than benefits.

For the sake of speeding up the process of privatization, the principles of diffusing ownership and capital to people in order to prevent monopolies and inequalities in income distribution, has been put in serious danger. Similarly, the advisor of T.Çiller (when she was the minister of state responsible of privatization) Özer Ertuna indicated that :

"...the main handicap that the society will face because of privatization will be the inequalities in income distribution, as the rich will become richer and the poor will become poorer (Özgıda İş, 1992, p.84)".

On the 6th November 1993, Mümtaz Soysal (Ankara deputy of SDPP and recent Minister of Foreign Affairs) wrote in Hürriyet that, the waste of the government about selling the SEEs is basically because of the expected amount of the budget deficit in 1994, which is 194 trillion TL.. He further argued that the idea of rehabilitation of SEEs was put aside because of the panic of selling them rapidly. The particular sale of Telecommunications division of PTT (hereafter cited as "T" of PTT) (18) was regarded as paying lip service to foreigners. In an environment in which public entrepreneurship is corrupt, the solution seems to be changing the managers and giving autonomy, rather than the sale of those enterprises.

Tansu Çiller also lost the support of the media due to the lack of transparency. Media generally regarded Çiller's privatization measures as "selling the public property by auction". Media is against the idea of selling PEs when the government

is in need of money. A sale which occupied an important space within the debates of privatization in Turkey was the "T" of PTT. Many journalists and TV, oppose the sale of "T" as after the sale neither the ownership nor the management will change. In Hürriyet on October 13th 1993, Enis Berberoğlu wrote that; "privatization will not mean anything as long as the existing managers are not fired". It seems that, the sale of holding-companies to only one private firm will not promote competitiveness, which is one of the most important principles of privatization. In order to prevent formation of "private-monopolies", the existing administrative system of the PEs can be rationalized by bringing non-partisan managers to the office.

#### **5) Statism vs Neo-Liberalism Regarding Legislation**

About legislation, ideological confrontations between the statist lobby; including the members of SDPP -mainly Mümtaz Soysal-, Constitutional Court, civil-societal elements like TUSİAD and TİSK (Turkish Employers Union Corporation) and the liberals; including TPP members headed by T. Çiller continued. The statist lobby insisted on preventive cures and pre-requisites in order not to face negative social outcomes like strikes and unemployment, while the liberals were committed to divestiture by all means. This confrontation was resulted in a deadlock regarding the privatization efforts during the last two years.

The particular sale of the "T" of PTT is a good example of the above mentioned struggle. On the 1st October 1993, TPP prepared a government decree having the force of law about the sale of "T" , but it was refused by the Constitutional Court. The sale was stopped as the Ankara member of the parliament of SDPP Mümtaz Soysal and 91 other representatives (among social democrats as well as from other parties sharing the statist view) appealed to the Constitutional Court to block the sale

of "T". The aim was passing the law restricting the issuance of stay orders (yürütmeyi durdurma) about the authorization bill on privatization. Hence, the TPP wing of the coalition decided to propose a new bill for this particular sale. An economic commission consisting of PPF, SPO, Undersecretariat of Treasury and Foreign Trade and Ministry of Transportation members started their works on the 10th October 1993. To defend their arguments, the TPP indicated that the sale of "T" of PTT was a must, as during the Customs Union due to 1995, the EC would insist on the abolishment of every kind of limitations in Telecommunications. On the other hand, the statist opponents argued that, the EC would not accept the sale of "T" to one company as privatization.

The above mentioned conflict between the two poles was again an outcome of the uneasiness of the coalition by definition, and of the insistence of Tansu Çiller's "personalized" type of execution, which became increasingly overt after the April 5 Measures.

#### **D- An overview of Privatization in Turkey: The Regulatory Framework**

Although privatization has been attempted in Turkey since 1986, there is no existing related law to coordinate and supervise the activities. None of the parties having seat in the Turkish Parliament is against the idea of privatization, but still a consensus has not been reached, which would turn into a particular law. The lack of such a broad legal framework in fact is the combination of all obstacles mentioned above which

need to be abolished. Since Turgut Özal's initiation only the statutory decrees enabled the governments to engage in privatization. Similar methods are being used today by Tansu Çiller with more hindrances.

The first legal document related with privatization was the Law No.: 2983 on the Encouragement of the Savings and Acceleration of Public Investments, which was issued on 17th March 1984. The main objective of the law was the making of the public investments in an accelerated manner via new financial resources which will be obtained through encouraging savings by paying stable and reliable income (Doğan, 1993, p.177). It was argued that, the spirit of this law was consistent with the overall policies of MP (19). The aim was reducing the scope of state intervention by directing the state on infrastructural activities. Second legal document related to the PEs was the Statutory Decree- 233, issued on the 18th of June, 1984. Aim was giving autonomy to the PEs in order to work them in a competitive environment. In 1985, Law No.: 3291, covered wide range of issues including the changes and amendments in the Law of Banks, the Law of Central Bank and The Law of the Capital Market, was no clear definition of "privatization" (20). While it was organizing the sale of the shares of PEs and transfer of the operation rights of PEs, it did not deal with whom to sell, valuation in the sales and socio-political implications of privatization.

During 1991 and 1992, there were four different provisions and legislation on the decision making about privatization. These were Law No: 3701 and statutory decrees of 437, 470 and 473. Today, while SPO decides on which PEEs should be privatized and transferred to the PPF, Public Participation Supreme Board decides on the methods that will be used during the course of privatization. As mentioned

above, the statutory decrees prepared by the 50th coalition-government headed by Tansu Çiller for the sale of "T" of PTT in 1993, and the authorization bill on privatization was blocked by the Constitutional Court in 1994. The absence of a general legal framework for the application of divestitures, still causes problems and slows down the pace of privatization in Turkey. On top of this, increasing budgetary constraints has placed the governments at the crossroads; the longterm goal of efficiency has been mostly overlooked in the debates and procedures of privatization.

#### **E- World Bank Assistance: What are the Strings Attached?**

Besides all the differences among the coalition partners and legal obstacles, SDPP-TPP coalition is continuing its privatization program. The expected inflow by PPF in 1994 for privatization is \$ 2.6 billion. Turkey, having adopted statism since the 1930s and having this policy as a principle written in its constitution, is likely to face some economic and social problems caused by the privatization movement. One of the negative socioeconomic outcome is related to unemployment. During their implementation, the coalition announced in the mass media that, they were going to take some measures against unemployment created by the sale of SEEs. On the 5th of January 1994, minister of state Cemil Erhan said that, the unemployed personnel would be transferred to other public institutions. At the end of this transfer, if the new wages were determined lower than the previous ones; the gap would be filled by paying compensation and indemnity to the employees. This particular transfer was said to be made in 45 days.



As the government was in need of cash, in 1994 February, the coalition decided to cooperate with the World Bank on privatization (21). The meetings began on 23rd of February in Washington. After the meeting a financial support was expected to start. The amount was determined to be \$ 100 million by the WB. The "social-security network" which was to be structured for the implementation of privatization was at the heart of the debates. The aim was being able to bring some alternatives to the workers who will lose their jobs. At this point, the transfers to other SEEs , providing capital for individual jobs and providing new or additional education to enable workers in other sectors, seemed to be the basic alternatives. However, due to the slow progress of privatization in Turkey because of legal obstacles basically, WB suspended its aid program until new legal regulations and structural adjustments are made (22).

#### **F- Concluding Remarks**

Privatization taking part in the global agenda for the first time seemed to be more ideological rather than scientific (Buğra, 1993, p.20). The only thing to be done was putting it into effect with a decisive policy. Then, it was understood that, different societies are in need of different priorities together with various difficulties during this process. Privatization is affecting divergent interests as socioeconomic conditions come to fore in determining the success of the movement. As far as Turkey is concerned, these various interests and beliefs showed themselves as confrontations between liberals and statist, systemic and pragmatic approaches and political parties together with different interests/pressure groups. Out of this picture, speaking in terms of methods of privatization what is obvious is the low possibility of diffusing capital and ownership as well as stopping inequalities in

income distribution through block sales. It seems that, not only expanding the capital, but also preventing the monopolies will not be possible. When the lack of consensus in society as well as among politicians is added to this, privatization has caused problems and further divisions, rather than making Turkey more competitive and cohesive.



## NOTES

(1) Ibid.,p.19,

(2) Özgıda İş,op.cit,p.83.

(3) Irmak,op.cit,p.114.

(4) "The Opinions of Aydın Güven Gürkan on Privatization" (Source: TGNA).

(5) DPT,op.cit,p.163.

(6) SDPP,op.cit,p.21.

(7) Ibid,p.22.

(8) A.G.Gürkan,op.cit.

(9) Ibid.

(10) The block sales include the complete sale of the to-be-privatized firm by auction or by bargaining to any private hands (DPT,1993,p.44). Block sales are regarded as the most rapid way of privatization.

(11) Ibid.,p.177.

(12) SDPP,op.cit,p.22

(13) DPT,op.cit.,p.53.

(14) Ibid.,p.97.

(15) Atasoy,op.cit,p.237.

(16) Kikeri- Nellis -Shirley, op.cit,p.70.

(17) Ibid.,p.71.

(18) This particular sale is still being discussed.

(19) Ibid.,p.177.

(20) Ibid.,p. 180.

(21) Cumhuriyet.Feb.21st,1994.

(22) Hürriyet, August 25th, 1994,p.7.



## CHAPTER FOUR

### CONCLUSION

#### A- Evaluation of Comparisons

As mentioned in the first chapter, although the history of the privatization in Turkey is short, it was one of the most important aspects of Turkish political and economic scene, since it entered the agenda with the Motherland Party. In Turkey, SEEs today are seen as burdens on the national economy, causing many problems from budget deficits to patron-client relationships. When privatization is limited to the sale of state assets, then it will not be wrong to argue that the real aim of privatization which is the shift to free-market economics based on competition, cannot be fulfilled. Especially during the TPP-SDPP coalition period, minimizing the state's involvement in economics is kept synonymous to reducing the debts of the public sector.

Reducing the role of state in economics was most successfully managed in England, where a "popular capitalism " was created. Unlike Turkey, in Britain, privatization was not limited only to the sale of state assets to close fiscal gaps in the form of block-sales , rather it was used as a means for the transition to free market economics. By a true commitment to the principles of this "Free-Market" with the Thatcher government England was able to receive large amounts of income through both sales and public-offerings. Thus, privatization in England is seen as an exemplary model for other countries. The precondition for such a model was mainly a developed capital market, which most LDCs lack. What made British privatization so strong was the fair distribution of wealth and capital among people

together with the increase in efficiency at the macroeconomics level. Through "making everyone a capitalist", Thatcher administration has built a popular support against renationalizations and oppositions.

Another country which was able to create a popular support for its divestiture implementations was Mexico. Although limited divestiture has been taken place in Latin America and other LDCs, Mexican privatization seems to be an important example for Turkey in terms of its transparent and sequenced policies. Starting in 1983, Mexican privatization movement was limited with small scale enterprises initially. Even in the extensive privatization period, unlike what the 50th coalition government did in Turkey, the priority was given to small and medium sized firms in Mexico. When this was backed up by a transparent administration by the informing of public and media together with the usage of debt-equity swaps within their structural adjustment program, Mexico reduced the danger of the sensitive issue of foreign ownership. Privatization in Mexico was neither personalized nor behind closed doors regarding divestiture decisions and preparations.

What is unusual about France in terms of EC countries is their latecoming into the privatization movement. In 1986 when Jacques Chirac came to power, Conservatives passed a law which authorized the denationalization of some 66 firms. The initial motivator for privatization in France was fiscal inflows. Yet, these inflows would not be used to meet solely the budget deficits like in Turkey, rather would allow the French government to cut taxes, so that the profit margins would rise and further investments could be made. Jacques Chirac's program for the privatizations of the state-owned banking sector was also valuable since making the financial system solvent is an important precondition for the efficiency of the whole economy.

While state owned banks in Turkey continue their subsidized loan facilities, state was being withdrawn from the national economy in France. Being pragmatic and free of ideological confrontations, privatization worked well in France even if they were a latecomer.

Both MP under the leadership of Turgut Özal and today's coalition under Tansu Çiller are committed to the liberalization of the Turkish economy. Turgut Özal being the Undersecretary of Economic Planning under Süleyman Demirel's prime ministry, reduced the role of state in economics as well as liberalizing it. Waterbury argued that, since the early 1980s Turkey has fairly and successfully pursued an economic strategy of export-led growth (1991,p.127). In a similar way, Tansu Çiller proved her dedication as shown here :

" ...The restructuring program of Turkey.... aiming both to increase its productivity to attain sustainable growth and to make more responsibility in the globalization process.....The main target is to reduce the government's role in the economy and more towards greater reliance on market forces. In this context, privatization programs have top priority on our economic agenda (1993,p.6)"

The products of these commitments were the January 24 in 1980 and April 5, 1994 Measures. Although there are similarities, it would be wrong to suggest that the history is actually repeating itself. The Stability package of January 24,1980, involved a major deregulation of the economy in response to a disastrous balance of payments situation, while the April 5 1994 Measures involved no such longterm structural change except for some remedies like the new tax-system.

April 5 Measures were mainly designed to counter huge public deficits as much as overcoming the external payments bottleneck in the short-run. Since 1985, all the incomes in Turkey were used to compensate the debts, capital and interest payments. Parallel to this line of thinking , about the April 5 Austerity Measures Tansu Çiller and her junior coalition partner Murat Karayalçın said in a press - conference of the same day that, the most important problem Turkey facing was the growing public deficits. So the government was expecting an amount of \$3.5 billion until the end of 1994 from the sales of PETKİM (Turkish Petrochemical Corporation), Deniz Transportation Corporation, THY (Turkish Air Lines) and Turkish Petroleum. In addition to this, TEK (Turkish Electricity Cooperation) and Telecommunications Division of Turkish Post Telegram and Telephone was to be privatized until the end of 1995.

When Süleyman Demirel was the head of coalition, same method of using privatization to close public sector deficits was used. In an interview published in Milliyet on January 4, ex-prime minister Demirel said that, privatization receipts would help him break out of the budgetary restraints imposed by huge debt service burden (Mango, 1993, p.28). Demirel expected privatization to proceed to an amount of 20 trillion TL. in 1993, but this expectation was a little unrealistic. The reason was the sales in 1992 could only reach to 5 trillion TL.. In the light of this evidence, it can be concluded that, January 24 Measures were taken to restructure the dominant centralist policies of Turkey by opening the domestic economics to outside competition. April 5 on the other hand, are shortterm austerity measures in character and taken to improve the existing free-market economy in Turkey which was heavily deteriorated by high levels of inflation and budget deficits. On the other hand, April 5 Measures included a tax-reform package which we do not see in January 24



decisions. A drastic devaluation was seen shortly after the recent austerity measures , while it came together within the package in 1980.

Privatization in particular started shortly after the January 24 Measures being a component of the new philosophy of export-orientation in Turkey. It was one of the five most important dimensions of Turgut Özal's restructuring program, including the other four of: Liberalization, Deregulation, Decentralization and Debureaucratization. Teletaş being the first major attempt of privatization under Özal proved to be inefficient in 1988. Teletaş Communications has turned out to be bankrupt after six years of private management. It was dragged into a crisis as it insisted on financing activities through private borrowing while its claims against the PTT remained unpaid. The unsuccessful experience of Teletaş, forced the MP government to engage in sales to foreigners as an alternative way. But increasing opposition based on the concepts like national sovereignty lead us to the conclusion that, direct sales to foreign investors without making the necessary pre-adjustments, is not a valid policy option for Turkey. On the contrary, in European context, neither "natural monopolies" particularly in strategic nature were placed on the sale-list, nor were they sold through block-sales.

As mentioned earlier, one of the most important goal of the sociopolitical aspect of privatization is the diffusion of capital. The best example constituted at this point is in England, where "making everyone capitalist" was successfully created through economic participation by the people. When we come to Turkey on the other hand, we see that neither the privatization movements of MP, nor of TPP-SDPP coalition managed to do so. Although the initial interest to public shares was great during Turgut Özal, the people changed their minds later as the value of the bonds rapidly

decreased due to the inefficiency of the Turkish capital market. Similarly, during Demirel's and Çiller's periods, as the priority in terms of divestiture method was block-sales, only foreign investors and large domestic companies were able to use state property. Especially in 1992, the block-sales reached its peak. Another conclusion regarding privatization efforts of the two mentioned governments is that, the danger of creating monopolies is still valid in Turkey. This seems to be an important divergence from the basic principles of privatization.

When we look at the preparation phases of privatization in Turkey, whether it is strategic or ideological, both Turgut Özal and Tansu Çiller faced similar problems in terms of providing legal and institutional framework for this particular policy. Both used statutory decrees to put privatization into action. Similarly they both placed their own members in government structures. Turgut Özal created the bureaucratic organization of Public Participation Fund (PPF), which was directly responsible to him in 1984. Tansu Çiller on the other hand, felt the need to create an autonomous institution to carry out privatization. The institution of the Turkish Autonomy Restructuring and Privatization (TÖYÖK) was the outcome. Four days after the disclosing of the bitter austerity program, the prime minister reshuffled her top economic bureaucrats as a part of plans to restructure the entire economic decision making mechanism.

Being an elite formulated movement, privatization in Turkey is initiated and still progressing in an insulated fashion without transparency, reflecting more of the personal wishes of leaders, regardless of civil-societal inputs. Although there was a certain amount of cohesiveness during MP period, both business circles and labor unions are extremely uncomfortable with the policies of today's coalition

government. For example KOÇ (one of the leading holdings in Turkey) many times suggested that, the government should consult the pressure groups such as employers and trade unions about the policies to be implemented. The most outstanding group of course is the TUSİAD. In every opportunity, they presented their complaints about the economic policies of the coalition. Keeping the lack of consensus among the coalition partners on many points in mind, it was argued that, the relationship of the coalition appeared to have been strengthened as they found a common enemy in TUSİAD and the business community (Briefing-May 9 . 1994, p. 4). It seems that Tansu Çiller has burnt all bridges with TUSİAD and risked some media backing about her measures including privatization. Çiller also turned her back on any possible cooperation with Mesut Yılmaz. Taking all the responsibility on her own shoulders, Çiller's and her party's future depends more on the success to be recorded on the part of present government.

To achieve large amounts of income in a short time, large enterprises have to be sold, *ceteris paribus*. This is what the coalition government attempted by trying to sell PETKİM and SÜMERBANK. T.Çiller in particular also wanted to do this in a very short time period under "swift privatization" as Turkey is in need of immediate cash. When privatization is limited to a very short time scale together with the sale of large enterprises, than the government also had to handle big problems which can not be held constant in a short time. This reduces the performance of the movement and criticisms begins to come from everywhere, even from the coalition partners themselves. Workers, managers, labor unions, political scientists, journalists, businessmen and opposition parties in the parliament, heavily blamed Tansu Çiller for behaving independently and for giving Turkish sovereignty into private hands.

## **B- Concluding Remarks**

Still the most important obstacle in Turkey is the lack of agreement in implementing policies, be it privatization or any other related matter, among the political parties and the coalition itself. The coalition partners of the government neither try to find common ways among themselves, nor with other parties. Rather, Tansu Çiller used her preferences along with personalizing the privatization movement. Contrary to the French and Mexican examples mentioned before, privatization in Turkey in 1990s has been pursued under hot debates on ideological differences behind closed doors. Acting exclusively, Çiller moves in an over-optimistic manner. Mesut Yılmaz on the other hand, behaves as over-pessimistic as the major opposition party, saying that the true reason behind the economic crisis was the Çiller administration's mismanagement, without taking any responsibility of the past economic problems caused by the MP since 1987 (Bekdil, 1994, p.21).

For nearly one year with Tansu Çiller as prime minister, the coalition government has been suffering serious setbacks mainly because of the continuing terrorism and skyrocketing inflation. Unfortunately, in neither of above essential issues, has the coalition been able to come up with constructive measures so far. This was because of the lack of consensus or lack of any constructive criticism in general. The last instance was that, the authorization bill on privatization which would allow Tansu Çiller to issue statutory decrees about the amendment of 45 laws, was rejected by the Constitutional Court due to the appeal of MP for preventing the issuance of stayorders about privatization, on the 5th June 1994.

Being the prime mover of economic-liberalism, Turgut Özal initiated privatization

with the January 24 Measures in Turkey. Although a popular capitalism, which was the most important outcome of British-privatization, could not be created, the efforts of MP was valuable in terms of bringing economic rationality and proactive policies instead of hands-off policies. Major attempts of Turgut Özal proved to be unsuccessful due to the large scale sales to foreigners, which in turn was subjected to heavy criticisms resulting in the loss of political support on the side of MP. The danger of the sales to foreign capital as a policy option was the major lesson to be drawn out of the MP privatization. It is clear that, today's coalition government did not learn much about the past experiences as the attempts at block-sales to foreigners still continues. Having completely different assumptions and definitions of privatization and of state's relationships with the public sector, neither SDPP nor TPP attempts at finding a solution based on the consent of every stakeholder involved in the process (including parties, people, pressure groups and employees) to overcome the crisis situation .

Civil-society by definition is the capacity to create consensus progressively as a means of resolving conflicts about fundamental claims (Heper, 1985, p.5). Relatedly, different socio-economic groups had to be brought together vis-à-vis the central authority. However , the existence of a dominant state structure in Turkey led to the subordination of individuals to the state, both in economic and political terms. Similarly, Mardin , in his analysis on the civil-society , links individual freedoms to the autonomy of economic classes within the unit of state (1992, p. 13). Against this short background , the MP government aimed at reducing the scope of state and civil-bureaucracy in Turkish politics. Privatization of SEEs was one of the policies that was used in this direction. Turgut Özal aimed at increasing the role of individuals in economics together with pushing the interest-groups to the fore thus

strengthening civil-societal elements and pluralism in Turkey. By the transformation of state property to individual ones (with the examples of the sale of Bosphorus Bridge and opening of Teletaş) MP tried to create a popular capitalism, limiting the boundaries of state, helping to flourish economic-individualism. The following coalition of TPP-SDPP on the other hand -especially during the prime ministry of Tansu Çiller-continued to act in autonomous fashion , free from the inputs of interest groups. As far as privatization is concerned, the 50th government is so involved in the ideological and methodological differentiations among themselves that, civil-society elements are overlooked. Of course it is hard for a government to achieve consensus to resolve conflicts in a progressive manner (like in the initial definition of civil-society) without having an agreement among itself .

When we look at the future of privatization in Turkey it is likely that the efforts will be directed towards finding new lowest common denominators for implementation as is happening lately. As far as in the short-run, the optimum solution seems to be focusing on the sale of small scale enterprises by including both the domestic and international buyers, regulated by a broad legal framework as seen in the Mexican example. However, in the long run, the aim must be increasing efficiency at macroeconomic level through fair competition, free from state regulation from above. Most importantly, privatization need to be taken into account not solely to rationalize economies of SEEs but also to rationalize the political process of "compromise". Still, there is now a more likelihood of transparency and the path of privatization in Turkey seems to be irreversible.

Recently, broader issues concerning the "appropriate role of state" have also been debated in Turkey. These issues mainly include the current nature of the

parliamentary system, the role of civil-society and the significance of the rule of law along with the search for a stronger executive. Although these topics are all somehow linked with privatization issues, they are new areas to be researched in other studies.



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