HOW POPULAR IS PRIVATIZATION?

PUBLIC ATTITUDES TOWARDS PRIVATIZATION IN TURKEY

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DECLARATION OF ORIGINALITY

I, Meryem Altınöz, certify that

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ABSTRACT

How Popular is Privatization? Public Attitudes towards Privatization in Turkey

Privatization became a global phenomenon in the 1980s, and as one of the main pillars of structural adjustment programs it was promoted by international institutions, namely the International Monetary Fund and the World Bank. Turkey was among the first countries to adopt this policy, ostensibly for the sake of increasing competition and efficiency. Until the 2000s, however, a very limited number of divestitures was finalized. Most privatizations in Turkey were undertaken thereafter with a speed and scope not experienced before.

Privatization is more than an economic policy choice for the ownership of a firm; it has political and social implications for governments and, more importantly, for citizens. This thesis examines the main drivers that have shaped the support for privatization in Turkey from a public opinion point of view. Through the use of quantitative methods, it analyses the relationship between public opinion on privatization and socio-demographic characteristics, subjective income evaluation, political inclination and employment by using data from 5 waves of the World Values Survey for Turkey, conducted between years 1990 and 2011. The results indicate that socio-economic and socio-demographic factors as well as ideological factors and support for government are significant in shaping support for privatization. Nevertheless, temporality in general and the 2001 crisis in particular were the strongest factors in increased public support.

ÖZET

Özelleştirme Ne Kadar Popüler? Türkiye'de Özelleştirmeye Yönelik Tutumlar

Özelleştirme 1980'lerden itibaren küresel bir olgu haline gelmiş, yapısal uyum programlarının ana bileşenlerinden biri olarak uluslararası kuruluşlarca, özellikle de Uluslararası Para Fonu ve Dünya Bankası tarafından şiddetle desteklenmiştir. Türkiye, rekabetin ve verimliliğin arttırılması saikı ile özelleştirme politikasını ilk benimseyen ülkeler arasında yer almakla birlikte 2000'li yıllara değin özelleşen kuruluşların payı oldukça sınırlı kalmış; takip eden yıllarda ise özelleştirmeler daha önce görülmemiş bir hız ve kapsamla gerçekleştirilmiş, özelleştirmelerin çoğu bu dönemde sonuçlandırılmıştır.

Özelleştirme, işletmelerin mülkiyetine ilişkin bir ekonomi politikasının ötesinde, hükümet/devlet ve daha da önemlisi toplumsal eksende politik ve sosyal etkileşimleri olan bir olgudur. Bu tez, nicel yöntemler yardımıyla Türkiye'de özelleştirmeye ilişkin toplumsal desteği şekillendiren ana değişkenleri, Dünya Değerler Araştırmasının 1990 ve 2011 yılları arasında Türkiye'de gerçekleştirdiği 5 ayrı anketin verilerini kullanarak incelemektedir. Özelleştirmeye ilişkin toplumsal desteğin şekillenmesinde kişilerin gelir düzeyi, yaşı, eğitim seviyesi, cinsiyeti, politik yönelimi ve hükümete duyulan güvenin etkili olduğu sonucu çıkmaktadır. Öte yandan, özelleştirmeye ilişkin toplumsal desteği en fazla arttıran faktör genel olarak dönemsellik, özel olarak ise 2001 krizidir.

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DEDICATION

This thesis is dedicated to my grandmother, who was with us when I began this journey; I wish she could have seen its completion.

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CHAPTER 1

INTRODUCTION

Food is the first thing. Moral follows on.

So first make sure that those who are now starving

Get proper helpings when we do the carving.[1]

The inspiration to study privatization and understand public support/opposition began long before my graduate studies, and my motivation to grasp these ideas has remained over the years. For me, it all crystallized because of a saying my mother often recited, heard from a friend, an immigrant from Bulgaria, which attempts to explain the difference between poor quality and luxury: TKZS sreshtu Schvetska Masa.[2] TKZS is the popular abbreviation of *Trudovo Kooperativno Zemedelsko Stopanstvo*, the agricultural land reform in Bulgaria—then the People's Republic of Bulgaria—after World War II. It pertains to the collectivization of land introduced as a developmental policy by the communist party in power.[3] *Schvetska Masa*, literally meaning "a Swiss buffet," is indeed an expression that defines a rich and "all-you-can-eat" buffet. TKZS, which had been introduced as a developmental project to increase agricultural efficiency within communist norms, has ended up being used to identify something of poor or mediocre quality.

[1] Excerpt from the song "What keeps mankind alive?" from *The Three Penny Opera* by Bertolt Brecht, translated by Ralph Manheim and John Willet.

[2] *ТКЗС срещу Шведска Маса.*

[3] The TKZS process began first through voluntary participation, and after the electoral victory of the Bulgarian Communist Party it was accelerated through pressure on private landholders. Hence, within a few years, almost all agricultural land was owned, cultivated and shared collectively, until the policy was abolished in 1991.

Indeed, this small analogy partially explains the way many people felt about the communist economy in place in 1991 in Eastern European post-communist countries, now market capitalists. Countries such as Russia, Hungary, the Czech Republic and Bulgaria have undergone drastic economic reforms toward market liberalization, and privatization has been a major component of such reforms.

The allocation of resources and the private-public debate directly affect the status of the average citizen—either in terms of wages or the possibility of finding work—while the State shrinks its role as "employer" and provider. Privatization has become a heated debate worldwide since the early 1980s, spreading from Western economies to developed and developing countries, and followed ambitiously by former Soviet Union members in Central and Eastern Europe. Especially under the Thatcher government in the UK and under Reagan in the U.S., "a conventional wisdom developed that private management was better, in some sense, than public ownership and management: enterprises would be run more efficiently and there would be less opportunity for corruption" (Stiglitz, 2008, p. ix). The divestiture of state-owned enterprises (SOE) is often considered in relation to a new phase in globalization, where liberalism and open market economies were becoming more and more integrated through "the restructuring of the world economy during 1980s" (Öniş, 1991, p. 27).

Studies on privatization mainly focus on the economic and financial outcomes of policies, on the implications for efficiency gains, or the impacts for market competition (Savas, 2000). Studies on public opinion about privatization or support for divestiture are less abundant. Given that one intended consequence of privatization is increased responsiveness to citizens as customers, Battaglio and Legge (2009) ascertain that the paucity of research on public attitudes is paradoxical

(p. 698). Although the idea of considering citizens as customers is somehow problematic, it is important to evaluate public perception of privatization since citizens are the cornerstone of a functioning democracy. Without electoral support with respect to drastic policy changes such as privatization, incumbent politicians are less likely to go ahead with such policies because they realize that the costs will be felt in the short run, whereas their benefits will only be tangible in the medium to long term. This, in turn, means a loss of electoral support for the incumbent government unless there are other factors that increase support for privatization, such as an economic crisis or a charismatic populist leader. Furthermore, the way politicians implement such drastic policies is also related to the kind of support they enjoy.

Kiss (1993) explains that privatization and a market economy are identified with democracy and an increase in overall welfare, and hence, were initially welcomed by people in the transition economies of Central and Eastern Europe. One could also argue the effect of the ostensible benefits of a market economy that offers the possibility of a choice among many options, whereas in the post-communist territories, an ordinary citizen may have had to wait on a list for years to buy a Trabant, a Russian car. Nevertheless, Kiss (1993) argues that "Two years after the radical turnabouts it became evident that what was taking place in the region is a sort of Eastern Europe 'original capital accumulation'…[that] creates more losers than winners" (p. 143). In their research using public opinion surveys conducted in 1991 and 1996 in post-communist states, Kluegel, Mason and Wegener (1999) argue that, between the years 1991 and 1996, "The Bulgarian public became more egalitarian, less supportive of market principles, more supportive of government intervention" (p. 260). Consequently, public opinion about market reforms has undergone an

interesting U-turn, from strong support to discontent. Furthermore, Stokes (1996) asserts that the initial high support for market reforms decreased with time in Peru and Poland (p. 516). In regard to Poland, Szczepanski and Sliz (2010) argue that "the very first euphoria connected with regained sovereignty gradually faded with the occurrence of social problems generated by the market" (p. 244). Hungary, once a pioneer in privatization among transition economies, reversed the reform process and launched a re-nationalization program following the elections of 2010, which is expected to continue given the electoral success of the government in the 2014 elections (Privatization Barometer Report 2013/2014, pp. 46-50). Public support is a crucial component of market reforms in general and privatization policies in particular.

Turkey represents an interesting case for academic research in regard to public support for privatization; the State announced an early commitment in 1980, but showed poor performance in the execution of privatization until the 2000s. Furthermore, Turkey is a peculiar case since almost 90% of all privatization proceeds so far have been realized under the AKP (*Adalet ve Kalkınma Partisi* – Justice and Development Party) government, yet the party enjoyed electoral success for more than a decade.

Privatization is a drastic change to the status quo, and to the existing relations to production and provision, especially in geographies where the State is positioned as a key provider and producer. Turkey had followed an *etatist* approach, with high protectionism and import-substitution-industrialization (ISI), until a dramatic change in economic policies in the 1980s. Öniş (1991) calls this process "a profound shift in philosophy … concerning the role of the State in economic affairs" (p. 27). The decisions announced on 24 January 1980, including financial and trade liberalization

through the introduction of a more flexible exchange rate regime, abandoning ISI, and liberalizing import- and export-oriented policies resulted in the State's relative retreat from economic activities as a producer through the privatization of state-owned enterprises.

As stated earlier, privatization was introduced to Turkey's economic agenda in January 1980 and the Privatization Agency (PA) was established in 1986. Though, divestiture of state-owned enterprises was limited in scope and scale until 2001. Beginning in the 1980s, cumulative privatization proceeds amounted to approximately 65.5 billion USD; almost 88% (57.5 billion USD) of all privatization was realized after 2001.[4] Although it was not the AKP that introduced privatization and the progressive diminution of the State's role as a producer in the economy, most SOE sales were realized or finalized during AKP governance.

The post-2001 era witnessed large-scale restructuring in the country's legal and institutional framework in the aftermath of the financial crisis, notably putting an end to coalition governments and introducing an era of single-party government. The incumbent party, the AKP, once it formed the government after the general elections in 2002, firmly and openly adopted an economic agenda and reform package in which privatization played a central role. In the following years, during which Turkey witnessed an accelerated privatization process, the AKP's popularity was not noticeably challenged on an electoral basis.

In her study focusing on Turkish privatization until 1990, Shaker (1995) argues that "all leaders in developing countries need to develop enough support to sustain privatization policies," partially to explain the unsuccessful decade-long record of the privatization process in Turkey. She further asserts that governments

[4] Republic of Turkey, Prime Ministry, Privatization Administration. (2015). *Türkiye'de özelleştirme uygulamaları bülteni*: 2015. Retrieved from http://www.oib.gov.tr/yayinlar/yayinlar.htm.

might try to renegotiate the tacit pact between the State as a provider and the public through poverty alleviation funds (p. 8).

The Turkish experience, with its long-standing centralized government control over economic policy making, but as a late-comer to the privatization process, is an intriguing setting in which to study the public's opinion on privatization, especially given that the economy went through mass privatization without experiencing an electoral defeat. Stated differently, it is important to analyze the people's opinion on privatization and the reshaping of the State, given that the AKP continues to enjoy electoral victories in general as well as in local elections, since 2002, and that most privatization was finalized under the AKP government. Many would argue that no matter how one assesses privatization, whether most of the citizens support or oppose it, the State's policy for the denationalization of SOEs would not be affected. The fiscal burden, the anticipated revenues from privatization, and the urging from international institutions—most importantly, the IMF—would take precedence over public opinion. In addition, some might argue that decisions concerning the size of the public sector and the anticipated market reforms and economic constraints are too complex to be understood by average citizens. Hence, it would not be meaningful to ask for their opinions on these hard-to-grasp issues, and economic decisions are better left to the technocrats to decide.

Put aside the democratic principle that peoples' opinions must be taken into account; drastic economic decisions regarding an expansion or shrinking of the State's role as provider and producer for the economy as a whole has direct implications for the average citizen in terms of employment opportunities or wages. Therefore, privatization entails a political risk that grows with an increase in the number of people whose status quo is threatened as they suffer losses due to

privatization (Shaker, 1995, p. 8). Even if not stated explicitly, adherents of privatization do take into account those who are the losers as the result of neoliberal policies—privatization being one of the major components—and try to embellish the neoliberal package through widening social assistance schemes. Stated differently, the leading party elites, while trying to raise revenues from privatization, look aside in order to limit reactions to these drastic economic policies. Indeed, the AKP introduced new schemes for social benefits in order to reimburse the costs of privatization including policies to benefit the most needy, anti-poverty aid, increased amounts of scholarships granted to students from lower income segments, and the free distribution of schoolbooks, to name a few (Yağcı, 2009, p. 79). Public opinion appears to count in the political calculus of executive authority in decisions regarding the size of the public sector and the reshaping of the State, at least implicitly (Pereira, Maravall & Przeworski, 1994).

Does the mass privatization process witnessed in Turkey in the aftermath of 2001 reflect a shift in public opinion on the role of the State in the economy and an inclination toward pro-privatization? I believe it is important to elaborate on this question considering the *unpopular* nature of the privatization policy in the aftermath of a long etatist era, and given the electoral success of the ruling party—the AKP, which adopted privatization among the central goals in its economic agenda—public opinion on the matter needs to be reconsidered. Through five surveys conducted in Turkey between 1990 and 2014 as part of the World Values Survey (WVS), this thesis evaluates the Turkish population's opinion on the role of the State in the economy, and on privatization as an economic policy in particular. I further aim to discern the explanatory power of various indicators such as socio-economic status, socio-demographic characteristics, ideological leanings, and the evaluation of the

economic performance of Turkey to affect individual opinions on privatization. Before doing so, I revisit in detail the political and economic underpinnings of privatization, the main arguments in favor and against, how it emerged as the new reality in the last few decades, and finally, how it was packaged and presented to the public in order to build consent.

CHAPTER 2

PRIVATIZATION: THEORETICAL BACKGROUND

This chapter begins with a review of the basic tenets of privatization and the main arguments and objections from a political economy perspective, followed by an assessment of policy approaches adopted to create popular consent to privatization. The chapter will conclude with an overview of the existing literature analyzing public opinion formation in regard to privatization and the breakdown of explanatory factors found in various geographies affecting public support for the divestiture of state enterprises. Public support, a crucial condition for the sustainability of policies, intersects with the political calculus and rhetoric in an interchange that determines the way policies are pronounced and implemented.

2.1 From Keynesianism to market liberalism

This part of the chapter will not be limited to pure economic discussions on privatization and ownership. First, policy calculations and the repercussions of privatization cannot be understood in their aftermath by reducing them to mere technical and purely economic decisions; they have social and political dimensions, not only bound by the past and affecting today's status quo but also shaping the future. Second, privatization (as experienced since the 1970s) was not implemented as a single distinct policy but was accompanied by other economic and social policies such as market liberalization and fiscal austerity. Therefore, one cannot isolate divestiture of SOEs from the neoliberal policies of the Washington Consensus.

The economic and political context in which privatization policies were adopted is different for industrialized countries, the developing world, and formerly socialist countries. I believe this difference is of great importance and should be understood within its country-specific particularities. On the other hand, against deep geographical and former ideological divergences, it is striking to note that neoliberal policies have spread almost worldwide.

Concerning industrialized countries, specifically the USA and Western Europe, Harvey (2005) asserts that, although there are divergences, the new world order was created in the aftermath of the Second World War under the umbrella protection of the USA and was based on a compromise between labor and capital for the sake of peace and stability. The "state actively intervened in industrial policy and moved to set standards for the social wage by constructing a variety of welfare systems" such as education, social security, and the provision of public utilities. In this context, state-owned enterprises were established and enlarged (pp. 10-11). For instance, the United Kingdom, which is portrayed as having set the milestones for privatization under Thatcherism, held one of the largest portfolios of SOEs. Thanks to extensive nationalization undertaken after WWII, the country's public enterprises in the 1970s amounted to 11% of the whole economy; similarly, this figure was 11% for France and 9.6% for Germany.[5] Thanks to Keynesian economic policies as expanding government expenditures, welfare state provisions of different degrees and capital controls, the industrial world in the 1950s and 1960s witnessed high economic growth rates that lasted until the 1970s stagflation (Harman, 2007). Keynesian economic policies based on demand management proved ineffective in coping with unemployment and inflation; both accelerated. In 1979, Paul Volcker,

[5] Privatization Barometer. (n.d.) PB atlas on United Kingdom, France and Germany. Retrieved from http://www.privatizationbarometer.net/atlas.php?id=9&mn=PM.

who was appointed chairman of the Board of Governors of the Federal Reserve of the United States, drastically changed the existing monetary policy that formerly targeted federal fund interest rates in order to decrease inflation. This change of monetary policy created an increase in interest rates, from 11.3% in 1979 to 20% in 1981. This negatively affected the interest rates in other industrial economies and exacerbated the situation for indebted countries worldwide, notably African and Latin American countries.[6] Saul (2004) states that "from the 1970s on, falling prices for primary products and rising prices for oil combined with the United States' new high interest rate regime [pushed] many Third World countries ever deeper into debt" (p. 228).

It is worth noting that the Washington-based institutions, the IMF and the World Bank, were founded in the aftermath of the Bretton Woods Conference with the primary aim of supporting economic stability and development, and with the strong support of Keynes himself. Now composed of five institutions, the World Bank was initially set up as the International Bank for Reconstruction and Development. In the aftermath of the 1970s, the ideological position and power of these institutions changed drastically, and they became pioneers in exporting neoliberal policies worldwide. Harberger (2000) asserts that these international organizations "seriously avoided recommending privatization. Any step in that direction would have been considered an invasion of a country's sovereignty"(p. 15). He further explains that, during the mid-1970s and early 1980s, their approach changed considerably and the question of privatization was treated as a purely economic and technical issue.

[6] With respect to its consequences, this monetary policy is termed "Volcker shock" by critical opponents such as David Harvey and Naomi Klein (*The Shock Doctrine,* 2007).

A defining feature of these policies was their fast and simultaneous implementation. Roland (2001) explains that the fast and extensive application of reforms was due to motivation and faith in the gains achieved from windows of opportunity or periods of "exceptional politics to push reforms through as fast as possible and to create irreversibility" (pp. 33-34). Hence, the Washington Consensus approach relied on shock therapy rather than a gradual application of reforms.

As part of a neoliberal market orientation and the structural adjustment framework of the Washington Consensus, privatization has been considered a remedy, especially to developing countries that experienced economic problems such as heavy budget deficits, debt crisis, and political instability partially attributed to populist tendencies under high protectionism and state intervention. Neoliberal theory claims that SOEs are open to political manipulation through overemployment and can become a tool for clientelism for favored business groups. SOEs create market inefficiencies and loss of productivity and consumer benefits due to a lack of competition, and distort the proper working of the market through price control and subsidies. Populism has often been associated with Latin America countries following an ISI regime under a relatively closed economy characterized by expansionary fiscal policies such as wage increases and budget deficit tools at the macroeconomic level. Besides economic patterns, the notion has ideological and political dimensions as well, including anti-status quo and anti-elitist rhetoric, and a charismatic leader speaking in the name of the people (Panizza, 2005, p.14). The ISI era as a golden age for populism is conceived as a locus of "irresponsible economic policies" (Di Tella, 1997, p.188). Dornbush and Edwards (1991) suggest that populist economies lead ultimately to economic crisis and political instability (p. 8). Privatization can thus ensure productivity increases and consumer benefits through

competition and the prevalence of the market rational. ISI regimes became unsustainable in the early 1980s; earlier, Hirschman (1968) announced its exhaustion in Latin America and stated that the resulting disappointment was caused by the fact that "industrialization was expected to change the social order and all it did was to supply manufacturers!" (p. 123). Many countries following ISI, particularly Latin American countries, adopted a neoliberal market economy structure.

Within this framework, the Washington Consensus was proposed as a panacea for all the ills attributed to ISI regimes, such as populism, corruption, cronyism, and running deficit budgets. An explanation for this standardization of advice is provided by Acemoğlu and Robinson (2012) in their ignorance theory, which claims that:

> These engineering attempts come in two flavors. The first, often advocated by international organizations such as the International Monetary Fund, recognizes that poor development is caused by bad economic policies and institutions, and then proposes a list of improvements these international organizations attempt to induce poor countries to adopt ... Attempts by international institutions to engineer economic growth by hectoring poor countries into adopting better policies are not successful because they do not take place in the context of an explanation of why bad policies and institutions are there in the first place, except that the leaders of poor countries are ignorant. The consequence is that the policies are not adopted and not implemented, or are implemented in name only. (pp. 446-447)

Previously, Banerjee and Duflo (2011) provided a parallel explanation regarding the question of why some of the poverty aid programs sponsored by the World Bank were not successful, naming ideology, ignorance and inertia as the primary reasons (p. 16). They claim that the prevalent mindset in international organizations interprets economic problems in the developing world through a lens focused on the ignorance of local authorities, which becomes a solution in itself: exporting the

proper policies of the Washington Consensus and disciplining recipients by requiring these policies to be lending pre-conditions.

It is striking to note that although developing countries have economic, geographical and historical differences and, most important, they have particularities concerning their institutional levels, legal frameworks, and political and economic cultures, the IMF promotes the implementation of identical remedies. Meseguer's (2004) empirical study on the extent to which privatizations where realized under the coercive power of the IMF as a lender asserts that, in the OECD countries, only 28% of total divestitures occurred under IMF tutelage. Brune, Garrett and Kogut (2004) assert that IMF conditionality had an impact on the pace of privatization. Their empirical study suggests that there is a positive effect between the size of debt and the intensity of privatization programs: The more a debtor country owes to the IMF, the larger is its privatization program. Therefore, unlike Western democracies, other debtor countries had to resort to privatization under compulsory regulations.

Privatization was rapidly adopted by formerly socialist countries following the fall of the Berlin Wall. In addition, Roland (2001) argues that "…there was indeed no preexisting theory of transition" (p.29). Washington Consensus prescriptions were adopted during the transition[7] process in Central and Eastern European countries. Given the collapse of socialist economies, and the intrinsic proof that the capitalist economies of the USA and Europe performed better, then all that would be required was to simply mimic what had been done in capitalist economies and to promptly implement the reforms. Roland further argues that there was a

[7] Transition economies refer to countries of Central and Eastern Europe and the once-member countries of the Commonwealth of Independent States (CIS), those formerly pursuing socialist-communist economic policies and that embraced a capitalist economic model in the aftermath of the collapse of the CIS and fall of the Berlin Wall.

fundamental belief and faith in the Washington Consensus such that the prescribed policies would bring the planned gains and efficiencies.

With the motto, "There is no alternative," Thatcher argued that "privatization … was fundamental to improving Britain's economic performance. But for me it was also far more than that: it was one of the central means of reversing the corrosive and corrupting effects of socialism" (Thatcher, 1993, p.391). After the fall of the Berlin wall, this view prevailed in former socialist countries and mass privatization programs were undertaken. The pace of privatization transactions undertaken in transition economies was drastic. Citing Havrylynshyn and MacGettigan (1999), Nellis (1998) claims that roughly 6,800 firms were privatized worldwide, excluding transition economies whereas, since the collapse of socialism, the number of privatized firms jumped to approximately 60,000 solely in transition economies (p. 5).

2.2 Theoretical underpinnings of privatization

The arguments for privatization mainly find their endorsements in liberal economic thought and are embellished further with neoliberalism,[8] especially in the last three decades. Keywords that accompany privatization debates include *Thatcher* in the UK and *Reagan* in the USA, both primary defenders from industrial countries; similarly, the *IMF* and the *World Bank* are included as international sponsors of its implementation in the developing world—ranging from Latin America to Africa—through structural adjustment policy measures and lending agreements.

[8] The term *neoliberalism* is considered the set of doctrines that originated from the Mont Pelerin Society, named after the place they gathered in Montreal, Switzerland, compiled mostly by economists invited by Friedrick Von Hayek. Members included such names as Karl Popper, Ludwig Von Mises, Milton Friedman, and John Buchanan.

Williamson (1990) labeled the prescriptions for reform for the developing world, which were advocated by the international institutions, the Washington Consensus. Privatization was one of the main pillars of the Washington Consensus, which included market liberalization and fiscal austerity to cure the illnesses of the developing world. This was especially the case in Latin American countries, which were often running huge deficits. Roland (2008) argues that despite its popularity as an economic and political tool, "mainstream economic theory, as it stood in the early 1980s, did not have much to say about privatization or even about ownership of firms for that matter"(p. 9). Nevertheless, neoliberalism emerged as the new economic orthodoxy in the wake of decaying Keynesian politics, which proved to be no cure for the stagflation experienced during the 1970s in the industrial world that resulted in rising unemployment and inflation, exacerbated by the OPEC oil crisis (Harvey, 2005).

Privatization is, in its very basic definition, a transfer of ownership of public assets to the private sector and trust in market forces. Hence, it could be argued that its source emanates from Smith's theory of the invisible hand of the market: Pursuit of self-interest by individuals and firms would work in favor of socially desirable outcomes through trade and market exchanges. In his much cited and detailed work, *The Wealth of Nations*, Smith (1970) states:

> It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner but from their regard to their own interest. We address ourselves not to their humanity but to their self-love. (pp.26-27)

According to Smith, rights regarding private property should be secured in order to increase the wealth of nations, given that private property owners will be willing to

work to increase their assets, invest, and create employment—thus, society will be better off.

> In every great monarchy in Europe the sale of crown lands would produce a very large sum of money, which, if applied to the payment of the public debts, would deliver from mortgage a much greater revenue than any of those lands have ever afforded to the crown … When the crown lands had become private property, they would, in the course of few years, become well improved and well cultivated. (Smith, 1970, p.258)

A rather subtle assumption, which is usually taken for granted and is intrinsic in classic theories on the invisible hand, is the necessity of establishing private property—assuming that each individual is homo economicus, that he/she knows and acts in accordance with his/her self-interest. Accordingly, each entrepreneur and firm is a profit maximizer.

In line with classic economic ideas on the importance of private property, the property rights school associates the consequence of its absence with the tragedy of the commons theory. Demsetz (1967) argues that "a primary function of property rights is that of guiding incentives to achieve a greater internalization of externalities" (p. 348). In line with and in addition to the invisible hand and free-market arguments, the tragedy of the commons theory suggests that, in the absence of private property rights, public ownership will end up in dissipation, that is, resources will not be allocated efficiently.

The main arguments for privatization are based on the efficiency provided by free markets, the merits of individual profit maximization, and the belief that state intervention distorts incentives and competition, thus creating inefficiency and externalities. Arrow and Debreu (1954), in their theory of general equilibrium, show that competitive markets are the answer to the efficient allocation of resources. This is applicable only under certain circumstances: Markets should be perfectly

competitive; that is, no firm should individually be able to set product prices and entry to and exit from the market should be free. These highly restrictive assumptions render purely competitive market examples difficult to provide.

Another issue raised in favor of privatization and related to the inefficiency of public ownership stresses the problem of the soft budget constraints of SOEs. In a competitive environment, a malfunctioning private firm would be closed down or taken over by a rival company when it cannot manage to reverse the losses of its operation. On the other hand, a public company can continue to operate at a loss as long as its budget relies on state funding. Market rivalry, threat of declining profits or market share as well as a budget deficit will be absorbed and financed by the State itself. It has been argued that, especially with respect to large public corporations, bankruptcy is not an option, and hence, soft budget constraint is claimed as a major source of inefficiency, for example, in a socialist economy (Kornai, 1992; Roland, 2003).

Nevertheless, it has been argued that market risk is more than imperfect, as when it creates market failures in the form of monopolies or externalities, and the public good is considered to be the main reason for state intervention (Stiglitz, 1986). Natural monopolies, i.e. public utilities such as those that provide energy distribution, exist where only one firm operates efficiently because of the high sunk cost of infrastructure investment. If a utility is run by a private firm that operates under profit-maximizing objectives, consumers risk facing monopoly pricing. One of the main theories explaining privatization, and the role and scope of state ownership of productive assets, is the social view proposed by Shapiro and Willig (1990). Given that private firms are motivated by profit maximization, they do not take into account any social welfare dimensions. On the other hand, SOEs are expected to maximize

social welfare considerations and therefore must answer to market failures. The social view further asserts that, if privatized, profits earned by the firm would reflect a social cost extracted from consumers through the use of its market power, along with efficiency gains.

Alternately, agency theory or the principal-agent problem focuses on the incentive structures for firm managers. The ownership structure is considered the primary determinant in this framework. Whenever there is poor monitoring, a firm manager's incentive to increase enterprise performance is low. Indeed, the poor performance argument is based on this reasoning, and is a recurrent slogan of the proponents of privatization. Vickers and Yerrow (1988) acknowledge that mainstream economic theory says little regarding ownership structure and economic performance while claiming that private management provides better incentive schemes through close monitoring by shareholders, who actively pursue their aim to maximize profits. According to the authors, this is the main reason behind the extensive divestiture programs that have escalated worldwide. Moreover, in this private sector-incentive framework, when the firm is a publicly traded company, stock market performance pressure will strengthen incentives even more, provided that financial markets adequately price all relevant information on the firm and work efficiently without, for example, any speculative capital movements. Veljanovski (as stated in Parker, 1993, p. 17) rejects the idea that privatization is a simple transfer of ownership, and further claims that "it involves the transfer and redefinition of a complex bundle of property rights which creates a whole new penalty-reward system which will alter the incentives in the firm and ultimately its performance".

Governments' dissatisfaction with SOEs that run deficit budgets is often alleged to be one of the causes for the poor, unsatisfactory performance of national

growth. State assets are presented as a burden on the national budget, and hence a burden on society as a whole. The ideological underpinning of this reasoning relies heavily on the principal-agent theory and the incentive effect on performance referred to earlier. Parker (1993) claims that, although these arguments seem accurate in theory, there is limited confirmation on empirical grounds. He further asserts that the link between ownership structure and performance is more complex than assumed in pragmatic politics, and that incentive theory does not necessarily work concerning better performance through just the transfer of ownership from public hands to private investors. Moreover, in the principal-agent theory, we see the intrinsic assumption that managers are given the right directives and goals, the capacity to take initiative, and also the funds to do so. On the other hand, we can hardly assume these possibilities regarding the management of SOEs.

With respect to monitoring the performance of a firm and making sure that workers as well as managers are putting forth their best effort, the residual claimant theory asserts that private ownership is superior to SOEs. This theory claims that monitoring also requires an incentive for it to be done with due diligence, and the ultimate way to accomplish this is for the monitoring body to be the residual claimant, where residual is defined as surplus from production. In the case of public ownership, the residual claimant is vague and cannot be determined; hence we cannot expect monitoring to be performed properly.

Proposed by Hayek, the dispersed knowledge theory similarly claims that, given the limited transferability of knowledge, the State is unable to grasp all relevant information on an enterprise and would always know less compared to an individual owner. The private owner would dedicate himself to profiting more from

his business and would know how to be more efficient (Rowthorn & Chang, 1993, pp. 57-58).

The residual claimant and dispersed knowledge theories, among many other assumptions, both overlook the information asymmetries that may arise when ownership is dispersed among many agents who hold shares without taking part in the production process and who lack the technical expertise for monitoring. Considering these theories in light of today's large joint stock companies where regulation requires that monitoring is performed by an independent auditor, there is still an inherent conflict of interest problem given that it is the board of directors that decides about and pays for monitoring; it can be assumed that they will choose an auditor monitoring poorly. Moreover, in the public sector there are numerous counter-examples where public ownership has shown good performance. For instance, Rowthorn and Chang (1993) provide the examples of South Korean and Taiwanese public enterprises with good performance records.

As a response to the argument in favor of government intervention in the case of market failures, public choice theory focuses on incentives for politicians, local governors and legislators to behave in accordance with public benefit (Buchanan, Tollison & Tullock, 1980). Based on the self-interest driver used in understanding an individual's actions in the market place, the theory assumes that incumbents in government are rational maximizers as well and introduces the idea of "government failures," because government intervention causes undesired results, waste or the inefficient allocation of resources. To retain their posts in future elections and secure electoral support, government officials make concessions in areas such as subsidies and jobs, and in controlling imports and preventing competition. This creates rent seeking and rent extraction possibilities through the exchange of interests and rents

with interest groups. Evans (1989) explains the implications of the theory: "[A]s states expand their size, their range of functions and the amount of resources they control, the proportion of economic activity that becomes incorporated into rental havens will increase correspondingly and economic efficiency and dynamism will decline" (p. 564). Buchanan (1980) claims that "the rent-seeking activity is directly related to the scope and range of government activity in the economy, to the relative size of the public sector" (p. 9).

As discussed above, economic theories provide a model with assumptions that are relevant under certain circumstances but that are often barely present in reality—and there are always exceptions. Since all countries have their specialties, there is hardly place for a *prêt-à-porter* theory that fits all with respect to privatization. As I will later elaborate, the empirical findings suggest a rather mixed outcome regarding the success of privatization.

2.3 Outcome of privatization reforms

Empirical findings on the positive effects of privatization regarding firm performance differ broadly in their conclusions. Regarding privatization outcomes, in particular in the transition economies of Central and Eastern Europe (CEE) and the former Commonwealth of Independent States (CIS), Hanousek, Kocenda and Svejnar (2008) assert that earlier studies generally conclude that there were positive gains from privatization whereas those carried out later using larger data sets and longer time spans found mixed results. The results were found to be negative regarding public assets sold to domestic investors in CEE and the CIS compared to those sold to foreign investors (p. 96).

As former staff member of the World Bank group, Nellis (2002) admits that, in transition economies, "in many cases privatization could have—and probably should have—been better managed, and opportunities were missed…a change of ownership by itself was not sufficient to cut the political-financial links" (p. 4). Nellis further explains that although much effort was put into implementing mass privatization, concerns for the prudent regulation of financial and capital markets were insufficient.

Another argument in favor of private ownership draws attention to a multitude of government objectives. Governments set goals for growth, inflation, employment and the proper regulation of markets, and they risk overlooking the performance of firms in order to realize these objectives, which may indeed drag a firm to inefficiencies and losses. For example, when providing utilities, the State might prioritize distributional objectives by providing cheap water and electricity, below profit-maximizing prices; in this case, the main determinant is not profit maximization but maximization of the overall social benefit. This argument is applicable to more serious instances such as the distorting influence from interest groups to change existing policies in order to maximize their own interests; moreover, it can also apply to more catastrophic cases of corruption (Roland, 2008).

With respect to Latin American privatization, which was considered a remedy for populism, Schamis (2002) argues that efforts crystallizing around reforming the State and opening up more and more room for the free market do not, per se, dissolve rents but create avenues for new ones. The author further asserts that, "To the extent that divestiture programs result in the uncompetitive appropriation of state-owned assets, the transfer of public monopolies to the private sector intact, and the absence of effective regulatory frameworks, privatization creates a context propitious for the

reproduction of rents" (p. 4). Schamis (2002) gives rent seeking and corruption examples from Chile's privatization experience—government officials ended up on the executive boards of large SOEs and a son-in-law appointed as general manager of a newly privatized firm (pp. 63-65). Stiglitz (2002) further asserts that, contrary to the assumption of market fundamentalism, "privatization has made matters so much worse that in many countries today privatization is jokingly referred to as 'briberization'" (p. 58). Ceteris paribus privatization does not correct rent-seeking behavior and collusion between public/government officers and private interest groups; indeed, extracted rents become more lucrative.

More striking examples can be found within existing privatization agreements between new incumbents and government in terms of minimum revenue guarantees. Harberger (2000) provides the example of the privatization of Mexican highways, where the government guaranteed a certain amount of traffic volume under a build-own-operate structure. Motivated by the government revenue guarantee, the constructor/owner charged drivers a toll price as high as 0.25 USD/km; as a result, consumers preferred to use the existing free parallel road (p.22). Governments' inability to design a complete contract with the private owner and the presence of a guarantee scheme lead to consumer loss and a privatization disaster. A more striking example is the bailout operation with almost unlimited credit offerings to European and American banks in the aftermath of the 2007 financial crisis.

Contrary to its anticipated death, populism has been able to adapt itself to new constraints under neoliberalism. "Whereas populism and economic liberalism have often been depicted as polar opposites, they have in recent years proven quite compatible," states Weyland (1999, p. 175). Neoliberal populism operates by strengthening the State, and especially the Presidency, through de-

institutionalization, charismatic leadership and direct appeal to people, and micro-level benefit programs that do not impose budgetary pressure.

To understand how "in the 1990s, economic liberalization went hand in hand with populist politics in a number of Latin American countries" (Panizza, 2005, p. 13), scholars took a broader perspective to elaborate on the combined economic and political dimensions of populism. With the exhaustion of an import substitution regime, neoliberal policies put an end to classic populism but, as an alternative, have been *unexpectedly affiliated* with neopopulist policies (Weyland, 1996). Neo-populism differs from the classic definition of populism because of its unpopular economic tools such as privatization and a free-market economy. "Implementing radical and aggressive privatization programs, deregulation and economic opening to the world market" (Demmers & Jilberto, 2001, p. xii), populist leaders of Latin America have adopted neoliberal policies. It is argued, and supported by empirical case studies, that populist policies that have long been associated with import substitution regimes and macroeconomic expansionary policies have indeed survived the neoliberal transition of the 1980s through a *miraculous metamorphosis* into neo-populism.

2.4 Creating consent for privatization

On structural adjustment and market-oriented reforms, Pereira et al. (1994) state that there are two criteria for evaluating the success of reforms, only one to resume stable growth and the consolidation of democracy. The authors emphasize that, naturally, reform policies entail distributional conflicts and that channeling these conflicts through institutions and in a democratic manner is of the utmost importance (p. 185).

Moreover, the immediate effects of reforms are negative on growth, and prospective gains, which can take up to eight to ten years, are experienced only in the long run, (p.192). Eventually, politicians are faced with the dilemma of how to persuade the public and ensure electoral support given that reform will entail negative effects in the short-run. Privatization, with its usual twins—liberalization and stabilization—is likely to create discontent and reaction by labor unions and public sector employees in SOEs that will be sold. The logical question then is, "[H]ow can politicians persuade people to have confidence in a reform process that temporarily induces material deprivation?" (Pereira et al., 1994, p. 192).

Pereira et al. (1994) propose four different policy styles that could be adopted to implement structural adjustment reforms: *decretism,* in the form of a top-down implementation of policies; *mandatism,* which entails a parallel authoritarian application of policies, albeit with electoral support; *parliamentarism,* which is policy coalition and compromise on a parliamentary basis; and last, *concentration,* where all affected groups have the opportunity to enter the negotiation process under a democratic framework (pp. 196-197).

As a global phenomenon, privatization policies have been adopted as part of reform agendas not only in industrial democracies, but have also found their way across boundaries; privatization has been implemented under different governance schemes—from former socialist governments to new democracies with histories of dictatorship. With respect to policy styles, the four-fold framework proposed by Pereira, Maravall and Przeworski points out differences in the pace and procedures used in the implementation of privatization as well as in its diversity in terms of necessity, and the tools used and concessions given for building popular consent in support of privatization. The main pillars for creating consent for divestiture can be

seen at several levels including the discursive/ideological level, policy implementation or technical level, re-alignment of interests, and the weakening of opposition.

On rhetorical and ideological grounds, privatization policies undertaken in developed countries provide a rich literature. Schmidt (2009) provides an account of rhetoric from European politicians supporting the implementation of drastic privatization measures, which would obviously affect the lives of the citizens concerned in a negative way and that were successfully put into practice with minimal resistance (pp. 535-538). The author asserts that Thatcher's success resulted from her skillful association of reforms with Great Britain's legacy for liberalism and freedom as well as her persistent discourse on inevitability—widely known as TINA ("there is no alternative")—and the convenience of reforms. In parallel, along with the culture of freedom, valuing "hard work," distinguishing the "worthy poor" from "the feckless and idle," and "the right to be unequal," all contributed to procuring popular acceptance for the neoliberal policies that would erode the welfare system and SOEs. Her references to individual freedoms and the idea of liberalism were certainly wise given the country's legacy of these values. However, I believe that her real success lies in embellishing unpopular policies, repackaging them into values such as individual liberalism, and preserving freedoms in order to create consent. In her speech to the Conservative Party Conference, Thatcher (1975) proclaimed:

> Some socialists seem to believe that people should be numbers in a state computer. We believe they should be individuals. We are all unequal. No one, thank heavens, is like anyone else, however much the socialists may pretend otherwise. We believe that everyone has the right to be unequal. But to us every human being is equally important.

Thatcher's appeal to the "right to be unequal" is made legitimate through a firm belief in market justice, where individuals' hard work is rewarded through an increase of wealth. Inequality is thus identified as a source of motivation and efficiency, and is consistent with meritocracy. In the same speech, Thatcher (1975) so skillfully summarized and reshaped her commitment to privatize in the face of necessity and for the sake of the poor, sick and handicapped, that I quote at length:

> [P]olicies and programmes should not just be a list of unrelated items. They are part of a total vision of the kind of life we want for our country and our children. Let me give you my vision: a man's right to work as he will to spend what he earns to own property to have the State as servant and not as master these are the British inheritance. They are the essence of a free country and on that freedom all our other freedoms depend.
>
> But we want a free economy, not only because it guarantees our liberties, but also because it is the best way of creating wealth and prosperity for the whole country, and it is this prosperity alone which can give us the resources for better services for the community, better services for those in need.
>
> By their attack on private enterprise this Labour Government have made certain that there will be next to nothing available for improvements in our social services over the next few years. We must get private enterprise back on the road to recovery, not merely to give people more of their own money to spend as they choose, but to have more money to help the old and the sick and the handicapped. And the way to recovery is through profits, good profits today leading to high investment, leading to well paid jobs, leading to a better standard of living tomorrow.

Schamis (2002) suggests that privatization had become an "ideological tool for the overall Thatcherite project" after its expansion in 1983 (p. 95). It should be noted that the Conservative Party under Thatcher had openly declared its objective of privatization; Meseguer (2004) affirms that it was not until the aftermath of the 1983 elections, when the Thatcher government gained a clear electoral victory and mandate, that privatization was fully implemented (p. 303).

Thatcher's popular capitalism project and free market rhetoric under Conservative Party rule in the United Kingdom was so successful that it was instrumental in changing the political positioning of the left as well. The Labor Party re-emerged as New Labor, the consequence of which is especially evident in Tony Blair's Third Way (Schamis, 2002, p. 108-109). It is interesting to note that the Thatcherite course of action—the dilution of welfare state institutions such as the famous National Health Services—would be completed under Labor Party reign. Tony Blair embraced a third way to reconcile the left and right. In a Fabian Pamphlet, in 1994, he proposed an altered socialism:

> The socialism of Marx, of centralized state control of industry and production, is dead. It misunderstood the nature and development of a modern market economy; it failed to recognize that state and public sector can become a vested interest capable of oppression as much as the vested interests of wealth and capital; and it was based on a false view of class that became too rigid to explain or illuminate the nature of class division today. (p. 3)

Blair (1994) made recurrent references to the equality of opportunity, and reconciled the public and private:

> …[New socialism] then no longer confuses means such as wholesale nationalization with ends: a fairer society and more productive economy. It can move beyond the battle between *public and private sector and see the two as working in partnership*. It can open itself up to greater pluralism of ideas and thought. (p. 4)

Schmidth (2009) maintains that along with praise for compassion between the public and private sectors as well as citizens, he also stressed that society must "promote opportunity instead of dependence" and provide "not a hammock but a trampoline". (p. 536)

Across the Channel, the Gaullist government in France under Jacques Chirac, to cite Meseguer (2004), claimed that "privatization was the real nationalization of the economy" (p. 303). Through extensive reforms of the welfare state and privatization, neoliberal policies produced mixed results in creating consent; French society's well-known legacy of protests may have contributed as well. Schmidth (2009) argues that pension reforms encountered wide protests in sectors where unionization rates were high such as with the railroad workers. Nevertheless, Sarkozy was able to reform the pension scheme of railroad workers to their disadvantage by introducing the requirement of 40 years of employment instead of a retirement age of 50. His approach was based on the concept of equality, which is one component of the French legacy: *Libérté, égalité, fraternité.*

Constructing consent was not based solely on ideological philosophies; discrete gains were also made through the sale of council housing and other opportunities that turned voters into shareholders. For instance, widening the ownership structure was used successfully by Thatcher in her aim to gain popular support for privatization. In the UK, privatization was first introduced in the area of social housing and aimed to enlarge the number of shareholders and provide benefits to participants while creating consent as voters themselves became shareholders. Privatization of public housing in the UK was introduced with discounts up to 60% of the market value for houses, and with funding opportunities provided through mortgages; the public was induced to becoming homeowners through tempting subsidies (Schamis, 2002, p. 99). This coalition building strategy not only creates consent for the existing privatization but also helps to sustain public opinion to remain positive toward privatization.

In addition to creating "a nation of house owners," Schamis (2002) argues that Thatcher's popular capitalism extensively used the strategy of a "nation of shareholders" (p. 98). Through public offerings of large monopolies, notably of British Telecom and British Gas, the number of British citizens who were shareholders increased from 7% in 1979 to 24% in 1987 (p. 100). Bortolotti and Milella (2008) assert that privatization, through the extensive issuing of shares in the UK, was implemented through considerable underpricing (p. 61). This helped to ensure higher motivation for citizens to participate in public offerings and wider ownership as well as to increase the popularity of privatization. Right-wing governments are motivated to engage in widening ownership policies and popular capitalism to gain political opportunities as well as ideological preferences (Bortolotti & Milella, 2008, p. 60). They also state that "indeed privatization, by making equity investment attractive for the middle classes, can create a constituency with an interest in increasing the value of its assets, that is therefore averse to the redistribution policies of the left"(p. 60). Privatization through the structure of wide ownership is also considered to strengthen the irreversibility of policies by subsequent governments (Schamis, 2002, p. 98).

According to the Privatization Barometer, from the 214 transactions that took place in Great Britain between the years 1977 and 2012, 29% were sold through public offerings; on the other hand, in terms of the value of transactions, public offerings account for 67% among all privatization. More importantly, during the initial phases of the privatization program, as shown in Figure 1, Thatcher's policy was to opt strikingly often for the public offering method. Meseguer (2004) asserts that "privatization [in Great Britain] was envisaged [by Thatcherism] as an

instrument of coalition building, of transforming the common citizen into a shareholder, and hence into a loyal right-wing voter" (p. 303).

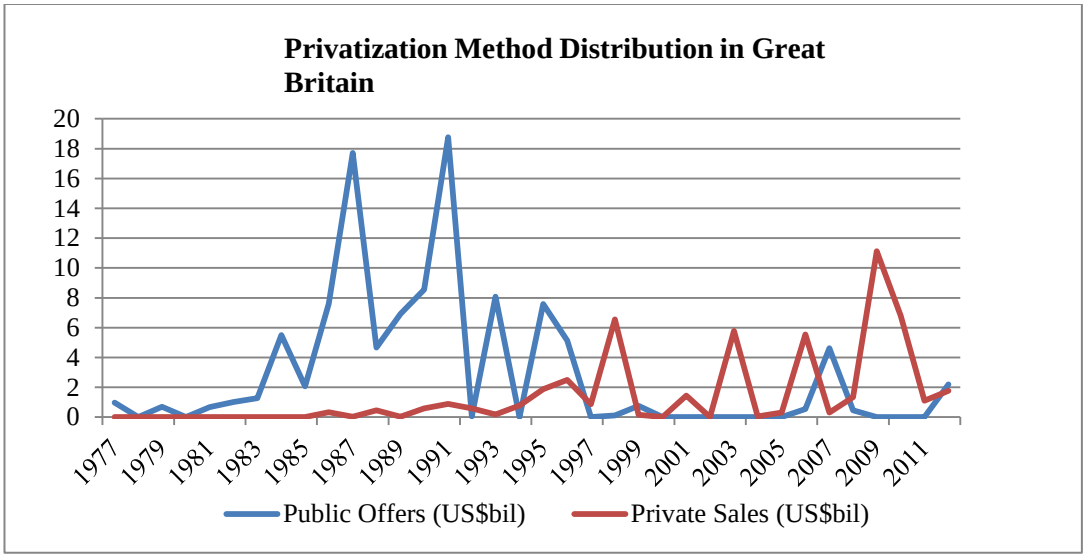

Fig. 1. Privatization proceeds in the UK by method of sale.

Source: [www.privatizationbarometer.net, 2015]

In France, widening the share owning structure as a privatization policy was popular as well; Meseguer (2002) asserts that 13% of French citizens owned shares in privatizated firms (p.24). As a late practitioner, France opted for privatization after 1986, under the presidency of Jacques Chirac, and launched a progressive program for divestiture of state-owned enterprises, especially in the 1990s. Public offering was the preferred method in the initial phase as seen in Figure 2; the incumbent government stressed its aim to increase shareholder distribution and diffuse ownership among French citizens.

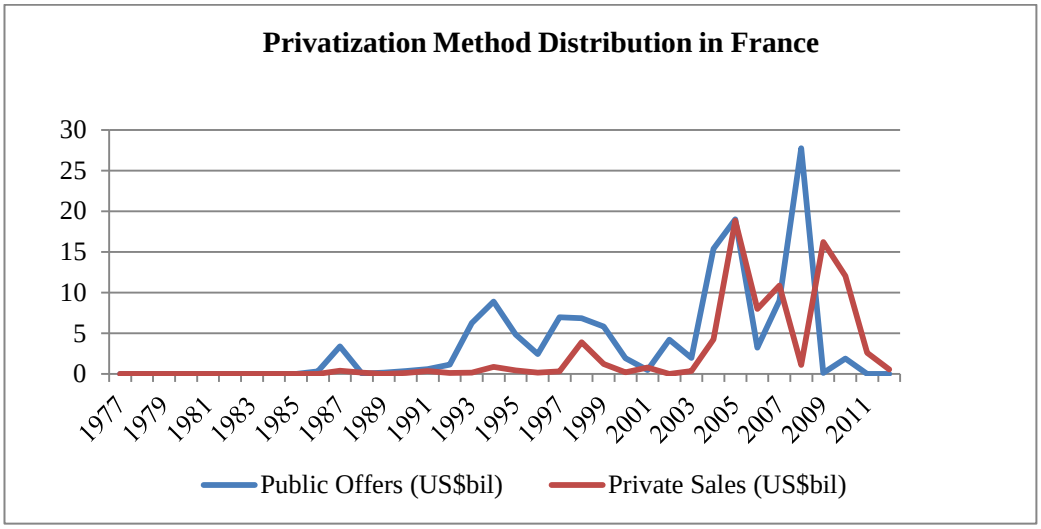

Fig. 2. Privatization proceeds in France by method of sale.

Source: [www.privatizationbarometer.net, 2015]

In Chile, 14% of shares from privatized SOEs were sold to workers. From a pragmatic perspective, this strategy boosts support for privatization and curbs opposition from unions. Moreover, the second wave of privatization in Chile, in the 1980s (the first wave, in the 1970s, followed a re-nationalization period), induced the distribution of material benefits to citizens through popular capitalism, which consisted of three aspects: *capitalismo popular, capitalismo laboral and capitalismo popular indirecto* (Schamis, 2002, p. 61). These different tenets of popular capitalism gave rise to different strategies such as providing subsidized and tax deductible funding opportunities for small, middle class investors; distributing a percentage of shares of privatized firms to workers; and allowing private pension funds to invest in privatized companies. Government created different appeal methods to gain the hearts and minds of voters. Similarly, in Argentina, the Menem administration initiated the Participatory Property Program for privatized firms, which involved a percentage of shares secluded during privatization that were to be

distributed to employees, under union supervision and in exchange for political support (Schamis, 2002, p. 136).

The use of popular capitalism to appeal to citizens in general and to workers in particular is inherently a creative strategy in terms of building consent for privatization. However, it should be noted that this has a destructive side as well: curbing possible opposition from labor unions by gaining their active involvement in the distribution of shares as well as the internalization of these policies, which results in realigning their interests with those of capitalism.

Another strategy used to diffuse ownership nationwide, especially popular in transition economies, was based on voucher privatization programs.[9] Earle and Gehlbach (2003) state that "the voucher program was the centerpiece of privatization policies and, arguably, the principal impetus for transition in the Czech Republic" (p. 7). In the Czech Republic, a mass privatization policy was adopted through vouchers, which was mimicked by other former socialist countries. Nellis (2002) states that vouchers were extensively used in transition economies as an innovative privatization strategy initially aiming to broaden the ownership structure among voters (p. 24). However, during the course of implementation, some countries introduced privileges particularly to employees of privatized firms over ordinary citizens. Appel (2000) recounts that in Russia 51% of shares privatized under the voucher program were reserved for workers; in Bulgaria, Lithuania and Ukraine, part of the shares of divested companies were sold to employees and managers for practically free or at rates discounted up to 50% (p. 521).

In addition to the launch of voucher programs, it should be noted that the speed and extent of these privatization policies were considered strategies to gain

[9] Voucher programs are based on the distribution or sale of certificates to citizens, which are to be used in buying shares of firms to be divested through participation in bidding.

public support. Following Pereira, Maravall and Przeworski's assertion that reforms induce a decline in public support and in benefits seen in the mid- to long-term, the suggestion of a rapid and thorough change in the ownership structure in transition economies—in other words, *shock therapy*—gained prevalence (Lipton, Sachs & Summers, 1990). Kluegel et al. (1999) assert that "part of the strategy behind 'shock therapy' [was] to push through market-oriented economic reforms quickly enough to avoid a potential popular and electoral backlash against the dislocations of such reforms" (p. 254).

In summary, a review of ideological/rhetorical appeals by politicians—the different methods, pace and paths followed to divest state enterprises—support the idea that the political calculus of retaining popular support is a defining feature of privatization policies. The strategies are numerous: from rhetoric discourse focusing on national traits (equality in France, and conversely, the right to inequality and individualism in the UK) as well as distributing material gains to citizens to convert them to shareholders or incorporating workers and unions through the preferential pricing of shares.

2.5 Public attitudes toward privatization

It is important to examine public attitudes toward privatization since citizen perceptions of privatization policies have an impact on the electoral outcome and support for the incumbent government. Especially in cases where privatization is not an option but a requirement that has been incorporated as one of the conditions to be met for loans to be released by international financial organizations such as IMF, it becomes even more important to examine public opinion vis-à-vis privatization and

the factors that affect it. A drawback for empirical studies on public attitudes toward privatization is arguably the lack of national data on public attitudes toward this particular policy. Durant and Legge (2002) report that only a few countries, namely France, Germany and Great Britain, provide nation-wide data to conduct such research (p. 308). Another obstacle is the fact that public opinion is not considered among the most motivational driving forces for the privatization of SOEs. Being *unpopular* by nature, shrinking the role of the State is generally a "top-down" economic policy.

The existing literature considers a wide range of factors to explain the underpinnings of the support for opposition to privatization policies such as gender, income, party/government affiliation, and expectations concerning the future well-being of the economy. The relevance of the factors tested varies across countries and according to the data available. I will first revisit the existing literature to classify them under categories that include the socio-economic, socio-demographic, ideological, and support for government factors.

In studies concentrating on public perception and attitudes toward privatization and market reform, there is one main recurrent factor tested for its relevance: citizens' motivation based on the evaluation of their socio-economic status, defined as utilitarian or pragmatic motivation in some empirical studies.

According to the utility maximization principle, people are expected to support the policies that will affect their well-being in a positive way such as an increase in the wages or benefits they receive. Conversely, they are expected to oppose the policies from which they anticipate negative outcomes. Among the factors tested in the literature, public employment can be considered to be in this category. Most research on employment status tests for private vs. public; public

employment is found to be a significant factor in explaining lower support for privatization (Thompson and Elling, 2000; Durant and Legge, 2002; Legge and Rainey, 2003). Therefore, based on the literature, one can hypothesize that working for the government or in a public institution has a negative effect on support for privatization. Especially in contexts where SOEs were very important in the real economy and were used to maintain employment levels, state employees are more likely to oppose privatization compared to those employed in the private sector. Moreover, those who are working in state enterprises are among the potential losers in the case of privatization. They risk being forced to retire, losing their jobs, being transferred to another public enterprise, or working more but earning the same salary under the new governance and market logic.

Though less obvious, the income factor could be considered under the socio-economic umbrella as well. Some research suggests that income positively affects support for privatization. According to Thompson and Elling (2000), people who earn more pay more taxes, and may feel they need public services less; or stated differently, they may value more the quality of and client responsiveness to services and care less whether these services are universally delivered at affordable prices (p. 340). Another explanation for the income factor focuses on the hypothesis that people with lower incomes are expected to feel more threatened by privatization in anticipation of declining wages (Durant, R.F. and J.S. Legge, 2002, p. 313). The study explaining the underpinnings of support for the privatization of SOEs in the United Kingdom found that income explains a great deal in the model: people with lower income levels were less supportive of denationalization policies (Durant and Legge, 2001). However, the authors' comparative study conducted in France suggests that the impact of income level was negligible (Durant and Legge, 2002, p.

316). Therefore, based on the existing literature, one can expect to find a positive relationship between income level and support for privatization. Those who earn more value the ostensible consumer and efficiency gains from privatization. Moreover, as tax payers, higher income individuals may be more prone to viewing inefficiency claims with respect to SOEs as credible and might resent their share of tax used to finance deficit-producing state enterprises.

Within the socio-economic dimension, being unemployed might be associated with a lower level of support for privatization. Stiglitz (2002) asserts that "privatization often destroys jobs rather than creating new ones" (p. 57). In their empirical study on public attitudes toward welfare state policies, Blekesaune and Quadagno (2003) find a positive relationship between being unemployed and support for a welfare state (p. 421). Privatization, often associated with a drastic disengagement from welfare state ideals, may be opposed by the unemployed populace. Being unemployed might be due to factors other than privatization, but prospective divestitures risk increasing competitiveness in the labor market due to potential layoffs. Hence, my study hypothesizes a negative relationship between support for privatization and being unemployed.

Another set of factors taken into consideration that affect support for privatization could be classified as socio-demographic characteristics and include years of education, gender, and age (Durant and Legge, 2002; Legge and Rainey, 2003; Thompson and Elling, 2000; Jaeger, 2006; Jakobsen, 2009; Battaglio and Legge, 2009). The literature suggests that less educated citizens' support for denationalization will be lower. Durant and Legge (2002) assert that "citizens…who are less skilled, or who have less education will be more likely to expect or to experience the threatening effects of privatization on jobs and social welfare" (p.

313). Their empirical study focusing on France finds a negative relationship between support for divestiture and education level (p. 316). Years of education may affect one's opportunities to find a job or position, or the possibilities for moving up in one's career path or income level. In general, people with more years of education will have an advantage. Moreover, the ostensible increase in efficiency under privatization intrinsically includes technological investment and modernization, which in turn may consolidate the threat to less educated employees. Therefore, I hypothesize that years of education has a positive effect on support for privatization; I expect citizens with more years of education to position themselves more advantageously to tackle the potential negative effects associated with this policy. Battaglio and Legge (2009) assert that "[The educated] are the most insulated from the potential downsides of privatization…they are not likely to benefit from government services compared to the less fortunate, and they are less sensitive to the risks that privatization might entail" (p. 702).

In addition, women's support is expected to be lower as well under the claim that "women…are often more dependent upon the public sector for jobs" (Thompson and Elling, 2000, p. 340). Their empirical findings are generally in line with this gender hypothesis. Moreover, Linos and West (2003) find empirical evidence that gender matters with respect to attitudes toward the welfare state: Women are found to be significantly more likely to support redistribution policies (p. 400). In the analysis of this relationship, inequality in labor markets and lower labor force participation rates are proposed as explanations; accordingly, it is claimed that women are more susceptible to negative developments in the labor market and more dependent on state provisions. Another explanation is based on a gender differential in compassion in general, which asserts that "women are more socialized to be more

concerned and considerate about the welfare of others" (Linos and West, 2003, p. 400). With respect to support for privatization, Battaglio and Legge (2009) argue that women in Europe are in lower echelons in the work force compared to men and are more likely to depend on state services (p. 701). Moreover, although progress may have been made regarding gender inequality in the labor market, Turkey ranked 69th among 139 countries in terms of gender inequality, which underlines that women face a 36% disadvantage because of their gender.[10] Thus, including the gender factor within this analysis is promising in terms of gaining a better grasp on the socio-demographic components. I hypothesize that women will be less supportive of privatization.

The age variable is found to be a significant socio-demographic factor in defining support for privatization in a number of studies, however indication of the relation may differ. Jakobsen's (2009) analysis asserts that the elderly are more likely to support divestiture than young people (p. 314). Nevertheless, Battaglio and Legge (2009) find a negative relationship with respect to support for the privatization of electric utilities (p. 703). They explain this as a result of the elderly being more sensitive to price increases that may result after divestiture in an electric utility. Indeed, these two divergent relationships may complement each other because the latter presents a special case of monopoly divestiture and the former is an overall evaluation of privatization. While the elderly may be more likely to oppose privatization in monopolistic markets, they may indeed value the so-called consumer gains and decline in prices extracted from divestitures in other sectors. As they are not active in the labor force, a potential decrease in employment will not directly

[10] According to data obtained from UNDP. Retrieved from: http://hdr.undp.org/en/content/gender-inequality-index-gii

affect them. Therefore, one can hypothesize that support for privatization increases with age.

Another factor frequently tested for relevance is that a citizen's own position on the left-right ideology line affects their opinions on the role of the State, its ideal size, and the limits of its responsibilities, which thus affect their support for privatization. Stated differently, people that sympathize with more leftist views are less likely to support privatization, while conservatives are thought to be more open to support neoliberal market policies such as privatization. Research on French citizens suggests that ideological positioning is important (Durant and Legge, 2002). However, it could also be argued that the economic policy decision spectrum is mostly defined by fiscal constraints and to-do lists insisted upon by international lending institutions; rhetoric from parties on the right and left—and especially their practices—gradually converge in the advent of neoliberal policies. Not only the growing importance of globalization but also international and regional economic agreements limit the range of government options. The significance of ideological tendency in shaping public opinion on divestiture is meaningful to test; indeed, I believe its potential insignificance will shed as much light as its significance. I hypothesize that individuals with leftist leanings are less likely to support privatization compared to those on the right.

With respect to support for or confidence in government, a review of previous research suggests that general support for the incumbent government or affiliation with the party leader undertaking privatization policies positively affects public opinion. Studies conducted in France and Germany confirm a positive relationship in that respect (Durant and Legge, 2002; Legge and Rainey, 2003). These authors further argue that the leadership/government support hypothesis "indirectly lend[s]

credence to the idea that new government reforms such as privatization are 'hard' issues that … voters view through ideological lenses and/or take their voting cues from leaders they trust or respect." This is situated along the same line of thought that, to some extent, legitimizes the reasoning used to implement the *top-down* policies of technocracy (Durant and Legge, 2002, p. 316). Hence, it suggests that citizens may rely on the judgment of leaders and political parties rather than on their own perceptions of SOE divestiture. The leadership hypothesis may also be one clue to the curious cases of Peru and Argentina where the incumbent leaders, Alberto Fujimori and Carlos Menem, implemented followed large-scale privatization as part of drastic market reforms but did not experience an electoral defeat in the aftermath—indeed, they were re-elected (Stokes, 1996, p.501). In addition, Battaglio and Legge (2009) maintain that "current political issues that are particularly complex are likely to trigger citizens' predispositions through cues and schema in the absence of interest or complete information about the subject" (p. 698). They point to party identification, ideology, and the degree to which government should intervene in the economy as ideological/symbolic factors that account for the formation of public opinion on complex policies. In my analysis, I expect that confidence in government will positively affect support for privatization.

Correlated to the confidence in government dimension, judgment on overall economic performance is expected to have an effect on attitudes toward denationalization. Perception of how well the economy performed in the past is expected to affect anticipation of how well the economy will perform in the future. Previous research hypothesizes that positive judgment of overall economic well-being is expected to have a positive effect on support for privatization (Durant and Legge, 2000; Legge and Rainey, 2003). The study focusing on the United Kingdom

found a positive correlation; that is, positive retrospective evaluation of the past economic performance of the country created a more positive attitude vis-à-vis privatization. Nevertheless, in France and Germany the impact of economic evaluations was not statistically relevant, nor was economic pessimism's effect on opposition to market reform considerable.

Indeed, studies on France, Germany and the United Kingdom provide a limited explanation considering that they are part of the European developed market economy, and that privatization policies were introduced more or less as the economic policy choices of incumbent governments. However, a number of developing countries such as Mexico and Argentina—as Latin American examples, or post-communist Eastern European countries, implemented privatization policies as part of a stabilization package following severe economic crises, under the supervision of international lending institutions such as the IMF and World Bank. Hence, the impact of an economic crisis and the perception of citizens as to whether austerity measures—privatization being one major component—are unavoidable cannot be overlooked. Theory suggests that people are more prone to accepting harsh economic policies in times of deep crisis (Stokes, 1996, pp. 499-519).

This thesis will analyze the underpinnings of public support for privatization in Turkey through an empirical study of the socio-economic, socio-demographic, ideological, and support level for government factors named above. First, I provide an overview of privatization policies during the neoliberal era in Turkey.

CHAPTER 3

PRIVATIZATION ALLA TURCA

This chapter will focus on the particularities of the Turkish privatization experience, the context in which the dissolution of SOEs have taken place. A two-phase approach is proposed: The first begins with the introduction of liberalization and privatization policies under Özal, which started with the January 8, 1980 reform package and lasted until the surprising electoral victory of the AKP in the 2002 general elections. The second period focuses on privatization policies introduced by the single-party government of the AKP. Division of the Turkish privatization experience into two phases is meaningful, primarily because of the differences in revenues generated. Since privatization was implemented as a policy, 204 SOEs were privatized through public offerings or block sales; 194 of those enterprises were completely privatized and all public shares were sold. Total revenues from divestitures amount to 66.8 billion USD, as of June 2015.[11] Almost 90% of these proceeds were realized under AKP governance. Privatization of large monopolies took place during the AKP era as well.

More importantly, the commitment of incumbent governments to privatize and the opportunity to implement their envisioned privatization policies were substantially different from a political economy perspective. Besides the economic crises, political frontier possibilities were instrumental in defining the applicability of policies. As well, external and internal contingencies motivated divergent practices that included different forms of legitimization for building consent. Alternative costs

[11] Republic of Turkey, Prime Ministry, Privatization Administration. www.oib.gov.tr.

to be faced in terms of electoral support—mostly the anticipated loss of votes—were substantially different.

This chapter will first look at the basic outcomes of privatizations undertaken, provide an overview of the legacy of SOEs, and end with a discussion on the two divergent periods of privatization practices implemented by governments.

3.1 What has been achieved?

Compared to modest proceeds between the years 1986 and 2003, privatization revenues generated between 2005 and 2008 were particularly high, followed by a period with lower levels and then a skyrocketing score in 2013, as shown in Figure 3. The revenue raised through privatization prior to 2001 constitutes only 11% (7.3 billion USD) of overall proceeds.

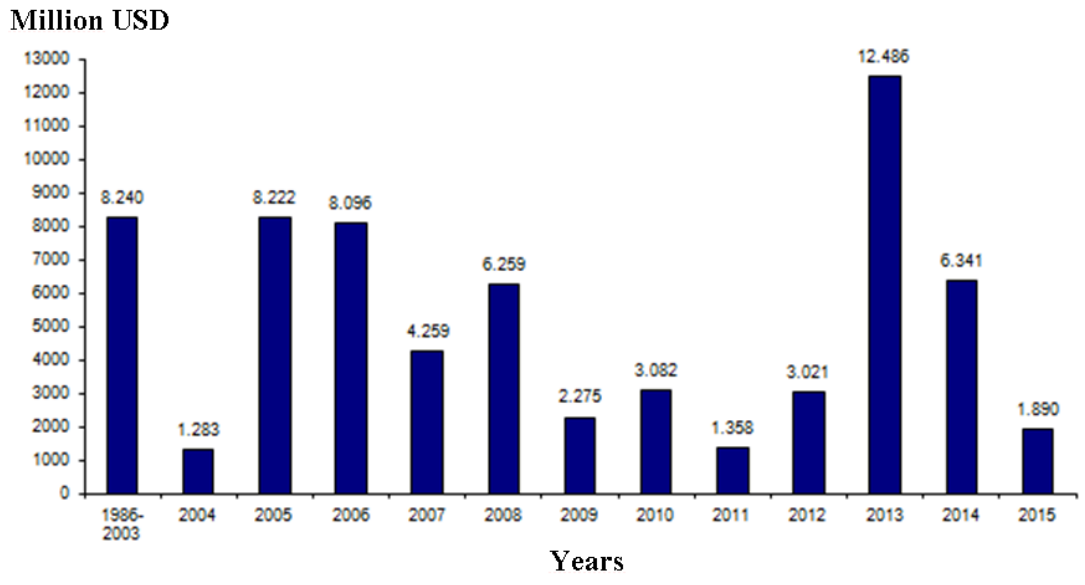

Fig. 3. Proceeds from privatization in million USD from 1986 to 2015.

Source: [Republic of Turkey, Prime Ministry, Privatization Administration, www.oib.gov.tr, 2015]

The change in employment figures is drastic as well as shown in Figure 4. The number of public employees (653,066 in 1985) had already decreased to 36% by 2001; the drop accelerated in terms of proportions from then on, and finally decreased by 72% compared to the 2001 data. As of the end of June 2015, a total of 105,129 people were working in the public sector, including SOEs and other institutions.[12]

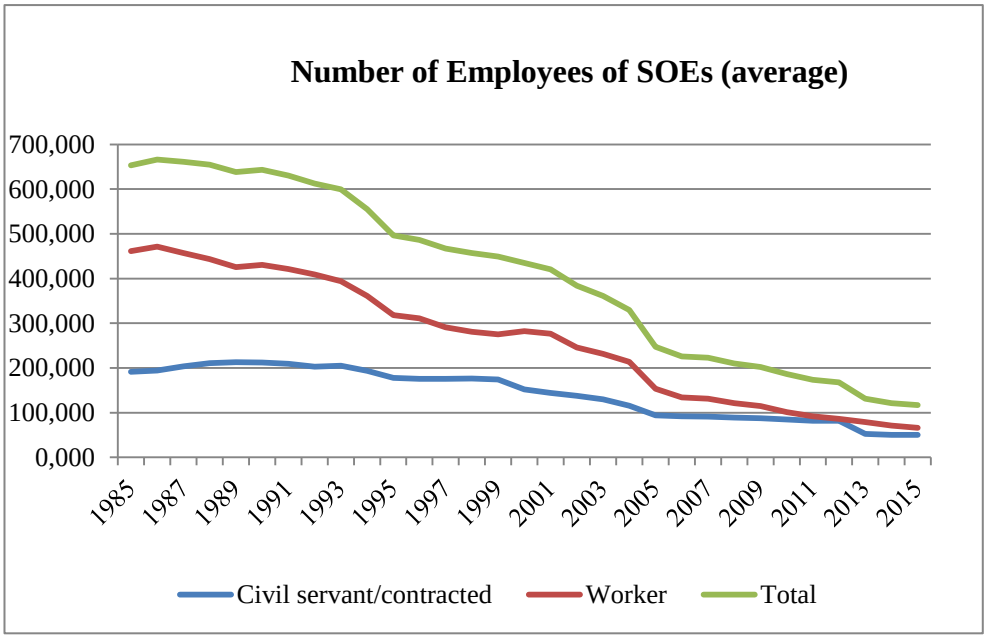

Fig. 4. Number of employees in SOEs.

In the early-phase period of the privatization program, the divested public assets were, in general, small companies, mostly various cement factories. Although large state enterprises in steel and telecommunications, or in the petroleum industry such as Petkim, Erdemir or Tüpraş, were placed on the privatization agenda within a few years after the adoption of the program, their sales were finalized only in the mid-2000s, after almost 20 years and under AKP governance.

[12] Republic of Turkey, Prime Ministry, Undersecretariat of the Treasury. Retrieved from https://www.hazine.gov.tr/tr-TR/Istatistik-Sunum-Sayfasi?mid=60&cid=14&nm=299.

The ostensible motivations behind privatization are efficiency gains, creating competitive and free markets, or rescaling the overwhelmingly enlarged public sector. In Turkey's case, the inefficiency of SOEs, due to their vulnerability to rent-seeking behavior and patronage relations between bureaucrats and interest groups, can be added to the top of this list. To understand the fortune of SOEs as so-called *inefficient deficit clusters* of the State, an overview of their legacy in an étatist Turkey is helpful.

3.2 Legacy of SOEs in Turkey

During the early period of the Republic, a modernization and development project was undertaken in the economic area through state-led industrialization due to the negligible scale of the domestic bourgeoisie and private capital. Öniş and Riedel (1993) state that, initially, the establishment's motivation was to boost the private sector through incentives such as subsidies and tax advantages (p. 9). Within this objective, one of the primary actions was to also establish a bank to create funding for entrepreneurs. It is interesting to note that, besides lending, the bank was specifically instructed to establish and invest in the non-financial and industrial sectors as well (Kocabaşoğlu, 2001). Within a few years, growth in the private sector was considered insufficient to match targeted industrial development, and in due course, the State establishment adopted a full-fledged interventionist approach. In the aftermath of the first five-year plan, in 1933, SOEs were established in various sectors including natural monopolies in settings where the State was directly involved in the economy as a producer. Shaker (1995) states that public enterprises were primarily used to realize social objectives to provide subsidized pricing to

various groups and to maintain employment (p. 5). Moreover, she claims that "Turkey…ha[s had] an implicit social contract with the people and ha[s] promoted a large social, redistributive, and economic role for the state under the flag of socialism and nationalism" (p. 5). Hence, within a paternalistic state apparatus, SOEs were of the utmost importance.

During fifty years of étatism in Turkey, SOEs enlarged and increased in numbers as their initial target of rapid industrialization and curing market failures was superseded by other economic and political targets of incumbent governments. Asutay (2006) asserts that:

> [B]y investigating the nature of [SOEs], it becomes clear that the state involved heavily in the economic activity[,] from production to distribution[,] and service provision in the sectors such as cement, agricultural oriented chemical industry, petroleum distribution, tourism, iron and steel, textile, sea freight, banking industry, telecommunications, tobacco and alcohol production, etc.". (p. 17)

SOEs are heavily criticized for being used to procure patronage opportunities for incumbent governments. This option was first used in the early 1950s by Adnan Menderes' Democrat Party (DP); thereafter, SOEs became "vote factories" (Asutay, 2006, p. 18). In fact, Menderes is known as the first politician who tried a type of privatization policy. The DP program emphasized the role of private enterprise and private capital within the economy as being essential, and that the scope of state involvement in economic activities should be defined and limited (p. 57). Menderes is also well known for the resurgence of populist policies such as agricultural price subsidies and the extensive use of public expenditures. Asutay (2006) further states that "the introduction of multi-party politics in Turkey in the 1950s is the real point for the never ending political manipulation of the economy for political gains as well as of relatively rapid growth interrupted by periodic intervention" (p. 3). Incumbent governments aspiring to remain in power in prospective elections continuously tried

to win the hearts and minds of voters by adopting the well-known *seçim ekonomisi* ("election economy")—a term that is commonly used in Turkey. Indeed, the continuity of such policies before every general or local election taught voters that it is better to undertake illegal acts before an election (for example, *kaçak kat çıkmak*: "adding a story without construction permission"). SOEs were naturally expected to be included in this policy in terms of increasing employment, drastic wage increases for SOE employees, or controlled pricing for goods and services sold by public enterprises. Asutay (2006) claims that the large public sector was also a policy tool which was used to increase employment by governments.

With the adoption of import-substitution-industrialization in the early 1960s, the relative importance of the public sector in manufacturing increased dramatically. A special agency for centralized planning was established that was accountable to the Prime Ministry: State Planning Organization (SPO). Targets for industrialization and growth were to be reached through active state intervention in the economy, within the directives of five-year plans.

With adoption of inward-oriented and state-led industrialization, SOEs turned out to be more politically lucrative. Baran (2000) argues that "the state enterprises that formed the industrial base were not necessarily profitable or competitive. Turkey's import-substitution policy had created its own demons" (p. 132). Chibber (2004) states that the planning regime implemented under SPO directives had already deteriorated a few years after its introduction in the 1960s (p. 8). The vulnerability of the state apparatus to the influence of special interest groups had contributed to the decline of development projects under ISI. The author further claims that "[I]n essence, developmentalism amounted to a massive transfer of national resources to local capitalists" (p. 12). Heavy public investment, especially in the manufacturing

sector, resulted in an acceleration of the involvement of SOEs in those sectors. The average percentage of public fixed capital formation in manufacturing between the years 1963 and 1967 was 33%, whereas its share increased to 43% by 1972 (Öniş and Riedel, 1993, p. 20). Most of the investment was channeled into state enterprises producing intermediate goods; their modest share of 7% increased to 53% (Öniş and Riedel, 1993, p. 20). State establishments invested extensively in intermediate goods that were sold to private firms as input; with a controlled-price regime, SOEs became deficit-running enterprises. By the early 1980s, of the 500 largest industrial companies producing 49.4% of manufactured goods, 79 were publicly owned and the first 12 of these were state enterprises (Barkey, 1990, p. 89).

In addition to the policy of underpricing SOEs, trade tariffs and import quotas were other mechanisms used to protect domestic sectors. Krueger's (1974) analysis of Turkey's trade regime under ISI suggests that the use of tariffs and quotas to protect local industries from international competition created rent-seeking behavior. Indeed, Turkey was one of the case studies that rent-seeking theory was based on. It should be noted that between the years 1960 and 1980, Turkey had twenty different governments most of which were coalition-based, especially in the second half of the ISI era. Naturally, it could be argued that short-lived governments mainly formed through coalitions tend to reinforce a myopic approach to politics. Furthermore, because of the limited time span incumbent governments had, and although fiscal problems were apparent, the norm was to ignore and procrastinate as long as possible and to continue with the status quo. This eventually contributed to rent-seeking behavior under the ISI regime.

The ISI regime was exhausted by the late 1970s; a worldwide oil crisis and escalating commodity prices exacerbated the economic situation. Öniş and Riedel

(1993) report that, between 1973 and 1979, the financial burden of public enterprises escalated from 14.5 billion USD to 246.8 billion USD; their annual operating loss increased from 0.3 to 75.1 billion USD (p. 32). According to the authors, the primary cause of the ISI policy failure can be attributed to efforts to build a broad-based coalition among various strata of the public and to maintain the implicit social contract. They claim that "[I]n Turkey, as elsewhere, political imperatives generally dominate economic imperatives … too often, governments in Turkey tried to build a broad coalition by promising the various political constituencies more than they could deliver, causing economic instability and periodically a crisis" (p. 2). The broad coalition in this case was based on the promise of rapid growth, which was based mainly on leveraging external funding from international banks and a deficit-running state budget. It should be noted that, in a global environment where interest rates rise considerably and eventually borrowing opportunities decrease, the cost of funding escalates abruptly and gains from leveraging evaporate. Turkey's growth based on external funding pushed this very vulnerability into a looping cycle of fiscal crises.

Arıcanlı and Rodrik (1990) note that the debt crisis experienced in Turkey in the late 1970s was unprecedented compared to earlier fiscal crises, worsened also by compounding of private debt in addition to public debt (pp. 1343-1344). Private enterprises had invested through heavy external borrowing from banks, which were backed by the government's guarantee of a fixed exchange rate. On January 24, 1980, a radical structural adjustment program was launched that included a 200% devaluation of the overvalued Turkish lira, an increase in the prices of SOE products, privatization and limiting the involvement of the State in the real economy, and adoption of a free-market economy. However, the divestment of public enterprises,

by that time enlarged both in scope and scale, was highly questionable and problematic considering that these enterprises were either natural monopolies in sectors prone to market failures, or were compelled to provide public good and maintain the implicit social contract referred to by Shaker.

The stabilization package announced by the then-prime minister, Süleyman Demirel, on January 24, 1980, which became known as the 24 January Decisions, signified a fundamental shift in terms of the role of the State in the economy. Demirel, during the announcement broadcast on national television, objected to any charges regarding the incumbent government's responsibility in paving the path to the announced measures. Concerning criticism of the declining role of the State under the new regime, Demirel (1980) declared:

> [They say] the State is disengaging from the economy. For heaven's sake! Let's look at the result of State engagement in the economy. Let's look at it together. May I present to you 350 billion TL lost! You can calculate it too, everyone should calculate it. This is the accomplishment of those who say the State is disengaging from the economy. (own translation, see Appendix A for original text)

The 24 January Decisions pertain to fundamentally breaking from Turkey's étatist past and moving toward liberalization through market-oriented reforms, aided through the adoption of an IMF reform package.

The framework proposed by Pereira, Maravall and Przeworski for the implementation of policies and application of reforms provides a model that incorporates the political dimension while analyzing privatization in Turkey. It enables evaluation of the relative opportunities provided for channeling objections and room for negotiation, while also deconstructing the mechanisms for coalition building and creating consent. I believe that analysis, within this framework, of the

privatization policies adopted in the aftermath of the 24 January Decisions would shed light on the formation of public opinion in Turkey with respect to the privatization of SOEs.

3.3 Privatization policies between 1980 and 2001

Although the reform package of the 24 January was announced by then Prime Minister Demirel, its architect was his Deputy Under-Secretary to the Prime Minister, Turgut Özal. Özal is considered a "critical figure in Turkey's transition to a neo-liberal development model in the 1980s" (Öniş, 2004, p. 113).

Within a few months of the adoption of the reform program came the infamous September 12, 1980 *coup d'état* by the Turkish military. Buğra (1995) states that, from the very beginning, it was clear that one of the primary aims of the coup was to create a favorable space and coercive power for implementation of the IMF package (p.206).[13] She recounts that the significance of the very first speech on television by General Kenan Evren on September 12, 1980 was its emphasis on an open and externally oriented economic policy as one of the aims of the coup. Arıcanlı and Rodrik (1990) assert that without the military coup, the 1980 reform package could not have been implemented since it enforced severe austerity measures such as cuts in real wages. Given that the Turkish economy was distressed by a critical debt crisis whose magnitude and effects were unforeseen, Turkey became polarized in the face of growing political unrest. The authors claim that "without military rule, it is doubtful that an elected government could have carried

[13] The 1980 Standby Agreement between the IMF and Turkey was arranged on 18 June 1980 amounting to a SDR 1.25 billion, more than 5 times larger than the earlier standby agreement signed in 1979 (www.imf.org). The structural adjustment program included an orthodox stabilization policy toward a free market economy.

out the January 1980 package to its conclusion" (p. 1346). The military charged Özal as the Deputy Prime Minister with implementing the reform package.

According to Evren (1980), due to the "inability of democracy to control itself," military intervention had ostensibly crushed all possible sources of resistance and democracy was frozen until the general elections of 1983. In addition to all political party activity, all strikes were forbidden for an indefinite period and all union confederations were closed except *Türk-İş,* which openly supported the military coup and had always remained on good terms with the state establishment (Cizre-Sakallıoğlu, 1991, p. 61). Thus, Turgut Özal, under the protection of the military, was free of all conceivable resistance while implementing the neo-liberal reforms and did not need any negotiation or consent-building strategies. Although the privatization program was not launched until 1985, SOE investments were readjusted downward and prices were increased to cover input costs (Öniş and Riedel, 1993, p. 65).

With the gradual return to parliamentary democracy in 1983, Özal enjoyed a clear electoral victory with his newly established center-right Motherland Party (MP), taking 45.1% of the votes. Yet, part of his victory should be credited to the introduction of the infamous "10% electoral threshold"[14] and the continuing ban on political activity for formerly popular party leaders such as Süleyman Demirel and Bülent Ecevit. Although part of his electoral support declined in the parliamentary elections of 1987, Özal still enjoyed a 35.3% share of the vote. Consequently, from 1980 until becoming the President in 1989, the political and economic regime in Turkey was shaped by Özal.

[14] An electoral rule which requires a party to win at least 10% share of vote in general elections to secure any representation in the parliament; the seats won by parties under the threshold are reallocated to larger parties. The 10% threshold rule is still in force in Turkey.

Regarding Özal's well-known pragmatic approach, Öniş (2004) states that "the weakest link in [his] economic thinking was the tendency to underestimate the importance of the rule of law and the need to develop a strong legal infrastructure for a well-functioning market economy" (p. 114). Özal's preference for ruling by cabinet decree in order to speed up the reform process itself reflects a mediocre outcome for parliamentary democracy; his tendency to by-pass the democratic process reduced institutions to mere cosmetic tools. Shaker (1995) argues that during his post as prime minister, Özal "made all the critical economic decisions without consulting the parliament, the political parties, or special interest groups" (p.31). Although put into effect almost immediately, decisions were constantly revised. Ruling through cabinet-level decrees that have the force of law was the general approach under the Özal government; by-passing the Parliament in making laws and regulations was a policy tool that other governments found convenient as well. This excessive practice eventually became part of Özal's legacy. Actually, Özal's limited vision of democracy and the rule of law was best described by him: "Nothing happens when the Constitution is violated once."

Concurrent with Özal's meager appreciation for the democratic parliamentary process, the established bureaucracy was approached with similar disdain. Öniş (2004) asserts that Özal's relationship with the levels of government administration not only lacked any consultation or cooperation with the existing bureaucracy but also involved the creation of a brand new bureaucracy (p. 114). This new layer of bureaucracy, which was later notoriously referred to as "Özal's Princes," comprised U.S.-educated technocrats to whom the étatist mindset was an alien concept.

Buğra (1995) asserts that overthrowing the established bureaucracy and disabling existing processes were emblematic of the policy style of the Motherland

Party. Businessmen who had direct access to the government were able to solve their problems without having to resort to bureaucratic procedures. Alternatively, if recourse to institutions was refused, those who had close links to the government were granted a solution (p. 232). Hence, institutions could be rendered useless for solving problems, while granting favors to close business groups underlined the continuity of patronage ties. Öniş (2004) provides a rather striking example that accounts for Özal's authoritarian approach to governance: Özal's very last act as the Prime Minister was his decision, in 1989, to liberalize the capital account, a decision that was taken contrary to the advice of the Central Bank (p. 123).

Özal's style of making policy decrees is apparent in the implementation of the privatization program as well, which ironically later turned out to be among the main causes of the slow progress of the privatization program. According to the existing literature on the privatization experience in Turkey and its slow progress through the 1980s and 1990s, the main obstacle seems to be the lack of a well-prepared legal framework with the necessary laws and regulations as well as agencies and institutions to regulate market competition and consumer interests. Until the late 1990s, incumbent governments failed to establish and exercise an effective legal framework through laws and regulations. Although privatization appeared on the economic agenda and a report was commissioned for the Morgan Guaranty Bank in 1984, the first privatization law was enacted by Parliament only in November 1994 (Ertuna, 1998, p. 15).

Shaker (1995) maintains that a centralized organization scheme was established to conduct the privatization program, under the Mass Housing and Public Participation Fund (MHPPF) (p. 32). This administration, established under the Prime Ministry, was independent from other ministries or institutions such as the

Treasury, SPO or Central Bank. Selection of firms for divestment fell under the Cabinet's authority (Öniş, 1991, p. 166). Implementation of the privatization process was designed such that Parliament and the bureaucracy were excluded and the Prime Ministry and Cabinet were autonomous in making decisions.

Shaker (1995) contends that Özal encountered opposition from within his party during the privatization process, particularly from ministries such as the Treasury, Industry and Transportation, which were likely to experience weakening of their executive power in the process (p. 52). Besides undermining the activities of ministries due to the lack of a legal framework and uncertainties about privatization as well as the preference to proceed with decrees and by-laws, sales would be contested on several occasions, brought to the Constitutional Court, and invalidated (Ökten, 2006, p. 227).

Öniş (2004) claims that Özal's "missionary zeal to transform the Turkish economy and Turkish society at large in the mould of what he believed to be a genuinely capitalistic economy and society" was based on creating a broad-based electoral coalition through Thatcher-style popular capitalism (p. 119). Within this framework and with the return of parliamentary democracy, highly questionable privatization issues were to be undertaken delicately.

One well-known confrontation concerning privatization of the Bosphorus Bridge took place during a panel forum involving Özal and the left-wing *Halkçı Parti* leader Necdet Calp that was broadcast on television on the eve of the 1983 general elections—it is still remembered as, "I will sell/we won't let you sell." When Calp objected, Özal's famous reply was, "We will sell, indeed we will sell it really well, there will be customers … we can sell it pretty easily."[15]

[15] *"Satarız, hem de çok iyi satarız. Alan da çıkar…gayet rahat satarız."*

Indeed, Özal turned out to be less sure about selling the Bosphorus Bridge, but issued revenue sharing certificates in 1984 for it, and later for the Keban Dam, through public offerings. Far from falling under the definition of privatization since ownership remained with the State, Shaker (1995) maintains that these attempts were indeed implemented to test the support for privatization from the electoral base (p. 53). The sale of revenue certificates was successful and was considered a positive impetus to proceed further.

The privatization plan was prepared by the Morgan Guaranty Bank from an economic rationality perspective of SOEs, listing them based on their desirability—those that would sell with ease. Nevertheless, the central body responsible for privatization, MHPPA, added a political touch appropriate to the status quo. Shaker (1995) states that the plan was re-shaped in order to appeal even to opponents of privatization, to create broad consensus for its implementation since it focused on selling with ease rather than on economic rationality (p. 55). The initial privatization was undertaken in sectors where there would be the least resistance such as cement and feed factories. The first privatization attempt was not made until 1988; it consisted of the sale of 22% of the state-owned shares of Teletaş through public offerings on the Istanbul Stock Exchange.

The Özal government gradually embraced populist policies; a declining electoral base in the 1987 general election served as a signal. In addition to inventing micro-level tools such as urban populism and rhetorical appeal for *ortadirek* ("middle income") earners, Tafolar (2008) asserts that old-school populist tools were present as well (p. 135). SOEs continued to be venues for political patronage through the recruitment of favored interest group members and party loyalists. Despite Özal's rhetoric calling for the retreat of the State in economic activities and structural

reform, the share of public enterprises in the GNP had risen from 15% in 1980 to 20% in 1986 (Shaker, 1995, p. 53).

In contrast to the Özal reign with a clear majority in Parliament throughout the 1980s, the 1990s are associated with weak coalition governments accompanied by high uncertainty and a heated domestic political context. Within this framework, Cizre-Sakallıoğlu and Yeldan (2000) assert that "the politics of haemorrhaging the public sector" (p. 498) was still the primary resource for the legitimization of political parties, which "became a manifestation of 'democratic deficit' … to lean on the tradition of populism used by their predecessors to make the social and political order work" (p. 499).

As noted earlier, uncertainty surrounding the legal and regulation framework with respect to privatization was a manifestation of proceeding by decree and circumventing the political confrontation it may incite. This policy style associated with Özal was followed in the 1990s and, with some improvements, was pushed mainly by external anchors such as the IMF and the EU. With enactment of the privatization law, in 1994, a special Directorate of Privatization under the Prime Ministry was created. Decisions regarding which SOEs to privatize were made by the Privatization High Council, consisting of the Prime Minister and four ministers appointed by him.[16] Up to that time, governments preferred to proceed with decrees and by-laws, which were contested on several occasions and then brought to the Constitutional Court and invalidated.

In addition, discrepancies regarding regulations dealing with problems of implementation such as protection regarding competition and anti-trust laws, as well as special regulations for natural monopolies, have been among the legal

[16] Law #4046 on Arrangements for the Implementation of Privatization, accessible through: http://www.oib.gov.tr/baskanlik/yasa.htm

shortcomings. There were a number of regulatory improvements in the late 1990s and early 2000s involving privatization procedures; most notably, the Competition Agency (CA) was established in 1994 as an independent agency implementing competition law.[17] Nevertheless, Zenginobuz (2008) states that the Competition Board, which is the decision-making body of the agency, was not appointed until early 1997 and only became effective in late 1997 (p. 487). The CA is responsible for the supervision of competition in all sectors and is entitled to full financial and organizational autonomy in its operations. However, its board members are appointed by the Council of Ministers from among candidates nominated by a number of ministries, government institutions, and the Union of Turkish Chambers and Exchanges (Zenginobuz, 2008). This Agency is involved in all privatization cases, and all sales must gain approval from the Competition Board.

Establishment of the Competition Agency implies the commitment by Turkey to join the Customs Union, one of the basic institutional conditions under the CU agreement (Bakır & Öniş, 2007, p. 152). Thus, the EU, although within confines of the Customs Union, has been the fundamental incentive for implementation of Competition Law and an independent regulatory agency.

Incentives and encouragement from international actors were instrumental in the introduction of regulation reforms in Turkey. In particular, the 1999 Stand-By Arrangement with the IMF required the establishment of independent regulatory agencies for natural monopolies to enable the complete privatization of state monopolies in the telecommunication, petrochemical and energy, and tobacco sectors. In the period following the signing of the agreement, the following regulatory agencies were established in quick succession: the Telecommunications

[17] Law #4054 on Protection of Competition

Agency, in 2000; the Energy Markets Regulatory Agency, in 2001; and the Tobacco, Tobacco Products and Alcoholic Beverages Market Regulation Board, in 2002.

Nevertheless, it is important to note that legal improvements and the solidification of the legal structure do not always result in full implementation. Adaman and Arsel's remarks on environmental laws and regulations in Turkey serve as a good example of how legal structures seem to be fully in line with international standards in developed countries and democracies in Western Europe, considered to be the most advanced (Adaman and Arsel, 2005). The authors concluded that the main problem was not a lack of regulation but a lack of political will concerning implementation, which was exacerbated by business lobbyists' interests and their impact on political action. Non-implementation of laws seems to be a recurrent problem in Turkey, due to both the lack of will and political incapacity and exemplified by the case of illegal housing in urban areas (Buğra, 1998, p. 306).

Another striking example of incapacity and unwillingness are the banking regulations, which are relevant to the privatization of state banks and to restructuring the financial sector in Turkey. Establishment of the Banking Regulation and Supervision Agency, although undertaken in 1999 and again pressured by IMF and the Standy-By Arrangement of 1999, had not been effective until the financial crisis of 2001, due to the lack of political will and the power of banking lobbies (Bakır & Öniş, 2007, p. 154).

In the early 2000s, the introduction of new regulations and regulatory agencies regarding privatization, as well as improvements in those previously established, should be considered in the context of the advancement of regulations and supervision reforms in the Turkish economic spectrum in general. Among the factors that have been influential on the road toward greater institutionalization in the

economy, the IMF and WB should be mentioned, as they were regarding the above-mentioned legal developments. Shifting the balance of power in decision making toward more guidance and pressure from the IMF indeed reflects the weakening and unsustainability of the former political environment. In addition, political and economic instability during the 1990s characterized by large budget deficits and escalating foreign debt in a highly inflationary context was instrumental in triggering several economic crises; the most traumatic was the 2001 financial crisis.

The crisis had devastating consequences for the Turkish economy that resulted in a substantial decrease in its output level, which amounted to a -7.4% growth rate in 2001. Equally important is the fact that the financial crisis of 2001 affected the entire population to varying degrees (Öniş, 2006, p. 2). The electoral base was deeply affected and the implications of this would be elaborated in a more detailed manner in the sub-chapter focused on AKP.

Also, macroeconomic and political instabilities, interruption of growth through crisis and highly volatile inflation, exacerbated the process further, both through deteriorating the privatization conditions and engendering concerns about corruption and fraud. I believe an evaluation of the post-2002 period—in light of the misfortunes and failures during the period from 1985 to 2001—is important in order to understand the rapid progression of privatization that took place beginning in 2001. Besides shifts and continuities in the economic and political spectrums, impacts that are specific to the AKP government should be discussed as well. Turkey's closer relationship with the European Union and acceptance as a candidate for membership, combined with the ruling party's commitment to structural reform and fiscal discipline—especially during this first period just after the 2002 elections—can all be considered highly influential factors supporting structural and

legal improvements aimed at solidifying democracy as well as being stabilizing factors for the economic and political environment in Turkey.

3.4 The AKP and mass privatization policies

The acceleration of privatization experienced in Turkey in the aftermath of 2001—what Öniş (2011) calls "mass privatization"—was made possible with the weakening of the anti-privatization stance taken by the AKP. I believe that the steady and frantic implementation of privatization policies achieved by the AKP government was made possible partially by its success in managing to create a new economic reality and in building consent by packaging privatization as a fatalistic fact, rather than as the economic policy choice it actually was.

The 2001 financial crisis is one of the major elements to legitimize the speedy implementation of privatization programs. Among the implications resulting from the crisis was the power gained by the AKP, which was based on the electoral victory that enabled the party to rule under a single-party government. This government showed strong commitment to fiscal discipline and structural reform under IMF guidance, continuing the process that began with the appointment of Kemal Derviş, a technocrat affiliated with the World Bank as the state minister responsible for economic affairs under Prime Minister Bülent Ecevit. The macroeconomic outlook between the years 2002 to 2007 pointed to strong growth, with indicators for declining inflation and interest rates. In retrospect, in reference to these economic indicators, the inflation rate was in the single digits for the first time since the 1970s (Öniş, 2006, p. 2). Therefore, a review of the Turkish economy indicates the emergence of a good climate for domestic and foreign investment

beginning in 2002, and a substantial improvement in the economic feasibility of privatization. The contributions of international institutions have been of crucial importance in terms of Turkey's increased economic stability.

Corollary to the discourse on and commitment to political transformation, the financial crisis of 2001 triggered the electoral base's popular belief in neoliberal rhetoric, at the expense of protectionism and the remnants of statism. Consequently, the November 2002 election results were interpreted to mean that former coalition partners (DSP-MHP-ANAP) in particular, and the weak coalition governments of the 1990s, were held responsible for the 2001 crisis. Bakır and Öniş (2007) argue that for one of the most severe crises Turkey has experienced in the republican era, "the malfunctioning of [the] domestic political system" was blamed rather than the IMF or the neoliberal ideals it represents (p. 153). In contrast, Yeldan (2006) claims that the crisis was primarily led by the IMF, pointing out the responsibility of and major role played by the IMF in creating the crisis with *prêt-à-porter* neoliberal reforms, without paying enough attention to the country's specific needs. It is important to note that this is not the perception of the general electoral base nor is it indicated by widespread public opinion. Both the 2001 crisis and its repercussions in the political arena of the 2002 election show little controversy about neoliberal rhetoric. There is a clear weakening of ideological opposition to privatization in contrast to the 1990s.

The AKP, upon its rise to power, prioritized privatization as one of the key elements of its economic strategy. To achieve this, the party introduced the Turkish Privatization Strategy Plan in 2003 with the participation of supportive clusters such as business associations, banks, consulting companies, and law firms specializing in mergers and acquisitions (Balkan Şahin, 2010, p. 489). Along with this approach, ensuring public support toward privatization and persuading opponents was also on

the agenda. Numerous relevant strategies proposed for adoption were ranging from briefings, panels and conferences on the benefits of privatization to NGOs, labor unions, universities, and the general public—opponents were persuaded by recounting success stories. The plan refuted the negative consequences of privatization in terms of employment by focusing on the expected economic growth that would be generated by privatization and would ultimately lead to the creation of new jobs (Balkan Şahin, 2010, p. 489). It should be noted that the AKP introduced a brand new and proactive approach in order to shape public opinion based on the marketization of privatization. Nevertheless, encounters with the public and interest groups do not point to a democratic negotiation process but to a one-way, selective diffusion of information process based on marketing and examples of success. Focus on a strong commitment to privatization as a core component of economic policy, strengthened this approach. The Party appealed to both winners and losers regarding globalization and promised that all would benefit from the privatization process.

However, the AKP's strong commitment to privatization was opposed on several grounds. Use of the block sale method, which had been preferred in the sale of monopolies, was challenged for creating monopoly opportunities for private capital at the public`s expense. Although regulatory agencies had been established for the utility sectors, public concern regarding protection for competition was not addressed. The sale of Tüpraş, once the largest state-owned petroleum refinery, encountered strong opposition from Petol-İş, the union representing the petrochemical sector. Between 2003 and 2006, sales agreements and tender decisions were repeatedly brought to court by opposition parties led by the union. The court annulled sale on the grounds that it violated national/public interest; but ultimately, the block sale of 51% of the company to the Koç-Shell consortium was approved in

2006. Sales of large monopolies such as Erdemir and Türk Telekom were opposed as well on the grounds of public interest by trade unions and some vocal opponents among political parties (Balkan Şahin, 2010, p. 492).

Moreover, Balkan Şahin (2010) recounts how concerns for the public interest, which were formerly the basis for the justification of an annulment of privatization by courts, were diluted during the AKP's rule. The Court's reinstatement of the sale of Tüpraş was legitimized on the grounds that the buyer will act in accordance with the market economy (p. 494).

With respect to opponents, Boyraz (2009) states that "professional associations such as TMMOB and trade commerce chambers … claimed that those privatizations in 'nationally strategic sectors' cannot be accepted and that their struggle against the sale of those public enterprises intend to 'save the nation'" (p.16). The author further asserts that opposition using nationalistic and "strategic sector" arguments against privatization is a stance intrinsically favoring domestic capital groups over foreign investors, which is indeed not an ideological argument. Hence, labor union protests that were cancelled when Erdemir was sold to OYAK are given as supportive evidence (Boyraz, 2009, p.17). Approval of the Tüpraş sale to the Shell and Koç, a leading domestic conglomerate, provides another example. It is argued that opposition to privatization was mainly based on nationalism, which notably supported divestiture to domestic actors; concerns about competition or ideological opposition were weak.

In the face of wider acceptance of free market economies, it is argued that "unions, which should be the main focus of a strong resistance against privatization,

prefer to be silent."[18] One explanation of this might be related to the power of the single-party government and its commitment to complete divestiture under IMF guidance. In such a state of affairs, *there is no alternative* is persuasive rhetoric; this feeds into the tendency to believe that little can be done to resist or force the reconsideration of privatization politics. Therefore, instead of struggling to oppose privatization, unions invested their energies into creating advantages and increasing their bargaining power in order to achieve better negotiating terms during the privatization process.

Weakening union resistance to the privatization policies of government can be partly explained with 1980 military coup that had devastating consequences for leftist politics; the new constitution, in 1982, banned all union activity and abolished pro-labor changes in 1961 legislation (Berik and Belginsoy, 1996, pp. 58-59). In addition to the unraveling of the labor movement by the military and the inherent leadership problem, expansion of the informal sector in the post-1980 period exacerbated the bargaining power of unions in their relations with the State.

In order to legitimize drastic privatization policies, use of the media was effectively employed as a supplementary tool for creating consent (Balkan Şahin, 2010, p. 488). It should be noted that very often mainstream media groups are also subsidiaries of domestic conglomerates, which creates a natural conflict of interest from an objective perspective. This phenomenon cannot be attributed solely to the AKP's reign, but became more crucial in the face of the spectacular increase in the proceeds from privatization. Ilhan (2014) asserts that "media conglomerates … were owned and managed by capitalists seeking to accrue political and economic benefits from their presence in the domestic and regional media sectors (p. 162). Based on his

[18] *"… özelleştirmeye karşı güçlü bir direnişin asli odakları olması gereken sendikalar sessiz kalmayı tercih ediyor."* In Işeri, E., "AKP'nin Acil Para Bulma Programı: Özelleştirme." Retrieved from: http://www.sendika.org/yazi.php?yazi_no=135.

analysis of media coverage of the privatization of POAŞ, Yüksel (2002) claims that news in the print media was presented from a subjective viewpoint based on selective accounts of the situation, often adopting a propaganda-like tone through assertions and comments (p. 105). Balkan Şahin (2010), citing Yıldız's study, states that "media was also a crucial instrument for shaping public opinion for the inevitability of privatization" by presenting SOEs as money-losing, archaic, and having too many employees (p. 488).

The Türk Telekom block sale, involving 55% of the enterprise, had been criticized and a divestiture through public offering had been suggested, but the AKP insisted on the block sale method. Kemal Unakıtan, then the Finance Minister responsible for privatization, responded to opponents stating that 55% of the shares would not be sold at 6.55 billion USD through public offerings, and embellishing his argument with a common expression: *hesap mı bilmiyorsun, dayak mı yemedin* ("either you can't do the math, or haven't been beaten up").[19] The AKP's privatization policy approach could be regarded as highly autonomous in the sense that the government, ruling as a single-party government and boosted by large electoral support, considered itself the sole representative of the nation and the national will, and therefore paid little attention to claims made by the opposition. Another vulgar statement made by Unakıtan is considered the definition—in a nutshell—of the AKP's privatization policy: *Babalar gibi satarız* ("we are selling no matter what").

Baran (2000) reports that, in an open discussion in a graduate course, the ones that named stability as the most crucial problem of a country were all Turkish students (p. 127). Also stemming from the misfortunes of society in general that

[19] Retrieved from: http://arsiv.ntvmsnbc.com/news/359652.asp.

resulted from the 2001 crisis, the AKP distorted the concern for stability and bombastically repackaged this as its own legacy, a phenomenon which has recently become more apparent. The constant emphasis on stability not only exploited the earlier fiscal crisis but also underestimated the need for consultation and cooperation with relevant parties, with the intrinsic reference of later engendering instability and uncertainty. Hence, democratic coalition-building processes were regarded with disdain.

The AKP tried to legitimize its mass privatization policy on several grounds, one of which was its emphasis on individual responsibility. During an interview broadcast on television, then Prime Minister Erdoğan (2011) stated:

> There are no losers in privatization. No one is granted a job for life [Under privatization laws the workers] have received 30,000, 40,000, 50,000 TL. If you [the workers laid-off after privatization] have individual competence, then go and find a job somewhere else.
> We have to boost our people's self-esteem. He can draw his severance and notice payment and go work somewhere else … [an educated and talented] person can find a job somewhere else in public or private sectors. We do not have a 'privatization losers' problem. (own translation, see Appendix A for original text)

Besides his emphasis on individual responsibility, Erdoğan also appeals to negation, and places all burden of the negative consequences of privatization on the shoulders of the worker.

3.5 Privatization post-1980: Victory of the AKP?

I believe the AKP owes most of its legacy of mass privatization to the misfortunes of the 1980s and 1990s, both by laying the ideological groundwork and neutralizing the locus of opposition. Özal set the scene for the implementation of privatization

policies by reorienting socio-economic settings toward neoliberalism; successive coalition governments undertook legal and institutional improvements, and they ultimately paid the political price: they were held primarily responsible for the 2001 crisis—all coalition partners remained under the 10% threshold. Finally, the AKP was able to fully implement and carry out privatization programs.

Elaborating on Gramsci's concept of "common sense," Harvey (2005) suggests that popular consent is created to justify policies through a process that defines a new reality (p. 39). Through use of military force or financial conditionality, including the IMF's pre-conditions for credit agreements and their strong rhetoric of "no alternative", policies are presented as unavoidable. The 2001 crisis and the austerity measures implemented in its aftermath, I believe, were effective in distorting the economic rationality of the public thus creating a new common sense, then building consent by packaging privatization as a predetermined fact rather than the economic policy choice it actually is.

Based on the policy style perspective proposed by Pereira, Maravall and Przeworski regarding the implementation of reforms and concern for consultation and negotiation as well as the channeling of democratic institutions, one can discern more similarities than divergences in policy styles—defined as *decretism, mandatism, parliamentarism, concentration*. Policy style is eventually shaped by electoral support and economic conditions; nevertheless, one can discern that, whenever not required by parliamentary democracy, international organizations or electoral threat, politicians tend to ignore the need for negotiation and consultation with other parties. Moreover, centralization of power in the hands of the executive is another common trait. From this perspective, one can claim that Özal's policy style began by *decretism*—as a result of the military coup—and alternated between

decretism and *mandatism*. Erdoğan's policy style, however, began with a mandate but can be said to have had few characteristics indicating a consultation process, especially during his first ruling period from 2002 to 2007, and given the prospects of joining the EU. Nevertheless, the AKP's policy style slid into making decrees with a growing authoritarian approach to policy implementation and practice, ignoring or harshly suppressing dissent and opposition regarding implemented policies.

CHAPTER 4

PUBLIC OPINION MATTERS: ANALYSIS AND FINDINGS

After an overview of the main arguments regarding the privatization debate on economic and political grounds in earlier chapters, this part of the thesis examines the issue from an ordinary citizen's perspective. Having reviewed the existing literature on evaluating public opinion with respect to privatization, this chapter will evaluate the specifics of the Turkish case.

4.1 Data

This empirical analysis uses data drawn from the five waves of the World Values Survey (WVS) spanning the years 1990 to 2014 and focusing on Turkey. The WVS is a cross-national survey program conducted worldwide beginning with its first wave, from 1981 to 1984, to the sixth wave, from 2010 to 2014, with a period missing between 1984 and 1989. In Turkey, the relevant surveys were carried out in 1990, 1996, 2001, 2007, and 2011. This survey is conducted globally in a growing number of countries through nationally representative questionnaires and face-to-face interviews used to study changes in values on a wide range of social and political issues.

There are a number of reasons to choose the WVS over other available cross-national surveys; the primary reason among these is the availability of the data. Turkey participated in all waves, beginning from the wave of 1990 to1994, so the WVS provides continuous data without missing any survey years and enables longitudinal analyses to be carried out in addition to individual-level analyses for the

personal characteristics of respondents. Another advantage of using the WVS is that the time span of the available data coincides to a large extent with the targeted study period.

More important, the survey questionnaire includes specific questions relating to respondents' attitudes toward privatization, the role of the State in the provision of goods and services, and whether competition is a desirable phenomenon. In all five waves of the survey, the questions asked of respondents were identical; this provides data for evaluating people's opinions about privatization and the role of the State over the years, on whether there have been changes, and that further details the grounds on which we may explain these changes.

4.2 Methodology

4.2.1 Variables and hypotheses

The main dependent variable is support for privatization, measured as an individual evaluation of preference between public and private ownership. In addition, I use public opinion on competition as a second dependent variable in a separate model because competition is argued to be one of the primary benefits of privatization from a consumer point of view. A secondary regression model using support for competition enables evaluation of the relevance of significant factors that affect both of these dependent variables.

The respondents were asked to indicate their views on a 1-10 scale between two statements where 1 means they completely agree with the statement on the left and 10 with that on the right. The original scaling of responses was reversed so that a high value indicates a positive opinion on privatization and competition.

The statements and their re-coded values are as follows:

"Private ownership of business and industry should be increased" [10] vs. "Government ownership of business and industry should be increased" [1]

"Competition is good. It stimulates people to work hard and develop new ideas" [10] vs. "Competition is harmful. It brings out the worst in people" [1]

Key explanatory variables were decided through a review of the existing literature on public opinion about privatization and an evaluation of data available through the WVS on Turkey. Seven independent variables are included to account for socio-economic, socio-demographic, and ideological factors. An additional independent variable, confidence in government, is included as an indicator of support for government and a proxy for evaluation of its economic performance.

Among socio-economic variables, the income factor relates to a self-assessment of one's income compared to the lowest and highest income scales in the country, on a 1-10 scale where 1 stands for the lowest level of income and 10 stands for the highest. The survey categorizes employment status based on the self-assessment of respondents as one of the following: 1 full-time, 2 part-time, and 3 self-employed. Additional categories for those who are not active in the labor market are 4 retired, 5 student, 6 housewife, 7 unemployed, and 8 other. All employment categories are recoded so that not employed and employed receive a score of 0 and 1, respectively. Category 1 includes the employed and self-employed whereas category 0 accounts for the remaining categories of those who are not active in the employment market. In addition, information on the employment sector is included in the survey questionnaire, beginning from 2007, using the following choices: 1 public institution or government, 2 private business, 3 private non-profit business, 4 not applicable (for the unemployed, student, retired, and respondents defining

themselves as “housewife”). Public employment status is created through re-coding the employment sector as 1 public institution or government, and 0 other.

Socio-demographic variables included in the regression model are gender, education level, and age of respondent. Gender is coded such that women receive a score of 0 and men 1. The education level of respondents is categorized with years of schooling corresponding to their education level, which ranges on a 1-8 scale and increases with respect to the highest educational level attained. 1 stands for incomplete elementary school and 8 stands for a university degree.

The analysis will also test for the relevance of one’s ideological leaning based on self-positioning on a political scale. The left-right placement of the respondent is measured on a 1-10 scale (1 left and 10 right).

With respect to confidence in government, responses are placed on a 1-4 scale. The original scaling is reversed in order to obtain a more positive opinion on government using an increasing scale. Therefore, the re-coded responses to the question of confidence level in government range from 1 not at all to 4 a great deal.

Statistical analysis is conducted through two regressions in order to evaluate individuals’ attitudes toward privatization and competition. I test the following hypotheses:

For socio-economic categories:

- Income level positively affects support for privatization, that is, people belonging to the higher economic strata tend to hold pro-privatization views.
- Public employees are less likely to support privatization.
- Those who are not employed are less likely to support privatization.

For socio-demographic categories:

- Women are less likely to support privatization,
- The support for privatization increases with years of education.
- The support for privatization increases with age.

For ideological leaning:

- People who place themselves on the left of the political spectrum are less likely to support privatization.

For support for government as a proxy for evaluation of economic performance:

- People who have greater confidence in government are more likely to support privatization policies.

Question wording and scaling of the dependent and independent variables are provided in Table 1 and Table 2 respectively.

Table 1. Question Wording and Scaling of Dependent Variables

	Question Wording	**Coding**	**Definition**	**Explanation**
Support for privatization	Now I'd like you to tell me your views on various issues. How would you place your views on this scale? 1 means you agree completely with the statement on the left; 10 means you agree completely with the statement on the right; and if your views fall somewhere in between, you can choose any number in between.	1	private ownership should be increased	Coding is reversed for all data and re-coded as (1) government ownership should be increased and (10) private ownership should be increased, so that higher values on coding scale correspond to higher support for private ownership.
		2		
		3		
		4		
		5		
		6		
		7		
		8		
		9		
		10	government ownership should be increased	
Support for competition	Now I'd like you to tell me your views on various issues. How would you place your views on this scale? 1 means you agree completely with the statement on the left; 10 means you agree completely with the statement on the right; and if your views fall somewhere in between, you can choose any number in between.	1	Competition is good. It stimulates people to work hard and develop new ideas.	Coding is reversed for all data and re-coded as (1) Competition is harmful. It brings out the worst in people and (10) Competition is good. It stimulates people to work hard and develop new ideas; so that higher values on coding scale correspond to higher support for competition.
		2		
		3		
		4		
		5		
		6		
		7		
		8		
		9		
		10	Competition is harmful. It brings out the worst in people.	

Table 2. Question Wording and Scaling of Independent Variables

	Question Wording	Coding	Definition	Explanation
Socio-Economic Factors				
Self-positioning on income scale	On this card is an income scale on which 1 indicates the lowest income group and 10 the highest income group in your country. We would like to know in what group your household is. Please, specify the appropriate number, counting all wages, salaries, pensions and other incomes that come in.	1	Lower step	Initial coding is preserved.
		2	Second step	
		3	Third step	
		4	Fourth step	
		5	Fifth step	
		6	Sixth step	
		7	Seventh step	
		8	Eight step	
		9	Ninth step	
		10	Tenth step	
Employment	Are you employed now or not? If yes, about how many hours a week? If more than one job: only for the main job	1	Full time	All categories are re-coded to create two categories: employed and those who are not active in the labor force. (1), (2) and (3) are re-coded as (1) employed; (4), (5), (6), (7) and (8) are re-coded as (0) not employed.
		2	Part time	
		3	Self employed	
		4	Retired	
		5	Housewife	
		6	Students	
		7	Unemployed	
		8	Other	
Public institution	Are you working for the government or public institution, for private business or industry, or for a private non-profit organization? If you do not work currently, characterize your major work in the past! Do you or did you work for?	1	Government or public institution	Re-coded as (1) public institution and (0) other for the remaining categories.
		2	Private business or industry	
		3	Private non- profit organization	
		4	Not applicable	
Socio-Demographic Factors				
Age	Age. This means you are ____ years old.			
Education	What is the highest educational level that you have attained?	0	No formal education	Initial coding is preserved.
		1	Incomplete primary school	
		2	Complete primary school	
		3	Incomplete secondary school: technical/ vocational type	
		4	Complete secondary school: technical/ vocational type	
		5	Incomplete secondary school: university-preparatory type	
		6	Complete secondary school: university-preparatory type	
		7	Some university-level education, without degree	
		8	University with degree/Higher education - upper-level tertiary certificate	
Sex: Man	Respondent's gender by observation			Coded as (0) Woman and (1) Man
Ideological Factor				
Self-positioning on political scale	In political matters, people talk of "the left" and "the right." How would you place your views on this scale, generally speaking?	1	Left	Initial coding is preserved.
		2		
		3		
		4		
		5		
		6		
		7		
		8		
		9		
		10	Right	
Support for Government				
Confidence: Government	I am going to name a number of organizations. For each one, could you tell me how much confidence you have in them: is it a great deal of confidence, quite a lot of confidence, not very much confidence or none at all?: The government (in your nation's capital)	1	A great deal	Re-coded as 1) not at all, (2) not very much, (3) quite a lot and (4) a great deal, so that higher values correspond to higher confidence levels.
		2	Quite a lot	
		3	Not very much	
		4	None at all	

4.2.2 Descriptive statistics and preliminary analysis

A preliminary analysis regarding the aggregate support for privatization in Turkey would help determine where public attitude stands as a whole. WVS aggregate outcomes for the question regarding privatization, through surveys conducted in Turkey over the years, are presented below in Figure 5.

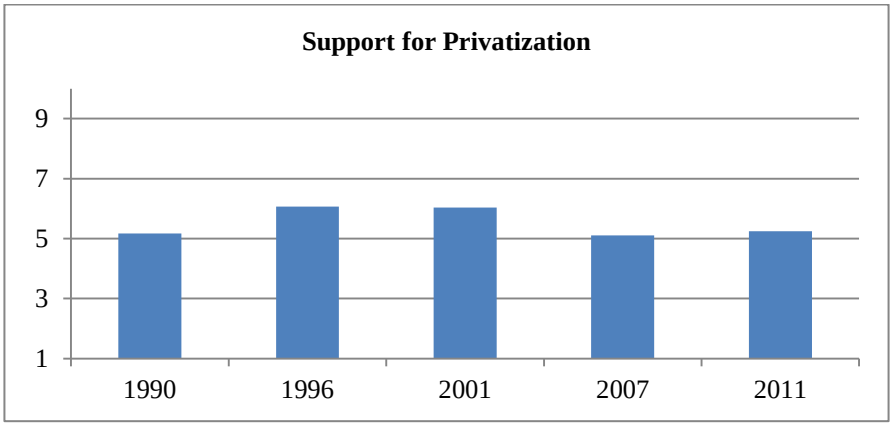

Fig. 5. Means of the dependent variable “support for privatization”.

Higher values indicate a higher support level for privatization. Scaling is based on: 10 "Private ownership of business and industry should be increased" vs. 1 "Government ownership of business and industry should be increased."

Regarding the question of privatization versus state ownership, the mean fluctuates between 5 and 6 throughout 5 surveys (5.11–6.07) and the aggregate mean is 5.69 for all surveys conducted. Compared with 5.50, which stands for the perfect middle in the scaling between private and public ownership, the aggregate mean indicates that overall support for privatization in Turkey is weak; rather, public opinion is mixed between public and private ownership. Support scored higher, especially in surveys conducted between 1996 and 2007. Nevertheless, we see that overall support declined in 2007 to the lowest level ever. The last survey, conducted

in 2011, indicates that people's average support for private versus state ownership tends to be more on the state side, with a mean of 5.25. In summary, support increased in the late 1990s and early 2000s; thereafter, a considerable decrease is observed that coincides with the mass privatization period in Turkey. In other words, public support decreased with the undertaking of privatization policies.

Furthermore, Figure 6 below reveals that people had rather polarized views on whether to privatize or not before 2001. Especially in the survey of 1996, almost half of respondents preferred the answers at the extremes, 1 or 10 (see Figure 7 and Figure 8). On surveys conducted in the following years, pure pro-privatization (10) and pure anti-privatization (1) attitudes tended to decrease in general. Respondents preferred a more compromising privatization policy, somewhere in the middle of the scale 1-10. The percentage of people opting for a more compromising privatization policy is represented by the bar in the middle of Figure 6. Indeed, on the last two surveys, from 2007 and 2011, the most recurrent answers are 5 and 6, which could be interpreted as a preference for a mixture of private and state ownership of business. Data suggests that polarized views on the ownership of business tend to converge during the late 1990s and early 2000s.

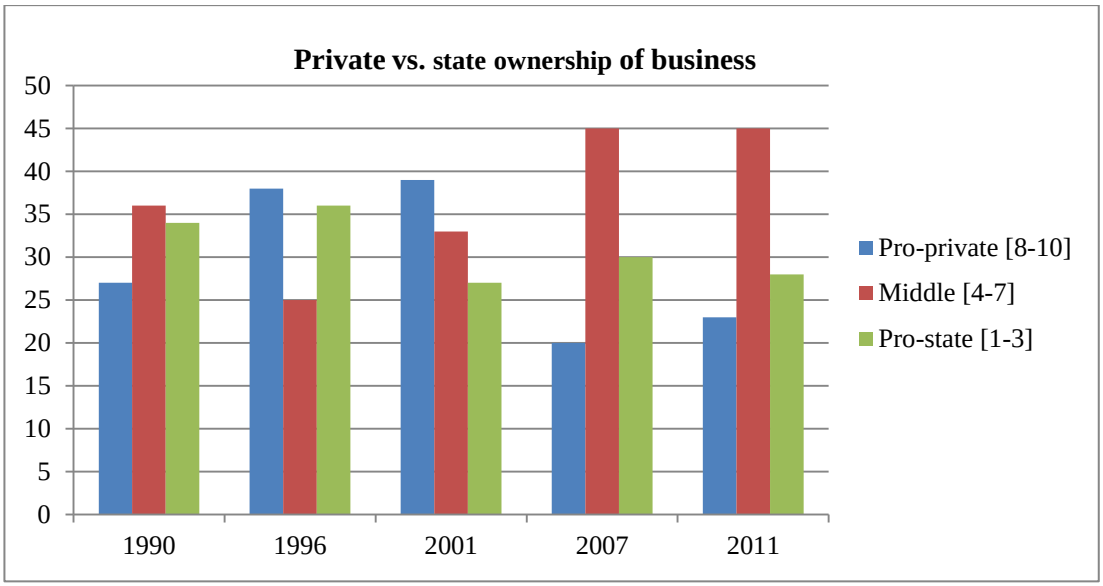

Fig. 6. Percentage distribution of attitudes on privatization

The values are represented in three subgroups: Pro-privatization group (8-10) represents the total percentage of respondents who answered the question as 8, 9 or 10. Likewise, pro-state ownership of business group (1-3) provides the total percentage of those who had answered the question 1, 2 or 3. Finally, the middle group (4-7) represents those who embrace a more balanced approach and place themselves in the middle of the 1-10 scale.

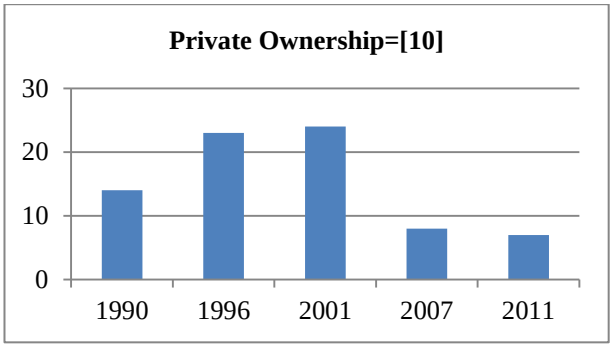

Fig. 7. Percentage of preferences for private ownership (10).

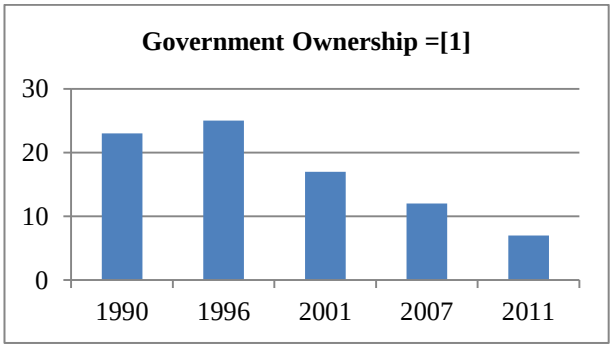

Fig. 8. Percentage of preferences for government ownership (1).

According to the results presented in Figure 9, respondents overall tend to appreciate competition. The data is partially complete; information is missing from the 2001 survey because the question was not included in that year's questionnaire. The data shows that competition was most welcome in 1996; almost half of respondents completely agreed that competition was good and opted for 10 on a scale of 1-10 (see Figures 11 and 12). In 2007 and 2011, overall support for competition decreased remarkably, dropping from 45% to 18% and 17%, respectively (Figure 10). The percentage of respondents who believe that competition is harmful decreased as well, although less remarkably given that their share of the total was already small. Overall, there seems to be a more compromising attitude in 2007 and 2011, i.e. more people believe that competition is neither purely good nor is it absolutely harmful but instead have a moderate attitude.

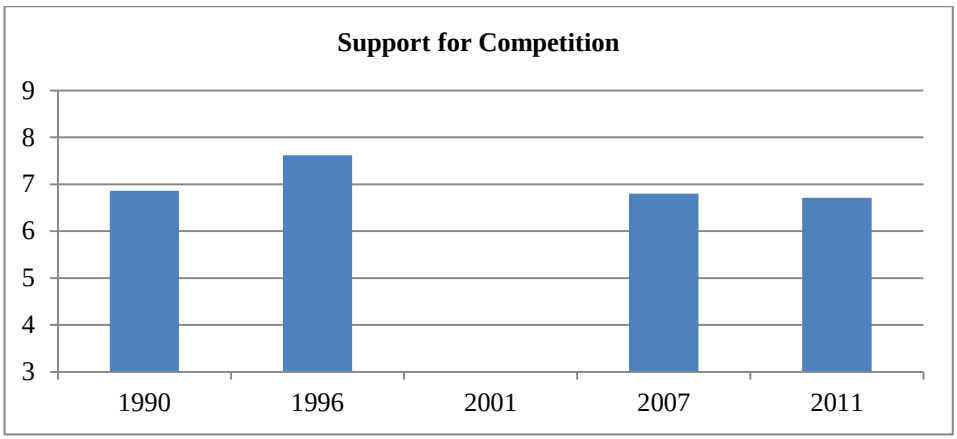

Fig. 9. Means of the dependent variable "support for competition".

Higher values indicate a higher support level. Scaling is based on: 10 "Competition is good. It stimulates people to work hard and develop new ideas" vs. 1 "Competition is harmful. It brings out the worst in people".

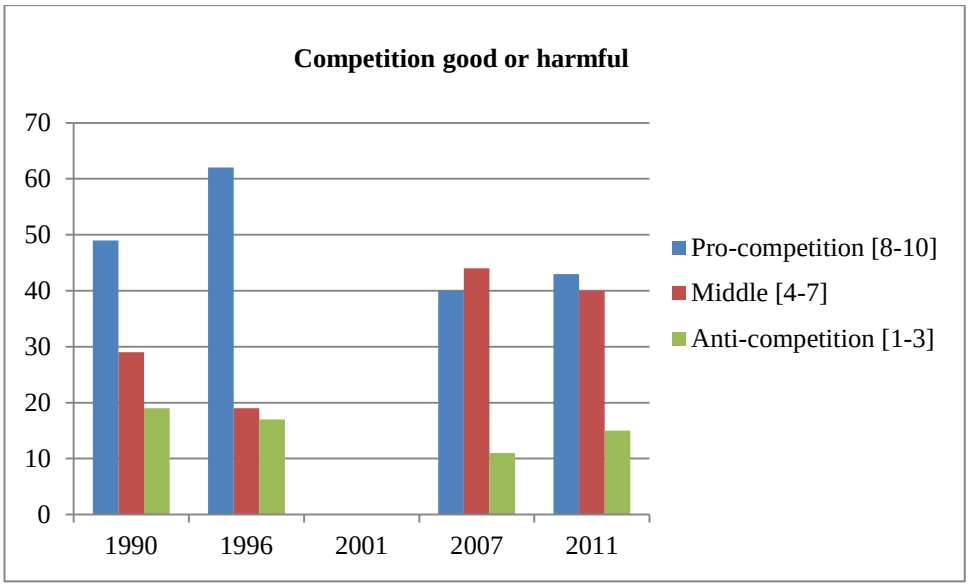

Fig. 10. Percentage distribution of attitudes on competition.

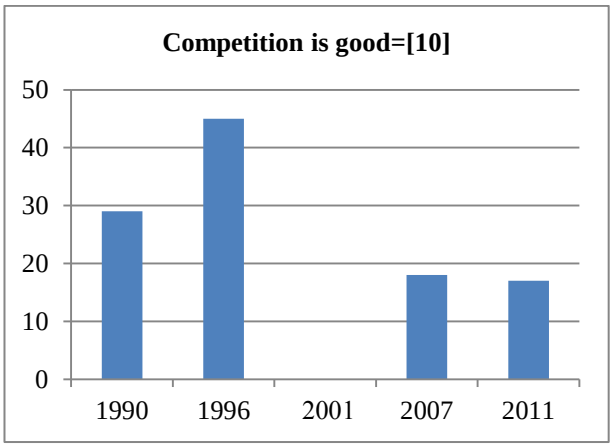

Fig. 11. Percentage of preference for competition is good (10).

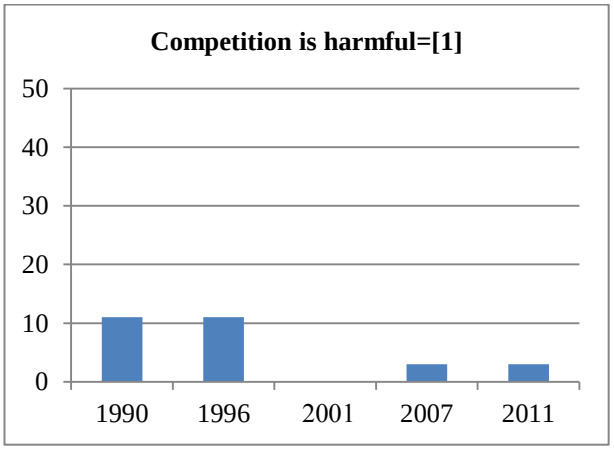

Fig. 12. Percentage of preference for competition is harmful (1).

Before proceeding to a regression model, simple descriptive statistics for all dependent and independent variables per wave are provided in Table 3. Setting aside dependent variables, which were discussed earlier, data on independent variables provide further insights into their orientation and composition. The independent variables on income, ideology, and support for government are especially noteworthy for analysis.

Summary statistics on self-evaluation of income show that the average evaluation of one's income vis-à-vis the rest of the country was lowest in 2001 and highest in 2011. Since this variable is based on the perception of the respondent, it is expected to reflect one's sense of their current purchasing power as compared to that of the past. Hence, depreciation of the TL, increasing foreign exchange rates and inflation, and eventually a financial crisis would have negative repercussions on one's subjective income level. Conversely, decreasing inflation and favorable economic outlook are more likely to positively affect the subjective income evaluation, all other things being equal.

Political orientation in terms of left-right placement follows a right-leaning trend throughout the surveys, moving slightly away from the center. In 1990, a 5.38 average political placement indicated a slightly center-left standing whereas in 2011 the mean had moved more to the right, to 6.22. The rightist trend is especially noteworthy in the waves from 2007 and 2011.

Confidence in government, used as a proxy for support for the incumbent government in this study, fluctuates between 2.28-2.74. This follows a decreasing trend throughout the 1990s and early 2000s, scores highest in the 2007 wave, and the most recent wave showing a slight decrease.

Table 3. Descriptive Statistics for Dependent and Independent Variables

Definition / Wave	1990					1996					2001					2007					2011				
Dependent Variables	N	Mean	St. Dev.	Min	Max	N	Mean	St. Dev.	Min.	Max	N	Mean	St. Dev.	Min	Max	N	Mean	St. Dev.	Min.	Max	N	Mean	St. Dev.	Min.	Max.
Private vs. state ownership of business	989	5.17	3.20	1	10	1868	6.07	3.45	1	10	3375	6.03	3.25	1	10	1263	5.11	2.71	1	10	1540	5.25	2.66	1	10
Competition good or harmful	992	6.86	3.09	1	10	1859	7.62	3.06	1	10	Not Available/Missing					1284	6.80	2.52	1	10	1557	6.71	2.56	1	10
Independent Variables																									
Self-positioning on income scale	1007	3.99	1.31	1	10	1865	4.20	2.38	1	10	3194	3.19	1.60	1	10	1319	3.39	2.35	1	10	1571	5.68	1.91	1	10
Employment (0=not employed, 1=employed)	976	0.43	0.50	0	1	1830	0.46	0.50	0	1	3320	0.44	0.50	0	1	1316	0.40	0.49	0	1	1598	0.42	0.49	0	1
Public Institution (1=public institution, 0=other)	Not Available/Missing					Not Available/Missing					Not Available/Missing					749	0.18	0.39	0	1	880	0.21	0.41	0	1
Age	1024	36.41	14.18	18	84	1894	36.24	13.89	17	84	3397	36.99	13.68	18	91	1346	36.48	13.86	18	82	1605	38.45	14.54	18	86
Education	810	3.06	1.75	1	7	1866	3.65	2.21	1	8	2849	3.92	2.25	1	8	1237	4.20	2.27	1	8	1514	4.68	2.31	1	8
Sex (0=woman, 1=man)	1030	0.50	0.50	0	1	1907	0.50	0.50	0	1	3401	0.50	0.50	0	1	1346	0.50	0.50	0	1	1605	0.49	0.50	0	1
Self-positioning on political scale	898	5.38	2.14	1	10	1760	5.85	2.58	1	10	3250	5.77	2.56	1	10	1143	6.14	2.70	1	10	1453	6.22	2.49	1	10
Confidence: The Government	908	2.44	1.04	1	4	1861	2.30	1.07	1	4	3342	2.28	1.09	1	4	1304	2.74	1.02	1	4	1564	2.65	1.01	1	4

4.2.3 Correlation

The correlation coefficient "r" defines the direction of the correlation between two variables: A negative figure between -1 and 0 points to a negative relationship and a positive figure between 0 and 1 points to a positive relationship.

From the correlation results presented in Table 4, we observe that there is a positive correlation between attitudes toward privatization and competition. That is, people who have a preference for private ownership of business are more likely to believe that competition is good, and vice versa. This attitude indeed coincides with the rhetoric that privatization fosters competition, and there is a positive relationship between privatization and competition. The data also suggest that women, people with fewer years of education and lower income, and finally, people who are not employed, are more likely to prefer government ownership over private ownership. Further, no correlation is found for public sector employees' preferences regarding the structure of ownership. Neither age nor self-positioning on the political scale is found to correlate significantly with attitudes toward privatization, with all waves considered.

Table 4. Correlations Between Dependent and Independent Variables

	Support for Privatization	Support for Competition	Self-positioning in political scale	Age	Education	Self-evaluation of income scale	Sex: Man	Public institution	Employment status	Confidence: Government
Support for Privatization	1	.241*	-.001	.009	.119*	.101*	.077*	-.004	.087*	-.104*
Support for Competition		1	.003	.015	.072*	.041*	.060*	.065*	.035*	-.010
Self-positioning on political scale			1	.078*	-.186*	-.085*	.010	-.048	-.041*	.244*
Age				1	-.247*	-.097*	.014	.121*	-.127*	.085*
Education					1	.409*	.138*	.259*	.277*	-.192*
Self-positioning on income scale						1	.016	.118*	.176*	-.092*
Sex: Man							1	-.084*	.479*	-.083*
Public institution								1	-.058*	-.023*
Employment status (0=not employed, 1=employed)									1	-.115*
Confidence: Government										1

* Correlation is significant at the 0.01 level (2-tailed).

4.3 Regression and findings

To test the hypotheses on building support for privatization and discern the relative significance of the variables selected, a multiple linear regression model was used. Through examining earlier empirical studies, this thesis formulated hypotheses on the relationship between public support for privatization and a number of variables categorized under socio-economic, socio-demographic, ideological, and the evaluation of economic performance factors.

Both models—support for privatization and support for competition—were checked for autocorrelation using the Durbin-Watson test and no autocorrelation is found. For a possible multicollinearity problem, VIF (variance inflation factor) was checked and no multicollinearity was detected. Missing data was treated with two different imputation techniques: linear interpolation and averaging. Filling in with dummy variables, the method generating a best fit model was preferred, which proved to be the average method.

Region effects were included in the model to control for regional variations among respondents. The respondent's region was not coded in a standard way in the WVS for Turkey; the scope changes from city coding to mixed-region coding such as "Marmara-Aegean." Region data was re-coded to preserve the most detailed information, which is comparable over different surveys. The model also includes year dummies in order to help determine whether the timing of the survey has an impact on the level of support.

Table 5 shows the multiple linear regression results for support of privatization, controlled for year and region. The model adopts a pooled approach for all waves; hence, all available data is run and considered together.

Table 5. Support for Privatization Model, Multiple Linear Regression

Support for Privatization Model

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.784	.240		11.624	.000
	Socio-Economic Factors					
	Self-positioning on income scale	.155*	.018	.104	8.422	.000
	Employed	.113	.076	.018	1.477	.140
	Socio-Demographic Factors					
	Age	.010*	.002	.045	4.298	.000
	Education	.121*	.017	.083	6.969	.000
	Sex: Man	.299*	.072	.048	4.163	.000
	Ideological Factor					
	Self-positioning on political scale	.052*	.014	.041	3.825	.000
	Support for Government					
	Confidence: The Government	-.170*	.032	-.058	-5.374	.000
	Fixed Effects					
	Region Factor					
	Istanbul	.777*	.148	.084	5.266	.000
	Marmara-Aegean	.642*	.139	.079	4.610	.000
	Central Anatolia	.576*	.151	.058	3.825	.000
	Mediterranean	.642*	.170	.051	3.772	.000
	South Eastern Anatolia	.679*	.165	.058	4.111	.000
	Year Factor					
	1990: (1989-1993)	.378*	.127	.038	2.981	.003
	1996: (1994-1998)	1.136*	.108	.148	10.489	.000
	2001: (1999-2004)	1.783*	.152	.276	11.708	.000
	2007: (2005-2009)	.311*	.119	.035	2.616	.009
a. Dependent Variable: *Private vs. state ownership of business						
	ANOVA	33.302				
	Adjusted R^2	.053				
	N	9.289				
	*p <0.05					

Among the hypotheses with respect to socio-economic factors, the self-evaluation of income scale is statistically significant and there is a positive relationship between income level and support for privatization. Therefore, an increase in income level leads to an increase in support for privatization. In contrast to the literature, the employment hypothesis is refuted: the coefficient for the employment status variable is statistically insignificant. It should be noted that, when the model is run without year and region fixed effects, or with a region fixed effect only, being unemployed is significant and thus in line with my hypothesis (see Appendix B, Table 8 and Table 9). The significance of employment status weakens when the model is controlled for region and disappears when controlled for year. Thus, the findings suggest that when we examine a particular wave, being unemployed is not a significant factor in one's view with respect to privatization. Stated differently, I suggest that regional differences and events specific to different survey years have counterbalanced the initial significance of the variable. It should also be noted that the effect of income increases as we control for the impact of region and year.

The public institution variable is not included in the regression model run for a total of five waves. The employment sector data, from which the public institution variable was created, is included in the questionnaire for only two waves and was missing for most of the surveys analyzed. Therefore a separate regression is run for the public institution employment data, which is readily available in waves 2007 and 2011 (see Appendix B, Table 10). Contrary to my hypothesis, the public institution variable is not significant and there is no relationship between being an employee in the public sector and support for privatization.

The findings support the hypothesis made respecting socio-demographic factors. In line with our hypothesis, men are more likely to support privatization. In line with findings in empirical studies by Thompson and Elling (2000), Linos and West (2003), and Battaglio and Legge (2009), this study confirms that women are more likely to have a negative attitude toward privatization.

The hypothesis on education is found meaningful as well; that is, with increasing years of education, one's tendency to support privatization increases. Bearing in mind that the education variable is 1-8 scaled, its significance is indeed larger than gender, which is 0-1 scaled. The overall impact of all three variables improved when the model is enhanced with a region fixed effect and a year fixed effect (compared with models in the Appendix, Table 7 and Table 8).

With a similar improvement in impact on the model, political preference within a left-wing spectrum scale is found significant in defining public attitude toward privatization; those who define themselves on the left are more likely than those on the right to oppose privatization. As left-wing political parties are in general more critical of privatization, at least at the discussion level, this trait is in line with our hypothesis with respect to the ideological dimension. On the other hand, it is worth noting that the coefficient of ideological inclination is weaker than that of self-positioning on income scale. The strength of ideological factors in defining predispositions when combined with the standing of left-wing parties vis-à-vis the divestiture of SOEs is indeed in line with previous assertions. Earlier it was noted that there is growing alignment between parties representing the left and right concerning their *softening* positions regarding privatization; generally, all seem to assert this policy as the new reality, especially beginning in the 2000s. Almost no one opposes privatization as a policy tool, but they do disagree mainly on methods

and tendering processes, or raise concerns about national or "strategically important" firms and sectors.

The confidence in government factor, taken as an indicator of support for the incumbent government and as a proxy for economic performance, is found to be significant, but contrary to my expectation. Those with higher confidence in the government tend to be less supportive of privatization. Based on findings regarding the evaluation of economic performance and privatization (Legge & Rianey, 2003; Battaglio & Legge, 2009), I expected to find a positive relationship such that economic pessimism reduces support for privatization. The confidence in government variable shows high volatility across waves in Turkey (see Table 6). Those who had a confidence level of "a great deal" or "quite a lot" accounted for 49% in the first wave and fluctuated between 46% (wave 2000) and 60% (wave 2014). Moreover, the successive economic crises of 1994, 1997, 2001, and 2008 distorted values concerning individuals' economic evaluations.

Table 6. Distribution of Confidence Levels Over Years

Confidence: The Government / Wave	**1990**	**1996**	**2001**	**2007**	**2011**
A great deal	18%	18%	17%	23%	25%
Quite a lot	31%	33%	29%	34%	35%
Not very much	27%	20%	19%	21%	24%
None at all	24%	28%	34%	21%	15%
Total respondents	908	1,857	3,338	3,478	1,564

From another perspective, considering government as a component of the state apparatus, a negative relationship between confidence level and support for privatization becomes more understandable.

In terms of the size of the coefficients, income level is the strongest factor among defined independent variables and on which hypotheses were formulated. In

Turkey, people's support for privatization is shaped more by their income than by their ideological inclination, socio-demographic characteristics or support for government.

Regression results indicate that the fixed year effect is significant and that, with respect to the 2014 wave, the coefficients for all other waves are positive and statistically significant. Therefore, the timing of the survey is a defining variable on the support level. Data suggests that, among all independent variables, regions and waves, the highest coefficient is associated with the year effect of wave 1999-2004. Thus, the timing of the survey was the most important contributing factor with respect to support for privatization. One main distinguishing feature of this wave is that it coincides with the 2001 financial crisis. The wave with the second highest coefficient is that of 1994-1998, which coincides with two other financial crises. The overall impact of the year effect on the 1999-2004 wave is well above that of all other variables. The model implies that the strongest support for building consent toward privatization in Turkey was made possible overall in the aftermath of the financial crisis of 2001. This finding is also in line with Strokes' (1996) assertion that people accept harsh economic policies in times of deep economic crisis (pp. 499-519). Furthermore, in line with studies on transition economies (Szczepanski & Sliz, 2010; Denisova, Eller, Fyre & Zhuravskaya, 2011) and in Latin American countries (Carrera, Checchi & Florio, 2009; Lora & Panizza, 2003; Panizza & Yanez, 2005) the longer privatization policies are being implemented, the lower support for privatization tends to become.

With respect to regions included in the model, findings suggest that there is statistically significant higher support for privatization in all regions when compared to the Black Sea Region. In particular, Istanbul is the province where support is the

highest. The second most supportive region is South-Eastern Anatolia. Higher support for privatization and the desire for less state involvement is understandable in this region considering the rather negative encounters between the people and the State in this area.

Given that one of the ostensible objectives of privatization is to increase competition, a support model that assesses the impact of the same factors on support for competition will provide rich information that can be used to interpret the results of the previous regression. Further, as observed from the correlation results in Table 4, there is a notable correlation between support for privatization and support for competition. The model on support for competition is provided, in Table 7, in which the region and year are controlled.

Table 7. Support for Competition Model, Multiple Linear Regression

Support for Competition Model

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5.567	.257		21.697	.000
	Socio-Economic Factors					
	Self-positioning on income scale	.050*	.020	.040	2.581	.010
	Employed	-.152	.088	-.027	-1.727	.084
	Socio-Demographic Factors					
	Age	.009*	.003	.044	3.227	.001
	Education	.123*	.020	.095	6.146	.000
	Sex: Man	.329*	.083	.059	3.984	.000
	Ideological Factor					
	Self-positioning on political scale	.019	.016	.016	1.153	.249
	Support for Government					
	Confidence: The Government	.081*	.038	.030	2.121	.034
	Fixed Effects					
	Region Factor					
	Istanbul	-.442*	.135	-.064	-3.285	.001
	Marmara-Aegean	-.527*	.127	-.085	-4.154	.000
	Central Anatolia	-.515*	.137	-.070	-3.752	.000
	Mediterranean	-.518*	.155	-.056	-3.348	.001
	South Eastern Anatolia	-.499*	.151	-.058	-3.312	.001
	Year Factor					
	1990: (1989-1993)	.420*	.118	.057	3.564	.000
	1996: (1994-1998)	1.111*	.101	.186	11.029	.000
	2007: (2005-2009)	.256*	.110	.038	2.327	.020
a. Dependent Variable: *Competition good or harmful						
	ANOVA	14.990				
	Adjusted R^2	.037				
	N	5.888				
	*p <0.05					

With respect to attitude toward competition, the model has lower explanatory power compared to the privatization support model. Improvement of the model, with fixed effects for region and year, has increased the explanatory power of the variables (see Appendix B, Tables 11 and 12). Socio-economic factors are less important as defining features for support; the impact of income level, although still significant, has decreased considerably compared to that of the former model on

privatization. Socio-demographic factors follow a similar pattern and their impact is less important. Hence, socio-economically, i.e. people with higher income levels, and demographically, i.e. men, older individuals and those with more years of education, are more likely to support competition. Political leanings are found insignificant in this model. Education is found to be the strongest factor in favoring competition.

Regions, all significant, have a decreasing effect on support level, again with coefficients close to each other. With respect to the year effect on the model, it is observed that all waves are significant. The question on competition was not asked in the survey of year 2001 therefore year 2001 is excluded from and the regression is run using data from 4 waves. Considering the coefficients of survey years in both regressions, considerable correlation between privatization and competition support levels are found.

CHAPTER 5

DISCUSSION AND CONCLUSION

This thesis analyzes the factors that affect support for privatization policies in Turkey between the years 1990 and 2011. Regression results on pooled survey data show that the socio-economic factor of self-evaluation of income, the socio-demographic factors of age, education and gender, the ideological factor of self-placement on the left-right political spectrum, and support for government are significant in shaping support for privatization.

One of the main implications of the study is that temporality matters: The year 2001 was proven to be the strongest most significant factor in increasing public support for privatization. The magnitude of the year 2001 coefficient is most likely caused by the impact of the 2001 crisis and economic hardship. In reference to Pereira et al. (1994) and considering the 2002 Turkish general election results, it can be argued that a mandate was given by the electorate to the AKP government to follow drastic privatization policies.

Öniş (2011) states that the pro-privatization coalition was formed in the aftermath of the 2001 crisis, along with the wider acceptance that privatization had become a new reality and that Turkey was late in implementing it (p. 13). Moreover, Balkan Şahin (2010) asserts that privatization became a hegemonic process through rhetoric and legitimization of the market as the only reality, without any applicable alternative (p. 495). This thesis provides evidence of the impact of the 2001 crisis, and arguably, its role in engendering a hegemonic understanding of economic policy making.

Nevertheless, as regression results have shown, the support for privatization decreased in 2007 and 2011, which is also justified by the mean support figure from the descriptive statistics table. This decrease might be partly due to the fact that over recent years a large amount of divestment was realized, and it became an economic reality from an economic prospect. Earlier studies suggest that the decrease in support for privatization in transition economies was rooted in a growing nostalgia for socialist ideals and ideology, but most importantly, they underline the rise in concerns about the legitimacy of policies (Denisova et al., 2011; Szczepanski & Sliz, 2010; Stokes, 1996). As for Turkey, the decline in support in the last two surveys cannot be justified by changes in ideological stances, nor by socio-economic and demographic fluctuations. Although ideological inclinations can point to a desire for less private ownership, it can be an overestimation to interpret this as a growing preference for state ownership. As the survey results show, Turkey is becoming more rightist on the political spectrum; indeed, the latest survey recorded the highest inclination toward the right. From the socio-economic perspective, self-evaluation of income is similarly higher in the last two surveys. Moreover, the socio-demographic data of 2007 and 2011 favor a slightly more positive public attitude toward privatization, all else being equal. I believe the decline in support could be rooted in the way privatization was implemented as well as in the problems presumed by respondents to be associated with privatization—not only unemployment, but also corruption and cronyism—that could erode the legitimacy of policies in the eyes of the public.

In the face of decreasing support, one would expect a revision of privatization policies on the part of government, as in parliamentary democracies where declining support might incite electoral defeat. Nevertheless, as shown in Figure 3, the highest

proceeds from privatization were realized in 2013, after the 2011 survey. Hence, one can hardly pretend that there was a discernable change in the implementation of policies; but indeed, we can claim an escalation in mass privatization. The rhetoric declaring "we will sell no matter what" was not altered either, given Erdoğan's striking statement—referred to earlier, broadcast on television in 2014—when he was Prime Minister aspiring to become the President. Although it is impossible to speak of the presence of a strong opposition, it is striking to note that even those voicing concerns about social costs and the negative consequences of privatization were ignored by the government. In the face of declining support for privatization, this inflexibility and lack of responsiveness in terms of policy implementation and discourse implies that the mandate given to the AKP in 2002 was eroding and the government resorted to ruling by decree in order to continue privatization.

Partially as a result of this policy—not only in the area of privatization but in the much broader policy spectrum—concerns were raised in the international as well as national media about Turkey's growing authoritarian tone and policy style, beginning in the summer of 2013. Privatization policies, presented as a success story by the AKP government despite growing dissent, are not immune from criticism claiming authoritarian tendencies.

While this thesis found evidence for the hegemonic creation of consent for privatization, particularly driven by the 2001 economic crisis, it also shows that hegemony can be shattered if ruling by decree—*decretism* in Pereira, Maravall and Przeworski's words—is taken to extremes and if there are many allegations of corruption and cronyism concerning the implementation of these policies. The decline of consent and support for privatization may also be seen in the declining

share of the vote for the incumbent government, as was observed in the results of the June 2015 election.

APPENDIX A

ORIGINAL TEXTS OF TRANSLATED QUOTES

"Özelleştirme mağduru yok. Kim özelleştirme mağduru var diyorsa, bunlar özelleştirme mağduru değil. Bunların hepsinin hakları kendilerine özelleştirme yasası çerçevesinde verilmiştir. Bakın kimseye kaydı hayat şartıyla iş verilmez. Yani size belli bir süre önceden, biliyorsunuz haber verilir…Buna rağmen mağdur. Nasıl mağdur oluyorsun kardeşim sen? Bu parayı alıyorsun, öbür parayı alıyorsun. Eline bir kısmının 30, bir kısmının 40, bir kısmının 50, böyle paralar geçiyor. E ondan sonra, senin madem kabiliyetin var git bir başka yerde iş bul, çalış. Orada belli bir para da aldın, orada yeniden çalışmaya başla. Kimse bunu düşünmüyor. Bunun üzerinden de siyaset yapmaya gayret ediyorlar. Bunları hep yaşadık. Şimdi, insanın özgüveni üzerinde oynamamak lazım ve kendi insanımızın özgüven sahibi olmasını sağlamak lazım. İhbar tazminatını alır, kıdem tazminatını alır gider bir başka yerde de çalışabilir. İlla burada çalışacak diye de bir şey yok. Ha, önü de kapalı değil, eğer yaşı müsaitse tekrar belki devletin başka bir kurumunda da görev alabilir, veya özel sektörde görev alır. Böyle bir yetişmiş insan olduğuna göre, bunlar da var. O yüzden biz şu anda, özelleştirme mağduru diye bizim önümüzde herhangi bir sorun yok."

Source: Liderler Zirvesi Television broadcast on CNNTürk, 2011, June 8.

"Ekonomide devlet devreden çıkıyormuş. Allah aşkına, devlet devrede oldu da ne oldu bir bakalım, hep beraber bakalım. Huzurunuza, 350 milyar lira zarar getiriyorum. Siz de hesaplayın bu zararı, herkes hesaplasın. İşte devlet devreden çıkıyor diyenlerin marifeti."

Source: Television Broadcast on Turkish Radio Television, 1980, January 24.

APPENDIX B

SUPPLEMENTARY REGRESSIONS

Table 8. Support for Privatization: Model 1, Region and Year Effects Excluded

Support for Privatization- Model 1

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.717	.169		27.967	.000
	Socio-Economic Factors					
	Self-positioning on income scale	.094*	.017	.063	5.663	.000
	Employed	.196*	.077	.031	2.551	.011
	Socio-Demographic Factors					
	Age	.009*	.002	.039	3.705	.000
	Education	.106*	.017	.073	6.195	.000
	Sex: Man	.269*	.073	.043	3.696	.000
	Ideological Factor					
	Self-positioning on political scale	.044*	.014	.034	3.234	.001
	Support for Government					
	Confidence: The Government	-.256*	.031	-.087	-8.163	.000
a. Dependent Variable: *Private vs. state ownership of business						
	ANOVA	40.124				
	Adjusted R^2	.029				
	N	9.289				
	*p <0.05					

Table 9. Support for Privatization: Model 2, Year Effect Excluded

Support for Privatization- Model 2

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.825	.170		28.411	.000
	Socio-Economic Factors					
	Self-positioning on income scale	.112*	.018	.075	6.387	.000
	Employed	.163*	.077	.026	2.127	.033
	Socio-Demographic Factors					
	Age	.009*	.002	.039	3.660	.000
	Education	.101*	.017	.069	5.963	.000
	Sex: Man	.287*	.073	.046	3.952	.000
	Ideological Factor					
	Self-positioning on political scale	.047*	.014	.036	3.412	.001
	Support for Government					
	Confidence: The Government	-.239*	.031	-.081	-7.594	.000
	Fixed Effects					
	Region Factor					
	Istanbul	-.183	.105	-.020	-1.741	.082
	Marmara-Aegean	-.372*	.092	-.046	-4.058	.000
	Central Anatolia	-.414*	.108	-.042	-3.822	.000
	Mediterranean	-.456*	.133	-.036	-3.417	.001
	South Eastern Anatolia	-.503*	.125	-.043	-4.017	.000
a. Dependent Variable: *Private vs. state ownership of business						
	ANOVA	26.593				
	Adjusted R^2	.032				
	N	9.289				
	*p <0.05					

Table 10. Support for Privatization: Model for Waves 2007 and 2014, Public Institution Variable Included

Support for Privatization Model

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.144	.355		11.675	.000
	Socio-Economic Factors					
	Self-positioning on income scale	.066*	.025	.060	2.649	.008
	Employed	.007	.117	.001	.060	.952
	Public institution	-.127	.170	-.014	-.748	.455
	Socio-Demographic Factors					
	Age	.009*	.004	.049	2.441	.015
	Education	.023	.026	.020	.883	.377
	Sex: Man	-.068	.110	-.013	-.617	.537
	Ideological Factor					
	Self-positioning on political scale	-.011	.022	-.010	-.518	.604
	Support for Government					
	Confidence: The Government	-.012	.052	-.005	-.227	.820
	Fixed Effects					
	Region Factor					
	Istanbul	.322	.193	.048	1.664	.096
	Marmara-Aegean	.645*	.183	.109	3.515	.000
	Central Anatolia	.293	.194	.043	1.511	.131
	Mediterranean	.410	.212	.050	1.938	.053
	South Eastern Anatolia	.651*	.199	.092	3.271	.001
	Year Factor					
	2007: (2005-2009)	.037	.111	.007	.332	.740
a. Dependent Variable: *Private vs. state ownership of business						
	ANOVA	2.544				
	Adjusted R^2	.007				
	N	1.629				
	*p <0.05					

Table 11. Support for Competition: Model 1, Region and Year Effects Excluded

Support for Competition -Model 1

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	6.172	.195		31.622	.000
	Socio-Economic Factors					
	Self-positioning on income scale	.023	.018	.018	1.259	.208
	Employed	-.046	.089	-.008	-.524	.600
	Socio-Demographic Factors					
	Age	.006*	.003	.031	2.253	.024
	Education	.086*	.020	.067	4.389	.000
	Sex: Man	.302*	.084	.054	3.610	.000
	Ideological Factor					
	Self-positioning on political scale	.014	.016	.012	.851	.395
	Support for Government					
	Confidence: The Government	.003	.038	.001	.080	.936
a. Dependent Variable: *Competition good or harmful						
	ANOVA	7.342				
	Adjusted R^2	.007				
	N	5.888				
	*p <0.05					

Table 12. Support for Competition: Model 2, Year Effect Excluded

Support for Competition -Model 2

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	6.716	.221		30.426	.000
	Socio-Economic Factors					
	Self-positioning on income scale	.020	.018	.016	1.107	.268
	Employed	-.074	.089	-.013	-.836	.403
	Socio-Demographic Factors					
	Age	.006*	.003	.030	2.234	.025
	Education	.084*	.020	.065	4.286	.000
	Sex: Man	.317*	.084	.057	3.790	.000
	Ideological Factor					
	Self-positioning on political scale	.014	.016	.012	.876	.381
	Support for Government					
	Confidence: The Government	-.001	.038	.000	-.034	.973
	Fixed Effects					
	Region Factor					
	Istanbul	-.459*	.136	-.066	-3.375	.001
	Marmara-Aegean	-.587*	.128	-.095	-4.585	.000
	Central Anatolia	-.547*	.139	-.075	-3.950	.000
	Mediterranean	-.658*	.156	-.072	-4.218	.000
	South Eastern Anatolia	-.721*	.151	-.084	-4.784	.000
a. Dependent Variable: *Competition good or harmful						
	ANOVA	6.795				
	Adjusted R^2	.012				
	N	5.888				
	*p <0.05					

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