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Political Capitalisms

Power, Elites and the Economy in Turkey and the Philippines

Studies on the Social and Political Constitution of the Economy

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Abstract

What distinguishes Western from non-Western types of economic order on the macro level is the highly politicized nature of capitalism in the latter cases. Because the capitalism in these cases originated in colonial and imperial contexts and in struggles for new national identities, no institutional separation of the political from the economic sphere took place. Such a separation was essential for the institutionalization of Western "rational" capitalism. Despite economic and political modernization, the transition toward a rational mode of capitalism did not happen in these late-developing countries. Political capitalism in these areas is reproduced through personal trust relations, corruption and clientelism included, that continually undermine the capacities of institutional trust and enforce a general environment of politically induced uncertainty on economic actors in particular. In spite of these common features, developing countries differ from one another on a fundamental level, with the most important defining criteria being Michael Mann's notions of infrastructural and despotic power. While the Western paths to liberal capitalism have all come from high infrastructural power and low despotic power, the state formation processes in imperial settings have led to divergent results. In modern Turkey, the successful national liberation struggle after World War I set the stage for new national elites to take over the state apparatus and shape both national identities and the economic system (state capitalism). In the Philippines, the failure of the national liberation movement and the establishment of the new U.S. colonial regime created an oligarchic order. With reference to James Mahoney's "reactive sequence" model, twentieth-century institutional changes are accounted for by including the social and political forces that counter the respective capitalist order. Within the Turkish state capitalist system, change dynamics began to unfold and to undermine the established economic order in the late 1940s, when multi-party politics was introduced. The Philippine case shows that low degrees of state power easily reproduce themselves while at the same time they remain open to the patrimonializing dynamics that paved the way for Marcos' authoritarian regime and patrimonial capitalism. Political and economic transformations since the 1980s have resulted in oligarchic orders that each have a different potential for change. Oligarchy has experienced waves of delegitimization in both Turkey and the Philippines, but only in Turkey have the electoral results for counterelites led to substantive institutional changes, as under the current moderate Islamist government. Such political dynamics have not had an effect in the Philippine political landscape, where there is no potential for increased infrastructural power.

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Studies on the Social and Political Constitution of the Economy

Political Capitalisms

*Power, Elites and the Economy
in Turkey and the Philippines*

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Contents

1. Introduction	1
2. The Political Embeddedness of Capitalism in Late Developing Countries	26
3. Turkey: from state to oligarchic capitalism, and beyond	63
4. Oligarchic regime and oligarchic capitalism in the Philippines	148
5. Conclusion	222

References

*“The primary objective of every
‘bourgeois’ is to become an ‘aristocrat’”
(Immanuel Wallerstein, 1991: 146)*

1. Introduction

This is a study of political domination. More concretely, this is a study of the predominant features and dynamics of domination of late developing countries in the context of post-colonial capitalist social relations. Doing this, we claim that there exist several fundamental differences between early industrializing countries of the West and later industrializing countries across the rest of the world. While the former experienced particular processes of state formation and the extension of capitalist social relations that culminated in the emergence of capitalist liberal democracies, the latter underwent divergent political and economic trajectories that led to structurally different political and economic orders. Based on a comparative-historical analysis of Turkey and the Philippines, we further claim that the political and economic transformations of the last thirty years did not lead to the global diffusion of capitalist democracies. Hence, this study addresses social scientific debates on the relationship between capitalist economies and their political context, claiming to contribute to this debate from the perspectives of economic and historical sociology. We are convinced that only through a historically-grounded analysis of the divergent linkages between politics and the economy can we understand what kind of changes have indeed occurred since the latest wave of democratization and neo-liberalization.

The Third Wave reconsidered

More than twenty years have passed now since neoliberalism has unfolded its transformative pressures around the world. Twenty years in which countries across the globe underwent political or economic changes, or both at the same time. However, the early promises we ascribed to these processes were not fulfilled. At this point of time, we cannot conclude that western forms of capitalism and democratic rule have been established around the world. On the contrary, the 'West' still seems to present an exceptional island of freedom and prosperity that the 'Rest' did not follow. In both the political and the economic spheres of late developing and transition countries, features of illiberalism, oligarchy and closure have dominated the field. We may even go so far as to conclude that under the current conditions of neoliberal globalization, liberal democracy and capitalism are on the retreat and that the 21st century may instead become an era of persistent illiberalism and authoritarianism.

This conclusion comes somewhat surprising. In the 1980s, societies around the world got rid of authoritarianism. Freedom was on the rise, and the global democratization wave seemed unstoppable. After having started in Southern Europe in the 1970s, it spilled over to Latin America and Southeast Asia, only to return with more vigor to overcome its main enemy, the communist regimes of Central and Eastern Europe and the Soviet Union. Liberty has come at last, and enthusiastic observers like Francis Fukuyama regarded that revolutionary process as the “End of History” (1989). Not of history as the simple sequencing of time, of course, but of history understood as a struggle of political ideas and worldviews. With the victory of liberal democracy and western capitalism over communism, this struggle seemed to have come to an end.

However, as the last two decades have convincingly shown, freedom may be on the retreat again. The “Third Wave of Democratization” (Huntington 1991) was followed, if not by a wave of de-democratization, then at least by (stagnation and) a wave of disenchantment as to the promises of neoliberal globalization. Indeed, in the aftermath of 1989, more countries have become more democratic than before, more countries (i.e. more people) have been able to (or allowed to) claim civil rights and political liberties in a non-authoritarian framework. Across the globe, rulers cannot afford to deny the public the right to choose freely whom to delegate the duty to govern. Competition has entered the field in so many countries that political processes have become more transparent and accountable. Furthermore, military juntas that have always perceived themselves as rightfully standing above society, as defenders of the public and national good, have been forced to return to the barracks without causing havoc any longer.

In addition, on the economic side, more countries were successful in profiting from the global rise in trade and investment activities. Smart policies could attract FDI to develop economies beyond producers/suppliers of a single commodity. These are now more connected to the Western world, be it through political, economic or cultural linkages. The worldview of individualism has at last penetrated societies hitherto protected by the forces of tradition and religion. Never before in the history of mankind has there been a similarly high level of international exchange and peaceful communication.

The world can be – and actually is most of the time – regarded in the above terms. We can argue that the phase of “embedded liberalism” (Ruggie 1982) has been succeeded by an era of

‘embedded neoliberalism’ in which the contradictions of global capitalism are veiled by the hegemonial ideology of individual freedom and prosperity which reminds us of the first “Age of Capital” in the 19th century.¹ But objections to this worldview are abundant, as neoliberal globalization has not fulfilled the promises of freedom, progress and equality as many of us expected at the beginning of the 1990s. Yes, freedom has spread globally, but not as far and as deep as neoliberalism would have us believe. Although poverty has declined in absolute terms, it has dramatically risen in relative terms. Additionally, the geopolitical landscape is no longer dominated by the militarized context of the Cold War era, but it has by no means become more peaceful. Even without the threat of Islamist terrorism, the renewed rise of Russia and China poses a serious challenge to the western world powers that have started a global campaign against ‘terror’ that cannot be won. In sum, neither in political nor in economic and social terms did the events of the last 20 years hold what neoliberalism promised.

Why these pessimistic introductory words, and why in the context of this work? Because, since the 1970s, there has again emerged a consensus – similar to the post World War II consensus about modernization processes – that western democracy and capitalism serve as blueprints for the rest of the world. This consensus reflects the tight linkages between the social sciences and politics via the International Financial Institutions (IFIs) that have applied the one-sided neoclassical view of growth and prosperity as the only framework for economic and social policies since the beginning of the 1980s. This linkage has served politics more than the social sciences as the latter have provided the former with a technical solution, and thus a moral legitimation, for further pushing neoliberal reforms around the world. Given this sort of entanglement, economics was indeed “able to use the world as a laboratory” (Mitchell 2005: 197).²

This study will critically confront this entanglement and put the economy, and economics, into its place as one field of society and science, respectively. The underlying premise is that

¹ Similar to the neoliberal euphoria that spread in recent decades, compare Hobsbawm’s depiction of the bourgeois ideology in that era: “The bourgeois of the third quarter of the nineteenth century was overwhelmingly ‘liberal’, not necessarily in a party sense [...] as in an ideological sense. They believed in capitalism, in competitive private enterprise, technology, science and reason. They believed in progress, in a certain amount of representative government, a certain amount of civil rights and liberties, so long as these were compatible with the rule of law and with the kind of order which kept the power in their place. They believed in culture rather than religion, in extreme cases substituting the ritual attendance at opera, theatre or concert for that at church. They believed in the career open to enterprise and talent, and that their own lives proved its merits.” (1975: 245)

² For the neoliberal reframing of the world, see also Harvey (2005).

there exist today several economic orders with different characteristics of how economic action is shaped. The research questions that will be addressed are, *first, how non-western economic orders have been established* and, *second, what kinds of change dynamics have shaped and reproduced it since then*. Only if we understand the underlying dynamics of endogenous institutional changes can we make valid arguments about changes based on neoliberal policies. The perspective applied in this context centers on the *structures and mechanisms of political domination into which the economies are embedded*. Before illustrating this approach, we will outline some examples of illiberalism in developing and transition countries and the reactions within the social scientific discourses to the persistence of global illiberalism.

How the world looks like after the neoliberal revolution

As is typical for science in general, and for the social sciences in particular, stating what the world actually looks like is directly linked to the ways we look at it, the instruments we use, and on the aspects of the “reality” we focus on. Asking what types of political developments took place after the ‘Third Wave of Democratization’ thus calls for analyzing how we conceptualized political transitions, at which point these conceptualizations did not make sense any longer and how we created new strategies to cope with possible misconceptions. Before discussing the transitions paradigm that has been dominant since the early 1990s, the view adopted in this project concerning the state of the world since the neoliberal revolution will be shown in order to clarify what is regarded as the world out there.

To repeat, neoliberal globalization has not per se unleashed any freedom enhancing forces in developing and transition countries. The massive increases in global trade and financial transactions have not exerted any civilizing pressure in the sense of the “doux commerce” (Hirschman 1986) thesis. Rather, after specific types of authoritarian rule declined and gave away to pluralism and contestation, the transformative capacities of globalization came to an end. Shortly after 1989, relative to the number of cases affected by the Third Wave, only a handful of countries followed a continuous path towards western-style democratic institutions and power structures. In the vast majority of cases, the regimes emerging from the transition phase bear resemblance to full-fledged oligarchies. In these regimes, the populations are dominated by small elite cartels that do not want and do not have to care about the formal modes of conduct they themselves had established before. Or, as Larry Diamond puts it:

“There are elections, but they are contests between corrupt, clientelistic parties. There are parliaments and local governments, but they do not represent broad constituencies. There are constitutions, but no constitutionalism” (2008: 38).

In Latin America, for example, political actors resort – as they have always done in the 20th century – to measures of patronage, vote-buying and open coercion to climb the political ladder. State institutions that were initially erected to provide for the social security and welfare of the whole population have been transformed into patronage instruments that are used to selectively allocate public resources in order to punish non-compliant actors and groups. In Argentina, the populist ideology of Peronism has at the same time been used to constrain political competition and to create nationwide, locally embedded “problem-solving networks” (Auyero 2000) for the lower strata to monopolize political power permanently. In the 1990s, Carlos Menem, who was praised in the IFIs and in western media for his political will to implement economic reforms, effectively relied on these patronage resources while deepening the social cleavage resulting from the IMF program he implemented via extra-constitutional means. The outbreak of the financial crises at the beginning of the 2000s seemed to provide a window of opportunity to break out of these power structures. The anomie-like riots in Buenos Aires in 2001 lead into this direction. However, as Auyero (2007) has brilliantly analyzed, the same political structures people were rallying against were instrumental for elites to direct the protests from above. After the situation calmed down, later President Kirchner successfully installed his wife, Christina Kirchner, as successor who now presents herself as the new Evita Peron.

Thus, it is essential to be aware of the power structures and networks behind the formal institutional framework that, more often than not, serves as the democratic façade for the media, the IFIs and western donors, but not so for elite members or secluded segments of the society in the country (Lauth 2000; Helmke & Levitsky 2006). These accounts are no exceptions to a global transformation towards a democratic era, but rather the rule in late developing countries. Within the western perspective, we tend to take our democratic institutions as givens and convey these expectations to other countries as soon as these institutions are imitated. In Brazil, formal political institutions are quite similar to the US model of federalism combined with a strong presidency. However, this does not explain the impotence of elected presidents like Cardoso and others who have to cope with strong regional governors that set the rules of survival for the president. This is not due to the

constitutional prerogatives of the federal governors, but to their organizational capacities to accumulate political power via their disposal of financial resources which they allocate to friends and friends of friends, thereby structurally weakening the position of the president. They themselves rule like regional dictators, organizing resources for the times of elections and trying to stay out of full-fledged corruption scandals that may favor other members of the elite cartel. Groups that continually fall prey to these oligarchs are valiant journalists and human rights activists who believe in the possibility of change. It is astonishing to observe that many Third Wave “democracies” still fare very badly in the Press Freedom Index (Reporters Without Borders 2008).

These methods of doing politics are not restricted to Latin America, where we might attribute them to the long “Caudillo” tradition since the 19th century. Systemic corruption and illiberalism are also persistent in most Southeast Asian countries, with regime members being more concerned with securing direct access to financial resources than in designing and reforming policies that may benefit broad segments of society. Although international experts and NGOs and national groups have been working on ways to make politicians and bureaucrats more accountable in order to curb corruption, they have not been successful. The corruption phenomenon is more rigid in these countries than in western democracies, where they also exist, but where they do not bear a systemic trait in that all spheres of society are affected by it. In Thailand, for example, the military was so frustrated with the enormous political and economic power of Prime minister Thaksin who conducted politics in a Berlusconi-esque fashion that they ousted him via a coup d’état. The effect of this action was not durable, though. Despite the low degree of international criticism against the military intervention and the exposure of Thaksin’s corrupt and illicit dealings, the return to democratic elections brought him a landslide victory in 2007. Since then, the country has been paralyzed by a full-fledged power struggle between supporters and enemies of Thaksin, all of which can underline their claims by referring to ‘democratic’ principles.

Among the post-communist countries, too, the Third Wave has not in itself led to a path of freedom and prosperity. With the exception of those Central and Eastern European countries that became members of the European Union in 2004, the politico-economic transformations resulted in new types of authoritarian regimes. In Central Asia, clan politics and severe repression dominate (Collins 2006), where the regimes rely on their petrodollars and their international legitimacy as military outposts of the West against the Taliban and al-Qaida

bases in Afghanistan – and, by the way, against China. In the Caucasian republics, the situation is much more complicated due to the disruptive effects of foreign intervention, the limits of national identity politics and the role of international drug trafficking routes passing through the Caucasus to Europe. Even after Shevardnadze was ousted in the popular ‘rose revolution’ in Georgia, the democratically elected president is muddling through between renewed Russian military interference and his own goal of monopolizing power in the same manner as his predecessor did.

In Russia, the political transition paved the way for an illiberal regime in which – in the Yeltsin years – the president was constrained by a group of business oligarchs that have been spawned by the shock therapy privatization strategy. As a result, the formal “democratically” elected representatives of parliament found themselves between the hammer of a “superpresident” (Shevtsova & Eckert 2000) with extraordinary prerogatives and the anvil of informally ruling entrepreneurs. With the installment and election of Vladimir Putin, his choices for survival were either to accommodate to those power structures or to break out through fierce repression and an effective divide-and-rule strategy against the oligarchs. Even though the oligarchs were defeated as a coherent power bloc, Putin did not intend to comply with the formal institutional order, but consolidated his power in a dictatorial manner. Only optimistic visionaries would still label Russia as a democratic regime with some structural problems that need to be overcome. Russia has developed into a full-fledged authoritarian regime, and its elections have more similarities with those in the Middle East than with other post-communist countries. This is due to the fact that what counted in and after the transition phase were the power structures at the end phase of the Soviet Union, the networks created in the transition phase and the comparative advantages of the actors involved in these networks. They have been effective in capturing the disarrayed state in the post-transition phase by converting their economic capital into political power in order to secure their aristocratic status in the new, not so democratic regime (Kryschtanowskaja 2005, Ledeneva 1998 and 2006, Goldman 2003, Volkov 2002, Hoffman 2002).

The Chinese case is unique as the regime strictly adhered to an economic transition from socialism to capitalism without giving in to any – external or internal – pressure to liberalize politically. Contrary to official Chinese rhetoric, this transformation did not end in a harmonious coexistence of communist ideology and capitalist mode of accumulation, as some utopists would like to see realized. On the one hand, China has gone through enormous

economic growth and technological development since the liberalization under Deng Xiaoping. The Chinese state seems to have accomplished anything foreign investors need concerning the disciplined and very cheap labor force, which explains the waves of firm relocations to China. On the other hand, the Chinese variety of primitive accumulation has led to severe structural political and economic inequalities. Here, too, the capitalist entrepreneurial class has emerged from within the ranks of the Communist Party. Most of the time, profits have been made through illicit deals that are not appealed against. While state officials like to present themselves as guarantors of the rule of law and point to the strict punishments against corrupt bureaucrats and party members, these seem to be just the tip of the iceberg. Beyond the new economic centers, public life in the countryside is dominated by corrupt networks between politicians and entrepreneurs who pay off judges and other possibly dangerous actors. Thus, they can ward off complaints of citizens that cover up those deals with disastrous effects on their lives. For example, worker rights and environmental regulations are not complied to, and the aggrieved people are left alone in their efforts to organize protest. In short, the Chinese case is so special because the ruling party has not given up political control and guarantees a strong state that politically secures those illicit networks in the everyday life of profit-making. While we still wait to observe the possible long-term political implications of this type of economic liberalization, the country is stuck in an economic order whose political representatives continually suppress any form of dissent (Wedeman 2006; Wank 2001; Gold, Guthrie & Wank 2002).

Globalization was clearly most destructive in the least developed countries of the African continent. There, indebted countries had no leverage to resist the conditionality provisions of IMF and World Bank loans. Whereas the newly erected states have always had their difficulties in bridging ethnic and tribal cleavages, the economic and public sector reform programs raised the societal tensions as distributive conflicts were in many cases fought beyond the countries' formal institutional setting. Although processes of marketization did in many cases lead to the establishment of new entrepreneurial groups and much sounder developments than before, in most of the cases did the new incorporation into world markets for commodities lead to the enrichment of tribal leaders and regional warlords who used these resources for military purposes (Bayart, Ellis & Hibou 1999). Moreover, while the countries had to comply with the IMF and the donor countries to liberalize their foreign trade policies, western countries effectively prevented any competition with their own agricultural sectors. The US and the European Union agrarian policies are directed – despite the open trade

rhetoric – to subsidize not only agrarian producers’ incomes, but also their exports with which local markets in Africa are structurally weakened, if not destroyed.³ Thus, the dismantling of the state has been most effective, and most destructive, in African countries. The so-called “failed states” seem to be a direct effect of globalization’s impact in this region, where people start adhering to other solidarity principles (regional, ethnic, tribal, familial differences), thereby rendering the new state and nation-building projects much more difficult, if not impossible, to realize.

There are even regions and countries whose structures of political domination have not at all been affected by globalization. The Arab World, for example, strikes most observers with its exceptional resistance capacities versus international democracy promotion and neoliberal globalization (Henry & Springborg 2001, Bellin 2004, Pripstein Posusney & Angrist 2005, Schlumberger 2007, Pawelka 2002). Some of the patrimonial-authoritarian regimes in the Middle East and North Africa accepted Structural Adjustment Programs (SAPs) of the International Monetary Fund (IMF) at the end of the 1980s due to their fiscal problems that arose in the low oil price era. Yet, several structural factors account for the failure of transforming the region politically and economically. Because of the geopolitical importance of stable Arab regimes, the economic conditionality of IMF loans interferes with the security interests of western donors that prevail in this conflict of interests. Furthermore, the emerging group or class of entrepreneurs is directly linked to the regime elites. Even more, they are part of the neopatrimonial regimes and do not present the core of a possible privately organized “civil society” that opposes the predatory behavior of the patrimonial ruler. Property rights in these regimes are not durable, and assets can easily be confiscated and allocated to competitors. In the political sphere, the supremacy of informal structures over formal institutions even surpasses its counterpart in Latin America and Southeast Asia. The Egyptian case of economic restructuring sheds light into these structural features: privatization was effectively staged without losing access to the loans of the International Financial Institutions (IFIs), new capitalist elite members could be deprived of their financial resources and their political influence, those daring to openly challenge President Mubarak were put into jail, and the western fear of a possible rise to power via democratic elections (as in Algeria in 1991 or in the Palestinian Authorities in 2006) rendered futile any external critique against the regime. As a result, neither in political nor in economic terms could neoliberalism penetrate these

³ In many cases, these subsidies are part of donor programs. Take for example US official aid to Egypt which is tied not only to purchases of US military products, but also of US agrarian products, with the effect that Egypt that has always been exporting wheat has turned into a net importer (Mitchell 2002).

closed regimes and economies. Those little reforms that were implemented are compatible with competition structures under neopatrimonialism and the distribution capacities of “patrimonial capitalisms” (Schlumberger 2008).

To sum up, in the contemporary world, structures and regimes of illiberalism are dominant in politics and economy. The ousting of authoritarian rulers since the 1970s and the rollback of direct statist interventions did not create a sufficient – maybe not even the necessary – framework for liberal democracy, western-style capitalism and rational bureaucracies. This statement represents the reality for my analysis. Before we outline how to address this reality theoretically, and which concepts will be used, we shortly discuss how the social scientific discourses on political and economic transitions slowly acknowledged those persistent features. Following that, *why* those seemingly inefficient political and economic structures in late developing countries persist from the perspective of economists will be highlighted until we will present the economic sociological notion of *political embeddedness* as one solution to put the economy in its place.

Currents in the transitions paradigm

The analysis of political change has always been on the agenda in the social sciences, although with more or less emphasis. Whereas the fathers of the modern social sciences have dealt with the great revolutions as bridges to modernity, i.e. the global transitions from feudalism to capitalism (Marx), from *Gemeinschaft* to *Gesellschaft* (Tönnies), from simple to differentiated societies (Durkheim), the new transitions paradigm was directly affected by the Third Wave political changes. It was preceded by the big debates on political and economic modernization in late developing countries between modernization theorists (Lerner 1958; Rostow 1960) and its adversaries, dependency theorists (Frank 1967; Cardoso & Faletto 1979), world systems analysts (Wallerstein 1974) and historical sociologists (Moore 1966; Rueschemeyer, Stephens & Stephens 1992). Trying to cast a different light on transitions, Dankwart Rustow (1970) argued for the importance of concrete generic factors of democratic systems. In the 1980s, with a lot of cases to be analyzed, this focus was then effectively applied in the standard works and resulted in the three-stage-model of liberalization, democratization and consolidation (O’Donnell, Schmitter & Whitehead 1986, Przeworski 1991).

These analyses combined rational choice and game-theoretic models with descriptive studies of the transition processes by which the following mechanism was identified: after initial losses of legitimacy, authoritarian rulers try to apply a divide-and-rule strategy by liberalizing the political arena to some degree. In this fashion, they hope to re-legitimize their rule. In most of the cases, though, the liberalization strategy triggers a dynamic process at the end of which unintended splits occur within the regime and the opposition. The latter is divided into groups striving for a complete transformation of the political order (radicals) and those who opt for a more realistic and pragmatic approach to realize feasible change without giving the regime the opportunity to aggressively mobilize against it (moderates). On the regime side, the elite is split into hardliners who intend to return to the status quo ante as soon as possible and soft-liners who take a slow transformation into account in order to steer this process and guarantee strategic position during and after the transition. While there are undoubtedly cases of revolutionary transitions in which radical opposition groups emerge victorious from direct confrontations with the authoritarian regime, in most cases regime soft-liners and moderate opposition groups coalesce to organize the transition in a pact-like manner.⁴

This leads to the phase of *democratization* in which the new political rules of conduct and institutions are discussed and which ends with the first holding of free and fair elections. The third phase, *democratic consolidation*, is regarded as the most important one. The new democratic institutional framework is to unfold its transformative capacities unto the political elites who have to accept the new uncertainty arising from free competition and the public that starts to engage in open, peaceful debates about the country via establishing active civil society organizations (CSOs) and organic links to the political society. All in all, a country was thought to be consolidated as soon as democracy was acknowledged to be “the only game in town” (Przeworski 1991).

However, conceptual developments in the 1990s laid open the inconsistencies and ambiguities connected to the consolidation assumption. One structural problem lay in defining when the point of no return would be passed for transition countries. The first strategy in dealing with persistent illiberal features of political behavior was to develop different stages or degrees of consolidation. This proved unsatisfactory as it was not clear when a system was partially,

⁴ This liberalization mechanism has proven quite resilient and useful for many analyses. Recently, though, Tilly and others have tried to shed some light into the dynamics of liberalization and the ways new strategies of repression and resistance take hold. Furthermore, they reject the rationalist notion and take identities and polarization dynamics seriously (cf. McAdam, Tarrow & Tilly 2001; Tilly & Tarrow 2006; Tilly 2005, 2006).

substantially or sufficiently consolidated (O'Donnell 1996; Schedler 1998). Some researchers even raised the question what consolidation actually meant, the impossibility of an authoritarian backlash, the lack of alternatives to democracy or the active bottom-up legitimation by the public.⁵

The next step was to reject the notion of democratic consolidation and to argue that what was actually developing in various cases was “democracy with adjectives” (O'Donnell 1994, Zakaria 1997, Collier & Levitsky 1997 and 2009). These authors acknowledged that some type of transition *from* authoritarian rule took place, yet the outcome was not considered a liberal democratic regime as in the western capitalist countries. Instead, a regime emerged that fulfilled most criteria of a democracy (free and fair elections; civil rights and political liberties; horizontal division of powers) combined lack of control of the elected elites (*delegative democracy*), non-legal activities by these elites against political or societal enemies (*illiberal democracy*). Or, as in the case of so-called enclave democracies (Merkel et. al. 2003), some segments of the elite are not at all democratically legitimized, like the military or religious groups. In the literature of the 1990s, those kinds of ascriptions were abundant (e.g. *semi-democracy*, *low-intensity democracy*, *tutelary democracy* etc.).

In 2002, Thomas Carothers provoked political scientist transition theorists and democracy promoters alike by concluding that the transition paradigm may have come to an end. This assumption has proven true, as the above characterizations of political processes show. Thus, in the 2000s, the post-democratization and regime debates (Brownlee 2007, Gandhi 2008) have hovered around methodological⁶ and definitional issues as to what constitutes a democratic regime. Accordingly, the question is whether the transition countries may be labeled democratic at all or whether they present subtypes of authoritarian regimes (Schedler 2002, Ottaway 2003) or hybrid regimes (Karl 1995, Diamond 2002) with both democratic and authoritarian characteristics.

Given these theoretical developments in the last two decades, we argue that idealistic assumptions about the state of democracy (and the inevitability of democratic transition) in the world can be rejected. Similarly, the assumed causal arguments about the impact of

⁵ See for example, Pridham's (1995) distinction between positive and negative consolidation.

⁶ Such as the critique against the defective subtype assumption of Collier & Mahon (1993), Collier & Levitsky (1997) and Collier & Adcock (1999) that regards democracies as radial categories and thereby justifies defective ascription to democracies.

capitalist development and democracy (modernization theory) or authoritarianism (dependency theory) have not proven true. Yet, the link of the political to the economic sphere (and back) is crucial in understanding modern formations of political rule and economic orders which is why some trends in the literature on economic and state reforms will be presented next.

Economic transitions in developing countries

The economic restructuring measures have also been at the top of the social scientific agenda of the past three decades and are closely related to the transition paradigm, especially in the case of late developing countries. With the downfall of the communist regime in Central and Eastern Europe at the end of the 1980s, propagators of neoliberalism exerted an enormous influence, both within transition countries as well as in the international financial institutions (IFIs; International Monetary Fund and World Bank). According to neoclassical rent-theorists, state-owned enterprises were to be sold off to a new entrepreneurial class that would operate these companies more efficiently and would establish a liberal political order based on secure property rights and free and fair competition. Subsequently, countries lacking behind would sooner or later accelerate their reform drive to keep up with successful reformers in order to profit from economic growth and social welfare.

Contrary to these prescriptions, though, Claus Offe (1991) recognized early on the structural problems inherent in these double transitions. These politico-economic reform measures were not mere technical affairs, but rather full of frictions that resulted from the fact that there was no entrepreneurial class to nourish in the first place.⁷ It had to be created from scratch, and in the context of newly institutionalized democratic regimes, a deep problem of legitimation evolved because the privatization of SOEs led to mass layoffs of workers on whose votes the political decision-makers depended.⁸ The first problem is thus how to combine the social ruptures with furthering the economic reform process without giving up new democratic principles. The second problem lies in the abundant corruption linkages between politicians, bureaucrats and the new entrepreneurs in most, if not all, post-communist and post-ISI countries. In many cases, opportunism and rent-seeking constituted the rules of the

⁷ In a similar vein, Stark and Bruszt heavily criticize this technical orientation: “[One] reason to be skeptical about cookbook capitalism is that the systems designers and international advisory commissions who fly into the region, with little knowledge of its history, tend to approach the problem of economic change exclusively through the lens of their own models.” (1998: 81)

⁸ A point also made by Przeworski (1991).

privatization game, and the fact that liberalization and rent-seeking can present two sides of the same coin calls into question an important assumption of neoclassical economics, which posits that rent-seeking diminishes with liberalization. This suggests that privatization measures are not designed in an apolitical context; rather, they are deeply embedded in the concrete features of political domination structures and serve another function than predicted by economists.

In the 1990s, then, these political factors have increasingly been acknowledged within the scientific as well as the political debates in the IFIs. In the early 1990s, the solution to the double transition problem was located in technocratic reform groups and cabinets that were to be shielded from social protests and could thus implement reforms and in the same time also credibly signal their political will and capabilities to the international financial markets. Similar to the example of the East Asian ‘developmental state’, researchers saw bureaucratic autonomy from social groups as crucial for guaranteeing reform success.⁹ Consequently, short-term hardships would not transform into direct political opposition against the restructuring programs, and the long-term welfare gains would impede further resistance against the legitimacy of the new economic order (Haggard & Kaufman 1995).

An empirical problem soon arose that questioned the validity of the autonomy thesis, though. More often than not, the degree of political or bureaucratic autonomy was low or virtually nil. Yet, economic reforms occurred. At the end of the 1990s researchers began to give up the autonomy assumption and rather analyzed the direct linkages between political and economic elite groups who would both profit from privatization or other liberalization policies as private monopolists or oligopolists. Hector Schamis (1999) and Luigi Manzetti (2003) have made this argument quite clear for the Latin American reform cases. Recently, the contributions in Hibou (2004) underlined the crucial issue of privatization policies around the world: these are no economic acts but are part of *gouvernementalité* in Foucault’s sense that they reflect certain boundaries between the political and the economic sphere. They are instruments of restructuring and consolidating economic and political power as they allow a redrawing of these boundaries. According to Hibou, “it is impossible to separate the economic from the political, private interests from public interests, the particular from the general. The political role of private interests, or the monopolization of wealth by the elite or by a

⁹ The developmental state was first articulated by Johnson (1981), Amsden (1989), Wade (1990), the latter of which directly challenged the explanatory assumptions of economists. For an overview of the early debate, see Önis (1991); for later contributions, see Woo-Cumings (1999).

restricted group of political leaders, does not subvert or undermine the state, in so far as those private actors are also public and state actors. These practices of accumulation become political – in other words, a *gouvernementalité* in its own right” (Hibou 2004: 21).

To come back to the central argument of this study: one possible answer to the diversity of political and economic transitions since the 1970s is that beyond the western world, other types of political domination and economic order exist and are likely to persist in the future. Since the end of the 1990s, various researchers have been elaborating on concepts of economic orders by emphasizing the systemic linkage between politics and the economy, between political and economic actors. Categories like *crony capitalism* (Haber 2002, Kang 2002), *booty capitalism* (Hutchcroft 1998), *political business* (Gomez 2006), *developmental capitalism* (Cernat 2006), *politicized capitalism* (Nee & Opper 2007) and *hierarchical market economies* (Schneider 2009) have entered the scientific field to highlight the *structural* difference of non-western economies that at the same time are highly compatible with neoliberal globalization.

It still needs some clarification why these economies are so stable in spite of the massive political intervention into the economic sphere. We will first outline how economists have dealt with the persistence of these inefficient political economies before presenting the notion of political embeddedness and the assumptions of the study.

Efficiency assumptions and their discontents: from Neoclassics to Political Embeddedness

In the classical school of political economy, capitalism in Western Europe and North America was a direct result of the expansion of markets and trade activities within and across societies. The driving force behind these processes was located in the allegedly human propensity “to truck, barter, and exchange” (Smith 1776). Adam Smith emphasized the need for the social division of labor in order to maximize opportunities arising from trade and manufacturing. Economic actors (countries, firms) that did not adapt to the necessities of efficiency and specialization would not be able to survive that competition. Furthermore, the public good would be realized by adhering to private vices of individual interest maximization in that everybody could profit from lower prices for higher-quality products. Thus, according to this worldview, efficiency underlies all human economic action, which is reflected in the

neoliberal age in the ‘Washington Consensus’ (Williamson 1990) that served as the template for SAPs in late developing countries. “Getting the prices right” was the slogan along which any sort of state intervention was to be abolished because of its disruptive influence on otherwise free-functioning markets. Where the state failed, privately regulated markets and the free movement of capital would bring along sound economic policies and social welfare. Although the state did play an important role in the Smithian framework, in the neoliberal version, the one-sided economic perspective prevailed. From this perspective, there is no room for inefficient political and institutional outcomes, for these only create and uphold – against all economic rules – public monopolies which are inconsistent with the notion of liberal market economies.

Nowhere does this conviction become more visible than in the rent-seeking theorem, whose spread provided the justification of the Washington Consensus. The concept of rent was revived – not developed, as it goes back to the works of classics like Ricardo and Marx - between the 1960s and 1980s by Public Choice theorists. The seminal works are Krueger (1974) and Buchanan, Tullison & Tullock (1980). What is rent? According to Nobel Laureate James Buchanan, “Rent is that part of the payment to the owner of resources over and above that which those resources could command in any alternative use. Rent is receipt in excess of opportunity cost.” (1980: 3) Thus, rent, as excessive income, results from any type of state intervention that distorts otherwise freely functioning markets. The first creation of a rent situation becomes a sort of original sin as it unfolds its effects on the incentive structure of entrepreneurs. Not (productive) profit-seeking, but (un-productive) rent-seeking becomes a norm, where rent-seeking “is designed to describe behavior in institutional settings where individual effects to maximize value generate social waste rather than social surplus” (1980: 4). Of considerable importance is the notion of “deadweight loss” which captures those financial and organizational resources that are invested in lobbying and contributions towards politicians but get lost as not all rent-seekers can be rewarded. Subsequently, in the world of neoclassic economics, “Rent Seeking activity is directly related to the scope and range of governmental activity in the economy, to the relative size of the public sector” (1980: 9). Later managing director at the International Monetary Fund Anne Krueger, on the other hand, focused on the social welfare losses resulting from import restrictions (which were the central instrument of developing countries pursuing ISI strategies). Without these theoretical works, it is improbable that the Washington Consensus would have looked like it did. It reflects an

ahistorical and asocial worldview and can thus be used by political decision-makers as a mere technical solution to overcome inefficiencies and failed developments.

Enter Institutions

The works of Nobel Laureate Douglass North and others in the New Institutional Economics tradition have put an end to these simplistic efficiency assumptions. North has pointed to the fact that capitalism as it arose in Western Europe needed some institutional preconditions beyond the mere expansion of trade. Without secure property rights and an institutional framework that guarantees impersonal exchange, it is not viable that entrepreneurs will invest their capital and sufficiently trust the political-institutional framework. For North and others, the solution to the *commitment problem* is crucial. It is expressed in the assumption that “any government strong enough to define and arbitrate property rights is also strong enough to abrogate them for their own benefit” (Haber, Razo & Maurer 2003: 2). The state, most of the time a single ruler, and asset-holders are opposed to one another. The former needs financial resources through taxing the asset-holders in order to finance its organizations, especially its military facilities. The latter want their incomes safeguarded from any possible confiscatory behavior that has always been a prominent political measure of rulers in history. “In short, governments face a dilemma: if they do not find a way to tie their own hands, they will not have sufficient resources to insure their own survival” (ibid). What explains the “Rise of the West” is that only there were rulers and entrepreneurs devising and relying upon representative institutional outcomes (constitution, parliament etc.) whereas these were absent in other regions.

However, in their 1973 study, North and Thomas saw these outcomes as most efficient solutions because of their survival against other possible solutions, thereby sharing the neoclassical worldview.¹⁰ In *Structure and Change in Economic History* (1981) and *Institutions, Institutional Change, and Economic Performance* (1990), North gave up his own earlier efficiency assumption and argued instead for the historically contingent nature of the institutional out-comes. Accordingly, inefficient solutions to social coordination problems can be stable outcomes. Thus, the reason for institutional change lies in the dynamic interplay between institutions (as the rules of the game, or structure of a society) and organizations (as

¹⁰ Similar to Oliver Williamson’s (1975) conceptualization of hierarchies, markets and networks as efficient solutions to economize on transaction costs.

its players), where “change comes from the perceptions of the entrepreneurs in political and economic organizations that they could do better by altering the existing institutional framework at some margin” (North 1990: 8). Even so, the mere awareness of inefficiencies by entrepreneurs and politicians in developing countries is not determined to lead to transformations in order to follow the western capitalist model, for the institutions do not reflect any efficiency-enhancing model but instead the bargaining strength (i.e. power) of political and economic elites.¹¹

Political Power, social structure, and history

While these theoretical arguments were revolutionary for economists, they were not so for political scientists and sociologists who have always focused on how political processes and social structures interacted with the economic sphere. As Chaudhry correctly argues, “NIE have focused more on describing what institutions do (specifying the rules of competition and cooperation, provide a structure of property rights, maximize rents to the ruler) than on where they come from” (Chaudhry 1997: 10). Therefore, it is essential to account for the political and social structures to understand the variety of institutional outcomes, their impact on development issues as well as on the dynamics of institutional change. Although the simplistic efficiency assumptions are not shared any longer within the NIE framework, there still exists a rather one-sided focus on questions of efficiency and performance.¹²

This bias is due to the fact that for NIEs the *commitment problem* plays a pivotal role. Yet, what is proposed in this study, instead of asking “how to get rid of the grabbing hand of the

¹¹ Beyond this power-based argument, North and other institutionalists like Avner Greif (2006) refer to the impact of mental models, i.e. culture, on the persistence of inefficient institutions. This approach is heavily criticized by Stephen Heydemann who stresses the neglect of the interests and coercion capacities of political and economic elites. In Heydemann’s terms, “culture plays a smaller role [...] than North suggests. Cultural factors have been a far less significant barrier to institutional change than North indicates, and they tell us relatively little about how underperformance is produced. Indeed, the defining condition of the developing world in the twentieth century is not institutional and cultural stability, but institutional fluidity and cultural flux.” (2008: 34)

¹² “The NIEs focus on the efficiency of institutions for the economy in aggregate, making the representational character of rulers irrelevant. Either institutions are efficient or they are not. Economic outcomes are unrelated to the coalitional basis, who all appear to have identical aims. If history has no telos except efficiency, and efficiency is by definition achieved through the aggregate actions of self-interested individuals, then world-historical time is irrelevant and historical periodization unimportant. When states fail to meet their technological production horizon, it is because they are ‘predatory’; when they succeed, it is because they have minimized transaction costs in perfect accord with their endowments. Past choices embodied in institutions and organizations create ‘path dependencies’ that constrain the actions of individuals, but there is no discoverable pattern to history apart from variation introduced by the NIE’s catchall variable of ‘cultural difference’. The NIE version of ‘structure’ is thus little more than a layering of choices made by individuals who had strong bargaining power at earlier junctures.” (Chaudhry 1997: 11-12)

state”, it is more important and fruitful to ask who controls the state, where these groups and actors came from, what their sources of social and political power are and to what purpose they use it.¹³ In short, how economies and markets are *politically embedded* is at the heart of the matter of this study. What does political embeddedness refer to, and in which way has it been used so far? As conceptualized by Zukin and DiMaggio, political embeddedness entails “the manner in which economic institutions and decisions are shaped by a struggle for power that involves economic actors and nonmarket institutions, particularly the state and social classes” (Zukin & DiMaggio 1990: 20).¹⁴ This notion goes beyond the idea of politics and institutions as merely external factors interfering with otherwise purely economic processes and instead focuses on the constitutive role of socio-political structures in the sense that all economic action reflects the political contexts they occur in.

Conceptualizations of political embeddedness can be found mostly in the *Comparative Capitalisms*, *Welfare State* and *National Business Systems* research paradigms. The differences between types of market economies (liberal versus coordinated) and welfare state regimes (Anglo-Saxon, Scandinavian, Continental European) reflect different class structures and political rules of competition. How these affect performance is not related to encompassing rules of efficiency. On the contrary, the efficiency and rationality criteria that entrepreneurs and politicians alike apply are bounded by the historically contingent institutional framework and cultures of rationality that have become established, as for example Dobbin (1994) made clear in his comparative study of industrial development policies. However, one main weakness in these research projects is their focus on western countries (with the exception of Richard Whitley and Ben Ross Schneider who incorporate East European and East Asian and Latin American business systems, respectively). So, the varieties are only those among capitalist democracies in which structures of domination are relatively similar. Thus, while Hall & Soskice (2001) talk about varieties of capitalism (VoC), we refer to varieties of capitalisms beyond the West with structurally divergent political and social structures.

¹³ This is especially relevant for late developing countries whose differences vis-à-vis western capitalist democracies are of a structural kind so that models applied for the latter will in most circumstances not hold for the former. While there are many studies that take issues of money politics and corrupt linkages between politicians and entrepreneurs seriously (e.g. Kang 2002) while relying on transaction theory models, it can be argued in general, as even North recently did, that contrary to “the political framework of representative government [...] [i]t is more difficult to model the political process in third world polities where corruption, bribery, and Mafia-like extortion tend to be the order of the day. Modeling the actual structure as it in fact works in such polities has increasingly occupied the attention of political economists in recent years, but we are some distance from having good working models.” (North 2005: 55)

¹⁴ See also Zafirovski (2001: 75).

The type of economic order presented here is labeled *political capitalism* and goes back to the work of Max Weber. This type of capitalism is different from western-style rational capitalism in the way that profits can be made through “unusual deals with political authorities” rather than on purely economic grounds. With minor exceptions, this concept has hitherto not been incorporated into in the academic debate on late developing countries, although it shares some essential features with the predominant literature.¹⁵ The most important aspect of this overlap is that corrupt linkages between the economic and the political sphere bear a systemic trait and reflect each actors positioning within a country’s elite configurations.

In this framework, the development of political capitalism in Third World countries is traced back to the low degree or absence of the rule of law, such that political and economic power directly converts into the unrestrained abuse of public goods, the establishment of clientelist structures between politicians and businessmen and poor regulatory governance. This absence of the rule of law is the result of close linkages between the political and the economic spheres since the beginning of capitalist development. The crucial factor is power dispersion. The argument goes that only in the West were institutional preconditions available for the successful differentiation between these spheres. These institutional preconditions could moreover only flourish in contexts where the rulers were bound to cooperate to some degree with asset holders (as argued within the NIE framework). Thus, only in Western Europe did a power equilibrium between political rulers and economic elites emerge, so that *rational* economic behavior and democratic institutions survived only in the West without falling prey to the predatory behavior of politicians or entrepreneurs, respectively. Or, in Poggi’s terms, only in the West does *economic* power represent a distinctive type of *social* power.¹⁶

To substantiate the notion of political embeddedness, we make the following argument. In all late developing countries, the particular shape of class struggles and contentious politics is

¹⁵ “‘Politically oriented capitalism’ or ‘political capitalism’ is one of Weber’s most interesting concept, and although it is often referred to in the secondary literature, it has been little explored and even less used in substantive analyses.” (Swedberg 1998: 48)

¹⁶ “It is only in ‘the capitalist conception’ that political and economic power become institutionally separated from one another; only the differentiation of the respective spheres allows the economic system to [...] uncover and cultivate its distinctively dynamic form of rationality. What I [Gianfranco. Poggi] have characterized, above, as ‘the economic system’ is in fact the historical product of such a differentiation process, whereby economic power emerges as a distinct form of social power, relatively self-standing with respect to political power, and typically constituted, in Weberian language, by ‘a constellation of interests’, rather than through visible hierarchies of command and obedience.” (Poggi 2001: 137-138)

determined by the conflict constellations of the 19th century when western powers militarily and economically surpassed rival empires and incorporated the rest of the world into the new capitalist world system. The erosion of formerly predominant socio-cultural relations, meaning systems and political orders was accompanied by the diffusion of European worldviews concerning the role of the state, the economic and cultural progress of societies and national identities. New conflicts over the legitimate style of government and its moral bases took place in the peripheries. The outcome of these struggles in which the imperial powers were directly involved brought forth new political elites and their understandings over the role of the ‘national economy’ which became manifest with the realization of national capitalist development. Thus, it is into these new political structures and ideological debates that the new capitalist order is embedded into and that shape its degrees of social exclusion and economic distribution.

What characterizes most, if not all, peripheral countries at that time is that these new political elites rely on the state not only to implement policies according to their ideological orientations, but also to promote economic elites. This occurs on two levels: first, they design institutions to render capitalist market activities possible; second, and more importantly, they directly interfere in markets to create wealth for entrepreneurs who compete for preferential treatments from the state. These activities constitute the process of primitive accumulation in these countries, in a manner that is grounded in political power considerations and represents the emergence and institutionalization – through the practices of political and economic elites alike – of *political capitalism*. In this new and nationally-bounded economic order, different boundaries (than in western capitalist democracies) between political and economic power and between public and private spheres prevail. These boundaries are blurred and pave the way for corruption, clientelism and coercion by elite groups.

Historical comparison and case selection

These arguments need further elaboration. While most late developing countries certainly share these rather broadly defined political capitalist traits, we want to make certain general arguments as to the divergent subtypes of political capitalism and relevant causal factors that explain these divergences. Even more, to bridge the temporal gap between 19th century conflict constellations and the impact of global neoliberalism in the last decades, we are particularly interested in the dynamics of endogenous institutional changes prevalent in late

developing countries. To account for the forces of continuity and change, we rely on Mahoney's (2000, 2001) reactive sequence path dependency model, arguing that what shapes 20th century developments is the outcome of those conflicts. This leads us to the question of case selection for the underlying comparative-historical analysis to explain variation of that outcome and of the resulting change dynamics. For this, we adhere to an x-centered¹⁷ most similar systems design in order to link 20th century change dynamics to the lock-in effect of the critical juncture.

We chose Turkey and the Philippines for the following reasons. First, it is necessary to control for possible external triggers of change in the 20th century. Accordingly, both countries were tightly linked to the capitalist Western alliance after World War II and therefore experienced, at first, the toleration of Keynesian industrialization policies until the 1970s (Maxfield 1990) and later pressures toward export orientation. Both acted as regional clients of the U.S. superpower while being geographically located close to communist centers (Russia and China). While the end of the Cold War temporarily decreased their geopolitical importance, it was re-appreciated after the 2001 terrorist attacks in the U.S. and the declaration of the 'war on terror'. Thus, Turkey and the Philippines both were exposed to the growing economic and ideological influence of the U.S. Also, they share one important internal political feature. In contrast to other regions and countries, the Left as a distinctive social and political force has always been excluded from the political sphere. Although new socialist and communist movements emerged in the second half of the 20th century, they were never tolerated as a legitimate political actor. Their radicalization only helped the regimes to suppress them militarily.

More important, though, is the similarity of sequences toward the end of the 19th century. The expansion of capitalist social relations and the constraints by western imperial powers led to the exhaustion of liberal nationalism and furthered political polarization. Identity shifts occurred rather late in both countries, i.e. in the 1880s and 1890s in the Philippines, and in the 1890s and 1900s among Muslim Ottomans. In both cases, and here they differ radically from the Latin American countries who had already been independent and did not experience direct military threats, the resulting conflicts had to be solved militarily, in the Philippines during the wars against the Spanish and then unexpectedly against the U.S., and in Turkey during the Balkan Wars, World War I and the War of Liberation against the Greeks. In this historical

¹⁷ See Gerring (2001: 189) on the relevance of x-centered questions.

comparison, we identify this outcome as the critical juncture that determines, first, into which political contexts the capitalist economy is embedded, and second, what kind of change dynamics prevail in the 20th century.

Of course, there are fundamental differences between 19th century Spanish Philippines and the Ottoman Empire. While the former was part of a colonial order, the latter was never militarily occupied but was tied to the imperial powers through mechanisms of ‘informal empire’ (Osterhammel 1986). Also, given the fact that the Philippines had never been as important as the Latin American colonies, the Ottomans had a more complex politico-administrative and economic structure. Frankly, they disposed of far higher military capacities than the Filipinos.

Even though the two countries do not match perfectly, they can nevertheless be included into this comparative framework. We do not claim to have identified the main causal mechanisms for the success of revolutions. Instead, we focus mainly on the degree of infrastructural power of the new political order and can therefore state that the success of nationalist struggles leads to the formation of cohesive states, whereas the failure results in fragmented states. Thus, success or failure can be regarded as *sufficient* conditions for the degrees of infrastructural power of the emergent state forms.

Concerning 20th century developments, the argument followed here differs from unilineal and monocausal models. It differentiates between determined processes, on the one hand, and temporally-bounded spaces of contingency, on the other hand. According to the reactive sequence model, the critical juncture, as well as each transition, is framed as a contingent event that leads to new political and socio-economic constellations. Thereby, we refrain from one-sided models that link the current state of affairs to *only one* particular event in history. Instead, we underline the multitude of change options that come with socio-economic transformations and the opening of the political sphere to explain the higher capabilities of power changes within early cohesive states. Thereby, we strike a middle ground between ideographic and nomothetic explanations.

Outline

In the following chapter, the main arguments of this project will be presented in detail and juxtaposed against the theoretical currents of Historical Sociology with reference to

capitalism and state formation. Again, this is not an analysis of economic development and performance, but of political domination in late developing countries. After depicting the main currents of the sociological debate on capitalism and elaborating the concept of political capitalism, its main characteristics, its diverse subtypes and the respective change dynamics that are dependent on the outcomes of 19th century socio-political conflicts, we draw on James Mahoney's (2001) reactive path dependency model in order to account for the various endogenous institutional changes that occurred in the course of the 20th century.

In Chapter Three, the Turkish case is presented. It begins with the characterization of the political and economic institutions of the Ottoman Empire and the challenges arising from increasing western predominance that eventually translates into its dissolution after World War I. The post-war liberation movement succeeded, first, in creating a new state based upon the principles of ethno-nationalism and, second, in forming a new class of Muslim-Turkish entrepreneurs who are organizationally dependent on the new *cohesive state*. This pattern of top-down structured state-business relations prevail until the opening of the political sphere to societal counter-movements. During this reactive sequence, an erosion of the state's infrastructural power occurs and state-business relations are increasingly dominated by the new family business groups who, to end the further fragmentation of political order, cooperate with the Turkish Armed Forces in the 1980 military intervention that paves the way for export orientation and neoliberal policies. Along this process of capitalist development and competitive, but not democratic, politics takes place the empowerment of the religious-based counter-elite which concretely materializes after the 2000/01 financial crises.

In Chapter Four, we address the Philippine trajectory, which begins with the gradual decline of original Spanish colonial institutions and the empowerment of native agrarian capitalists. As their economic capacities and liberal-nationalist claims does not translate into new forms of political representation, radical groups emerge that initiate an armed uprising against the Spaniards beginning in 1896. Eventually, this highly contingent phase ends only with the military defeat by the rising U.S. empire which took over the remaining Spanish colonies. Under the umbrella of the U.S., the agrarian oligarchy becomes institutionalized in society. However, due to the precarious legitimation of colonial institutions and the capture of these institutions by the empowered oligarchs, a *fragmented state* emerges. Political competition structures and social exclusion patterns remain fairly stable until the 1960s when the control capacities of the Nationalist Party and the Liberal Party collide. In the context of heightened

social mobilization and discontent, President Marcos comes to power and institutionalizes a patrimonial regime and, by challenging the main business and political families, a patrimonial capitalist order. The outcome of the Filipino trajectory is the 1986 restoration of the oligarchic regime through the People's Power revolution. Given the fragmented and fluid nature of power constellations, counter-movements do not translate into direct political empowerment. Individual populist figures like President Estrada can temporarily mobilize support, especially as neoliberal policies of the early 1990s only increase degrees of social exclusion. However, as the ousting of Estrada shows, there is no organizational basis for continuous populist mobilization, and the powerful political rules centered on spoils and individual patronage render substantive political changes highly improbable.

Finally, the concluding chapter focuses on the divergent change dynamics inherent in the two countries, in particular, and in late developing countries, in general. Also, we state that the outcome of 19th century socio-political conflicts is not only constitutive of contemporary political and economic institutions, but, beyond that, of divergent modernity projects with particular configurations of power, the economy, religion and the nation.

2. The Political Embeddedness of Capitalism in Late Developing Countries

How should we address those social realities we deem as relevant in this study? Which logics of explanation should we draw upon in order to clearly underline the systemic nature of the differences between western and late developing political economies?

As argued above, most economic analytical frameworks cannot help us due to their efficiency-based worldviews. Even if the persistence of inefficiencies derived from certain institutional and political contexts is acknowledged¹⁸, they would still call either for the withdrawal of the state in economic matters or for the proper insulation of political elites and technocratic policy-makers in order to keep the inefficient impact of politics as minimal as possible. Even the highly praised regulatory state is, in essence, designed to depoliticize the economic sphere and to hand it over to apolitical, therefore impartial and rational actors who may guarantee ‘good governance’ (Leftwich 2005). That the seemingly technical institutional reforms are themselves products of “wrenching social struggles [that] precede and shape the rules that govern markets” (Chaudhry 1994: 4) and in most cases cloak the formation of new illiberal power constellations is only seldomly acknowledged. How could it, given the fact that power as such is ignored. Hence, a proper analysis calls for a focus on power constellations in political and economic terms and how these two shape the functioning of the existing capitalist institutions.

For this purpose, what is presented here is a theoretical framework for the analysis of the genesis and perpetuation of capitalist economies in late developing countries, in general, and in Turkey and the Philippines, in particular. This framework centers on the historical-sociological tradition and its analysis of political power constellations that pave the way for the institutional foundations of capitalism. Most important of all is the emergence and political consolidation of the capitalist classes which, combined with highly-developed state capacities, uphold an impartial rule of law without which Max Weber’s famous ‘rational’ capitalism cannot exist. These constellations can be contrasted with those political

¹⁸ “Institutions are not necessarily or even usually created to be socially efficient; rather they, or at least, the formal rules, are created to serve the interests of those with the bargaining power to create new rules. [...] Because it is the polity that defines and enforces property rights, it is not surprising that efficient economic markets are exceptional.” (North 1990: 16)

configurations and dynamics in non-western contexts which lead to the emergence of ‘political’ capitalism.

This section is structured as follows: first, we propose a minimalist working definition of capitalism which shall serve as the root concept for both rational and political capitalisms. Second, after a short overview of the debates on the emergence of capitalism in Western Europe the main factors contributing to the development of rational capitalism will be presented. Third, the foundations and characteristics of political capitalism are illustrated, especially the linkage between political uncertainty, personal forms of trust-making and the predominance of family oligarchies. Fourth, in order to differentiate between political capitalist economies and to capture the variance of socio-political changes during the 20th century, we dwell on the infrastructural powers of states in late developing countries, its sources (nationalist counter-mobilization against European imperialism) and the respective path-dependent dynamics of change and continuity in cohesive (Turkey) and fragmented (Philippines) states.

Defining Capitalism

Similar to various other social realities, the conceptualization of capitalism has always been a hotly debated issue. Definitions and categorizations are abundant, depending on and reflecting the divergent ontological orientations (e.g. capitalism as practice, as class relation, as domination) and the main feature (e.g. its dynamism, its institutional foundations and belief systems; commodification, accumulation) ascribed to it. For the sakes of applicability and clarity amidst this field of terminological contestation, a minimalist definition is adopted here which is based on two definitional characteristics. Capitalism shall serve as a root concept in the classical taxonomic sense (Sartori 1970, 1991). Accordingly, additional characteristics will be referred to in order to distinguish properly between ‘classical’ subtypes of this root concept, rational and political capitalism. Hence, political capitalism is not merely a ‘deficient subtype’ of a radial category in the sense that it differs from the root concept in gradual terms. Relying on this classical conceptual scheme is essential in order to stress the argument that political capitalism is structurally different from its counterpart, rational capitalism, without, however, lacking the definitional characteristics of capitalism. Also, this way we can first address what we mean by capitalism and then tackle the questions why capitalism emerged and how rational and political capitalism differ.

In this sense, capitalism is defined here as a *self-regulating economic order based upon the unlimited private accumulation of capital*. Market-based and contractual allocation of material resources predominates, with capital being gained and constantly reinvested into the economic process. Markets as such are not the prerogative of capitalism as they exist in other economic orders. Also, as Weber¹⁹ and Braudel highlighted, profit-making and wealth-maximizing practices preexisted the capitalist order. Yet, capitalism's outstanding feature is marked by the marginalization of other mechanisms of material allocation (reciprocity, redistribution; Polanyi 1957) and by the imperative of profit-maximization.

Two definitional criteria must exist for us to label an economic order capitalistic, *free enterprise* and *formally free labor*. Free enterprise is grounded in institutional guarantees of private property which is not just a juridical category, but which entails a social relation between the owners of capital (or, means of production) and those that do not own capital. The free disposability of capital of each owner is only constrained by other capital owning actors in the constant search for profit-generating ventures. The dynamism that follows from this intra-capitalists competition is one driving force of the marketization and commodification of all fields in the economic process, most important of all labor. For those who do not dispose of capital are forced to participate in this process by selling their physical, i.e. productive capabilities without having any right or capacity to influence the reinvestment decisions of their employers. Both Marx and Weber emphasized the seemingly contradictory nature of labor being formally free. Even though they act “under the compulsion of the whip of hunger” (Weber 2003: 277) and are de-facto not free, workers are not legally forced to labor and are in principle capable of refraining from their laboring activities.

These two principles characterize capitalist economic orders and distinguish it from other contemporary economic orders. In socialist economies (Cuba, North Korea), the means of production are concentrated in the state or, in principle, the people, without leaving space for private property and incentives for private accumulation. Moreover, so-called rentier

¹⁹ “The impulse to acquisition, pursuit of gain, of money, of the greatest possible amount of money, has in itself nothing to do with capitalism. This impulse exists and has existed among waiters, physicians, coachmen, artists, prostitutes, dishonest officials, soldiers, nobles, crusaders, gamblers, and beggars. One may say that it has been common to all sorts and conditions of men at all times and in all countries of the earth, wherever the objective possibility of it is or has been given. [...] But capitalism is identical with the pursuit of profit, and forever renewed profit, by means of continuous, rational, capitalistic enterprise. For it must be so: in a wholly capitalistic order of society, an individual capitalistic enterprise which did not take advantage of its opportunities for profit-making would be doomed to extinction.” (Weber 2003: 17)

economies (Beblawi & Luciano 1987, Mahdavi 1970, Pawelka 1993) are marked by the dominance of the state in the economic realm with its capacities to generate rents, not profits, and to allocate these through the mechanism of redistribution.

However, this definitional task leaves open the questions why, when and how such an economic order was created. Naturally, the answers to these essential questions in the social sciences diverge, most prominently between liberal economic approaches that rely on Adam Smith's anthropological model of *homo oeconomicus* and sociological-institutional approaches that refer to specific institutional prerequisites without which free enterprise and free labor would not have come forth in the first place. The latter view that accounts for the historical context of the rise of capitalism also accounts for the fact that capitalism can come under a variety of forms (Zysman 1994). In recent years, the so-called comparative capitalisms research framework (Albert 1991, Hollingsworth, Schmitter & Streeck 1994, Crouch & Streeck 1997, Whitley 1999, Hall & Soskice 2001, Amable 2003) has been dealing with the various political, institutional, historical and cultural factors responsible for the 'varieties of capitalism'. However, in this study, a different variety with two subtypes will be presented, rational capitalism (which is dealt with in the comparative capitalisms framework) and political capitalism. The former originated in Western Europe with the establishment of modern state structures and the political emancipation of the bourgeoisie which led to the institutional separation of economic and political power. The latter, on the contrary, is the outcome of the imposition of capitalist practices and social relations under European imperialism, the resulting socio-economic structures and political conflict dynamics which lead to the creation of economic institutions by new, 'national' state elites. Such a trajectory is characterized by the organizational weakness of the new capitalist classes and the absence of an equivalent separation between politics and the economy. In consequence, there exists no impartial rule of law which could provide for an autonomous sphere of economic action. On the contrary, profit-maximizing activities are tightly linked to the bearers of political power, which are not restrained by the political institutional framework.

The Contingency of Capitalism and the Rise of the West

Obviously, capitalism does not emerge automatically or spontaneously. Instead, its rise is dependent on certain institutional prerequisites that allow for the unrestrained unfolding of free enterprise and free labor. In Polanyi's depiction of the transition in England, "there was

nothing natural about laissez-faire; free markets could never have come into being merely by allowing things to take their course. Just as cotton manufactures – the leading free trade industry – were created by the help of protective tariffs, export bounties, and indirect wage subsidies, laissez-faire itself was enforced by the state. [Hence] the road to the free market was opened and kept open by an enormous increase in continuous, centrally organised and controlled interventionism” (Polanyi 2001: 145-46). Such an institutional perspective accounts for the fact that capitalism needed certain socio-political transformations in Western Europe before the 18th century.

In short, we follow the argument that those institutional prerequisites which triggered the rise of capitalism and of Western Europe, compared to other civilizations, reflects a long-term contingent process in which political, socio-cultural and technological factors play specific roles. This notion of contingency implies that there was no determinism involved and that capitalist practices need not be reserved for the West. However, we make the argument that ‘rational’ capitalism only emerged in the West, given Europe’s distinctive pattern of state formation. Contrary, European colonialism and imperialism indirectly led to the establishment of political capitalist economies in other parts of the world.

The fundamental point of divergence in this debate deals with why and how could capitalism emerge in Western Europe? And why did it only occur in Western Europe when compared to other regions and civilizations? Which is the last event, and what is the causal mechanism, if there is one, linking that event to the properties of the modern world? Answers to these questions are abundant. They have focused on the endogenous dynamics of feudalism (Marx 1867; Dobb 1947), on feudalism's rigor and the role of cities in the process of capital accumulation (Sweezy 1976), agrarian class struggles after the Black Death (Brenner 1976, 1977; Wood 1999) the mere geographical and voluminal expansion of trade (Smith 1776), the rationalistic modes of conduct in European medieval monasteries (e.g. Collins 1986), the corporate autonomy of the European city (Weber 1923) and of social groups in general (Hall 1985) and the emerging ‘inter-city state system’ (Mielants 2007), the existence of ‘modern’ value systems (Landes 1998), the openness to ideological diversity (Goldstone 1987) and scientific and technological innovations (Mokyr 2002) the establishment of property rights and representative political institutions (North & Thomas 1973; North & Weingast 1989; North 1990), the path from feudalism to absolutism (Anderson 1974) or the fact that this path was not taken (Tocqueville 1856), the setting up of institutions guaranteeing impersonal

exchange (North 1990; Greif 2006), the rise of nationalism (Greenfeld 2001) the military competition structures and dynamics in Europe (Tilly 1990; Epstein 2000), the ‘rational’ institutionalization of law and new modes of calculation in the Italian city-states (Collins 1986), the colonial transformation of the world and the discovery of the Americas (Wallerstein 1974), the passing of the former non-European world-system (Abu-Lughod 1989) or the impact of ‘Eastern’ globalization and the mimicry of ‘Eastern’ technologies and economic institutions (Hobson 2004), the capitalist 'spirit' evolving from the religious doctrines of Protestantism (Weber 1904) or Protestantism in general with its world-encompassing transformative forces (Eisenstadt 1968). Causal factors like these have been brought forth in various debates, and there are many more which cannot be recounted at this place.

Such a short overview of attempts to explain the origin(s) of capitalism highlights that there is no one unified theory or historiography that may be able to account for all those factors and phenomena that all somehow play a role in the overall transition to a capitalist economic order. The debate becomes less clear if we try to adapt those theoretical findings to the rest of the world where capitalism did not originate. In this case, we tend to find mainly factors that hinder the emergence of capitalism. If Protestantism is seen as crucial for capitalism, then Islam and Confucianism can be regarded as entailing obstructing forces to efficiency-based markets, norms of institutional trust and civil rights.²⁰ Similarly, if the dynamics of feudalism are held responsible, then the so-called ‘Asian’ or hydraulic mode of production that has been persisting in the 'East' for the last millennia plays the obstructive role. Even though Marx himself knew very little of India's political economy at the time he developed this concept, it has been adopted by waves of Marxian theorists who blended it with the notion of “Oriental despotism” (Wittfogel 1957) in order to describe societies in which no changes similar to those in Europe could have taken place. In this way, negative descriptions, not analyses, of the ‘East’ have been reified²¹ with which to underline the superiority of European and western civilization, rendering the fact that Europe only rose to prominence after the 16th century when compared to the Ottoman and the Chinese Empires obsolete.

²⁰ “In short, Islam, in contrast to all major world religions, is deemed to shape the structure and history of the societies of the people who profess it. Islam is seen as totalitarian in its scope, organizing all aspects of society. In other words, Orientalism explicitly purposes that an ideological factor (the Islamic religion) determines the sociopolitical and economic structure of Middle Eastern society(ies) historically and into the present.” (Farsoun & Hajjar 1990: 164)

²¹ Early negative conceptions of the ‘East’ go back as far as Aristotle, while the ‘oriental despot’ is a construct of Montesquieu (cf. Lockman 2004; Rubies 2005). See also Valensi (1993) according to whom the ‘birth of the despot’ was contingent upon growing geopolitical rivalries between the Ottoman Empire and Venice.

However, contrary to these Orientalist reifications²², a new wave of works has fundamentally challenged Eurocentric historicizing and theorizing by uncovering several blatant weaknesses in that perspective. At an empirical level, they argue that we further handle with historiographies that just are not valid any longer, especially when it comes to the Eastern empires. Furthermore, these classical conceptualizations have been open to the critique of post-colonial theorists who, relying on the works of poststructuralists, have been capable of deconstructing these same historiographies. These theorists highlight the mechanisms of representing the ‘Other’, the non-western as part and parcel of attaining political and cultural hegemony over the world and that this representation of the ‘Other’ is in itself constitutive of global capitalist relationships (Mitchell 2000).

The fiercest attack against Eurocentric historiographies comes from authors that point to the fact that many of the crucial economic institutions and rational economic action have been part of a world system that is much older than in the Wallersteinian approach, that Europe did not rise to global dominance before the 19th century, that there was no indigenous European dynamic leading to this rise and that new technologies crucial for industrialization were not so much invented in Europe but mimicked from much earlier Arab and Chinese breakthroughs.²³ These are serious challenges that have to be taken into account in order to write a non-Eurocentric history that puts Europe's uniqueness in its place. Indeed, Europe's path to capitalism and modernity can be regarded as singular, but there is no determinism involved in that long-term process. Europe's rise did not have to happen only because it eventually happened in Europe. Accepting this contingent character of the emergence of capitalism in Europe paves the way for non-Eurocentric theorizing and historicizing.²⁴

²² The seminal work of critics of orientalizing is still Said (1978) even though many post-colonial theorists adopt Foucauldian concepts of power relationships in colonial contexts (e.g. Mitchell 1988). For a historical account of Orientalism in the Middle East, see Lockman (2004).

²³ See Abu-Lughod (1989), Wong (1997), Frank (1998), Pomeranz (2000), Hobson (2004), Goody (2004) and Knoebl (2007). Among classical sociologists, Collins acknowledges the scientific and technological backwardness of late medieval Europe compared to China. However, he emphasized the distinctive capitalist type of “social organization” of scientific innovations which differs sharply from non-capitalist ones (1986: 84). Mann argues similarly in elaborating on the role of science towards “broader networks of ideological power” (2006: 375-376) which mark Europe’s exceptionality; see also Goldstone (1987, 2002) and Mokyr (2002).

²⁴ In his cross-regional comparative analysis of pre-industrial growth, Goldstone states that “a broader comparative analysis must acknowledge that episodes of extraordinary pre-industrial growth – notably that of Qing China – also occurred outside Europe. [...] Instead, industrialization, as many have come to acknowledge, was an oddity. [...] It did not come spontaneously to Holland, or Italy, to name two early sites of technological, financial, and scientific prowess. It was a particular offshoot of European science, that by a path-dependent interweaving with circumstances in Britain produced a peculiar culture that affected both science and the technology of production in profound and unforeseeable ways. [...] The world, therefore, was not polarized

However, there is a strong tendency among post-colonial theorists to disband with the insights of classical sociological approaches altogether in order not to fall into the ‘Orientalist trap’, i.e. by making causal arguments based on essentializing ascriptions. This might even be justified, for it stresses the violent nature of the reshaping of the world under European imperialism and deconstructs the civilizational cloak of capitalism. Still, these are attempts to uncover power relations, not to explain the emergence of capitalism in Europe.²⁵ It is often overseen that not all Eurocentric historicizing is teleological in nature. On the contrary, scholars in the second wave of Historical Sociology see themselves in the tradition of Weberian historicism and unequivocally renounce teleological arguments. Take only Tilly’s explanation of the rise of the modern nation-state in Europe which was a highly contingent process and which cannot be reproduced in late developing regions.²⁶ Although Weber, together with Comte and Spencer can be regarded as the founding father of the tradition-modernity dichotomy, he attempted to construct a general institutional theory of rationalization and the emergence of capitalism which stretches from the prophecies of Judaism to modern entrepreneurship and the creation of the modern bureaucracy, but he was aware of the highly contingent events and dynamics.²⁷

This notion of contingency helps evade the pitfalls of Orientalism, without, however, “throwing the baby out with the bath water” (Hall 2001: 494). Accordingly, the focus in this work is on the *political context of the emergence of capitalism*, which is one of those last reserves, so to speak, that until now has not been undermined by critiques of classical theories of capitalism. This political context is marked by the formation of the modern state in Europe

between a single broadly ‘Western’ modernity destined to be universal, and a residual ‘traditional’ realm of stagnation or failure.” (2002: 375)

²⁵ “The enormous asymmetry of power projection and material gains across nations in the last two centuries may be considered as good or evil, and as distorting perceptions of histories and cultures; but nonetheless it happened, had enormous significance, and is something to be explained.” (Goldstone 2002: 327)

²⁶ “On the contrary: the fact that European states formed in a certain way, then imposed their power on the rest of the world, guarantees that non-European experience will be different.” (Tilly 1990: 16)

²⁷ According to Randall Collins, “Weber saw the rise of large-scale capitalism, then, as the result of a series of combinations and conditions which had to occur together. This makes world history look like the result of configurations of events so rare as to appear accidental. Weber’s position might well be characterized as historicist, in the sense of seeing history as a concatenation of unique events and unrepeatable complexities. Once a crucial conjuncture occurs, its results transform everything else – and not just locally but also in the larger world of competing states. This was true of the great charismatic revelations of the world religions, which shut off China, India or the West from alternative lines of development as well as determined the ways that states upon these territories would interact with the rest of the world. Similarly, the full-scale capitalist breakthrough itself was a once-only event, radiating outward to transform all other institutions and societies. Hence, the original conditions necessary for the emergence of capitalism were not necessary for its continuation. The original religious ethic could fade, once the calculability of massive economic transactions had become a matter of routine. Hence, late-industrializing states need not follow the route of classic capitalism.” (Collins 1986: 35)

and the political consolidation of capitalist classes through a long-term process of differentiation from the classes of the feudal and absolutist social orders. Even more, it is in this domain that divergence is most obvious when comparing the European case to other regions or late developing countries which all underwent different trajectories of state formation and, ergo, a different form of politically embedded economy.

The formation of the modern state in Europe

Here, the historical sociological tradition of tracing and explaining the formation of the modern state and modern political institutions comes in. To specify, the relevant approaches and theories are part of the so-called “second wave” (Adams, Clemens & Orloff 2005) of historical sociology in which Marxian and Weberian frameworks were adopted to explain these historical shifts in Europe. What occurred in Europe was a long-term process of centralization and monopolization of political, ideological and military power which culminated in the creation of the modern nation state.²⁸ This new type of politico-military organization bore enormous infrastructural power, territorial integrity and, essentially, the monopoly on the means of violence and coercion. This process began at some point with the demise of the feudal socio-political order in the High Middle Ages. Without trying to address the question whether this crisis emerged endogenously as being part of the feudal dynamics (Brenner 2006), exogenously with the Atlantic trade in the 16th century (Wallerstein 1974) or as the result of specific socio-economic and politico-military European dynamics (Mann 1986, Tilly 1990, Epstein 2000), it is clear that several contradictions and disruptions predominated the late feudal era.

Feudal rule was exerted in an indirect manner, through the nobility that was granted fiefs as return service (with both contractual and personal elements) for their military contributions to the ruler's campaigns. The organization of the fief served as the political and economic basis of the feudal age, in the sense that it strengthened the local hold of the nobility while at the same time providing for the escalation of competition between the weak central ruler and his vassals over the amount of taxes to be relegated to the center. The long-term process of centralization of political rule looked very differently across Europe with many countries

²⁸ As elaborated by scholars in this tradition from Tocqueville (1856) to Weber (1923), Anderson (1974), Poggi (1978), Tilly (1990), Mann (1986), Ertman (1997) among many others.

diverging into different paths along specific junctions.²⁹ Further, this was a highly contingent process, with various models of political order being prevalent at different times. At the end, however, the centralized national state succeeded in overcoming rival configurations such as the city-state and absolutism. Both internal and external factors come into play to understand the erosion of feudal rule. On the one hand, the “conflict between rents and taxes” (Brenner), the multiplicity of loyalty networks between lords and vassals and the growing gap between the ruler's claim to legitimate rule and the de-facto local power structures undermined the capacities of the ruler to control these centripetal tendencies. On the other hand, the expansion of trade networks created a semi-autonomous space for bearers of economic power beyond the feudal social order and which rulers began to take into consideration in order to outcompete the nobility (Poggi 1978).

Even so, what set the European path apart from other types of state formation, especially in China and the empires of the Islamic world, were the interactional dynamics between state elites and capital-owners, which are at the center of Tilly's (1990) analysis. He differentiates between two spheres, those of cities as loci of capital accumulation and those of states as coercion accumulating institutions. In the feudal era, coercion capacities were heavily restrained by the nobility which de-facto combined political and economic power. Cities, given their position in the Roman law tradition as “distinctive juridical space” (Poggi 1978: 40) relied and defended their corporate status, functioning as havens of trade and artisanal production, regulated by guilds, and organized their self-defense through urban militias.

Now, the main driving force of state formation factor are the state-city interactions under the conditions of a *competitive mini-state system* and the pervasiveness of war-making between these weak states, which continuously put state rulers under pressure to enhance their military capacities in order to survive.³⁰ Tilly describes several paths, a *capital-intensive* path, as undertaken by the Italian city-states and Dutch commercial cities in which the urban oligarchies effectively relied on mercenary armies to wield off any external influence and to compete with state armies. On the other hand, *coercion-intensive* forms or reorganization lead to the establishment of absolutism by disempowering the nobility in the sense that it was slowly incorporated into the new states bureaucracies.³¹ Along this bureaucratic

²⁹ See Anderson (1974) on the divergent trajectories of Eastern and Western European absolutism.

³⁰ See also Epstein (2000) and Mielants (2007).

³¹ See Lachmann (1989) on the debate on whether or not these measures were effectively directed against the nobility or were instead intended to serve it in a functional manner.

centralization, the means of violence were reorganized in standing armies, which rendered the nobility useless for the survival of the state as it proved to be more effective compared to constantly giving in to its bargaining powers. Towards the end of this process, the path of *capitalized coercion* turned out to prove victorious. Given the state's increased dependence on external financing for maintaining the costs of military campaigns, economic actors could seriously hurt the state by relying on exit-strategies (Hirschman 1970). At the end, only rulers that could provide credible institutional prerogatives for the bourgeois classes through the installment of and adherence to representative institutions would prevail in setting up the effective military structure in the form of mass armies. This new state type, via its society shaping capacities which absolutist states did not dispose of, bore high *infrastructural* and low *despotic* powers. Hence the often-cited dictum “states make war, and war makes states” (Tilly 1985: 170).³²

Institutional Differentiation, bourgeois hegemony and political liberalization

In sum, and to come back to the notion of political embeddedness, only in Europe did the state formation process lead to the institutionalization of bourgeois prerogatives, that is, to the political consolidation of the bourgeois classes. Only in this process did the institutional separation of the political and the economic spheres become established. Now, the reason for this separation, and the reason why it was not effective in other regions, is the moment of the power equilibrium between political and economic elites, in the context of the constitutional state of the 19th century.

Hence the link between European state formation and the emergence of capitalism; in Europe, the economy gained an ever increasing autonomous space from political interference. An autonomous economic sphere emerged eventually with the institutional safeguards for purely economic logics. For Max Weber, this lies at the heart of the matter of his analysis of rational capitalism when compared to other instances (e.g. capitalism in antiquity, in Imperial

³² Several attempts have been made to adopt Tilly's framework for other world regions either to confirm his main argument or to disqualify it based on the empirical fact that state formation did occur without the structural imperatives of warfare (e.g. Schwarz 2008 on resource-based state making in the Arab world). However, these critics neglect that Tilly's analysis encompasses 1000 years in Europe to identify the structural changes of the state and its relations to societal groups. Of course, analyses in other world regions must come to different conclusions and cannot claim to have falsified Tilly's theory (e.g. Taylor & Botea 2008). Even more, Tilly explicitly states that he is focusing on Europe, and Europe only. “On the contrary: the fact that European states formed in a certain way, then imposed their power on the rest of the world, guarantees that non-European experience will be different.” (1990: 16)

Germany or the trade capitalism in the Italian city states)³³. Even though we do not apply Weber's long-term institutional explanation stretching from ancient Judaism to the Protestant Ethic, this is an argument of *political embeddedness*. Rational capitalism emerged in the context of spheres in equilibrium, which does not entail the liberal credo of less state, more market, more capitalism. Rather, the question is what *kind* of state is needed to eventually bring forth capitalist institutions. As Weiss & Hobson (1995) have underlined, only a strong state with infrastructural power is capable of doing so because at some point, it guarantees this separation of political and economic power which before have always been linked, if not synonymous (as in the feudal era).³⁴

However, this is not the end of the story of western state and capitalism. For, in the European context, this power equilibrium lock in set the stage for the socio-economic and political transformations leading to the establishment of democratic institutions (or not³⁵). According to Rueschemeyer et. al. (1992), not only the consolidation of bourgeoisie, as argued by Moore (1966), but also the incorporation of the working classes in the 19th century determines the type of political regime and the degree of liberalization within democratic regimes. These arguments are based on Marshall's work (1950), in which the principle of citizenship triggers a dynamic moment towards deeper political liberalization.

Rational capitalism surely did not emerge in a democratic, but in constitutional and authoritarian bureaucratic contexts (cf. Ertman 1997). Access to this domain was heavily restricted given the low degree of suffrage with the result that the political process was largely a domain of aristocrats and capitalists, with no existing 'democratic' arena for participation and contestation. The occurring liberalization depended on the contradictory combination of formal political equality (citizenship) and economic and social inequality arising from the institutionalization of capitalist social relations. In the course of the inclusion of the working

³³ "It is only in modern times, he [Max Weber] argues, that it makes sense to speak of an 'economic sphere', which is 'in principle autonomous' and which interacts with the other spheres of society." (Swedberg 1998: 8)

³⁴ "For Weber, this political material was not an extraneous interest but, instead, the key to all of the institutional structures of rational capitalism. Only in the West developed the highly bureaucratic state, based on specialized professional administrators and on a law made and applied by full-time professional jurists for a populace characterized by rights of citizenship. It is this bureaucratic-legal state that broke down feudalism and patrimonialism, freeing land and labor for the capitalist market. It is this state that pacified large territories eliminated internal market barriers, standardized taxation and currencies. It is this state that provided the basis for a reliable system of banking, investment, property, and contracts, through a rationally calculable and universally applied system of law courts. One may even argue that the bureaucratic state was the proximate cause of the impulse to rationalization, generally – above all, via the late seventeenth- and eighteenth-century spirit of enlightened absolutism, which set the stage for the industrial revolution." (Collins 1986: 30)

³⁵ As Ertman (1997) elaborated in the case of Prussia.

classes into the political process, state-capital relations were directly affected and capitalist institutions diverged according to the degree of inclusion and the de-facto transformations that occurred.

Not only did the bourgeoisie become empowered and generated a power equilibrium between the political and economic spheres, but it gained political and cultural hegemony through the process of liberalizing the political regime. Thus, even though the two spheres became functionally separated in the state formation process, capitalist classes began penetrating the political arena and attained hegemony of the political apparatus and societal discourses.³⁶ This view differs from the answer given, for example, by Weiss & Hobson (1995) who argue that with institutional differentiation comes embeddedness between the two spheres even though they do not explain exactly how this embeddedness comes into place in the first place.³⁷ The answer lies in the type and degree of political competition which is from the beginning, or, more specific, with the establishment of electoral politics, dominated by the bourgeoisie.

Thus, after the bourgeois empowerment, a phase of liberalization and democratization sets in that not only guarantees the political equality of the working classes, but further strengthens the position of the bourgeoisie that can draw on higher organizational capabilities in state-capital and capital-labor interactions. Hence the link in the West between rational capitalism, on the one hand, and liberal democracy, on the other hand, which eventually emerged out of societal conflict dynamics.

The foundations of political capitalism in late developing countries

What is the reason for the non-emergence of rational capitalist economies in late developing countries then? It follows from the above review of approaches that other trajectories of state and capital formation took place which are to be identified here. We stick to the same concepts and the same historical-comparative apparatus in order to account for the differing

³⁶ Similar to Lenin's conclusion: "a democratic republic is the best possible shell for capitalism, and therefore capital, once in possession of this very best shell, establishes its power so firmly that no change of persons or institutions or of parties in the bourgeois republic can shake it."

³⁷ "The *paradox* is that, only when the state is institutionally differentiated or insulated from the economy, does it come to closely or strongly interact with and enable the development of the economy. *Ironically*, as it becomes increasingly differentiated institutionally from the economy, so the state becomes 'actively embedded' within the economy. Thus state autonomy [...] is located not so much in the fact of the state's institutional differentiation (or autonomy) from the economy, but rather in the way that the insulated state becomes 'interactively embedded' within the economy." (Weiss & Hobson 1995: 57-58; emphasis added)

position of bourgeois classes, the non-emergence of a power equilibrium between political elites and these classes, the type of political system and its inherent dynamics that did not evolve into the establishment of democratic political institutions.

Transformations under European Imperialism in the 19th century

What is the story, or trajectory, leading to the emergence and persistence of political capitalism? This trajectory begins with the second half of the 19th century, at the time of which European powers have been transforming the world in political, economic and ideological terms. Politically, Western Europe and the USA have become successful at outcompeting former hegemonic empires, such as China and the Ottoman Empire. Also, during what Polanyi labeled the 100-year peace (1994: Chap. One), the new superpowers have shifted their military activities and geopolitical rivalries beyond the European borders. The colonial expansion that began several centuries earlier had at last come to an end, with no part of the world that had not come under European influence, be it under direct colonial control or rather “informal” forms of empire (Osterhammel 1986).

In economic terms, the new world system at the core of which were the Atlantic trade flows in the 16th and 17th centuries had in the meantime developed and transformed into a global capitalist system dominated by Great Britain and the early late developers (USA, France, Germany). The overall and long-term implication was the incorporation of non-western economies along the interests of the superpowers. This transformed and consolidated the position of peripheral countries as suppliers of raw materials and commodities for the industrializing metropolises. Local and regional trade networks became part of global linkages which finally disrupted socio-economic structures based on artisanship and proto-industrialization. Eventually, most peripheral producers could not compete with mass-based industrialized production in Europe and North America. Purely economic factors are not sufficient for the decline of non-western industries, though. One element of 19th century global capitalism was its tight linkage to European mercantilist trade policies. The contradiction of this era was the fact that the market principle, as propagated by the dominant liberal-bourgeois ideology, was, more often than not, accompanied by violent force. Potential or manifest resistance against these disruptive forces of western domination (e.g. the Boxer insurgency in China, Muhammad Ali's project of autonomous development and the Urabi

insurgency in Egypt) were crushed in order to safeguard the civilizing effects of the ‘doux commerce’.³⁸

Furthermore, one assumption shared by both modernization and (at least early) dependency theorists is that the imperialist/colonialist expansion and the incorporation of formerly ‘undeveloped’ regions into the world capitalist system triggered economic development and social transformations. Before that, such processes supposedly did not exist or were considered to be impossible given the prevalence of an ‘Asian’ mode of production and ‘oriental despotism’ (Wittfogel 1957). As a matter of fact, in those new peripheral regions that were regarded as highly despotic and immobile, such as the Arab Islamic world, processes of commercialization have already been taking place even before European imperialism. These regions have never been essentially resistant to change arising from commercialization which was ascribed to them only because they did not evolve in a western-like manner and towards a similar outcome. In the Ottoman Empire, for example, given its specific pattern of state formation in which rulers dealt with insurgencies in a more flexible manner than in Europe, enormous changes occurred in the 18th century, leading to the “age of the ayan”. Local notables assumed economic and political power to an extent unforeseen in the Ottoman normative order and indeed engaged in capitalistic ventures (Barkey 1994, 2008; Abou el-Haj 1998; Inalcik & Quataert 1994; Quataert 2000; Beinlin 2001).

In the field of ideological power and cultural hegemony, it turned out that imperialist liberalism suffered from a deep contradiction that eventually could not be sustained. Indeed, the ideology of liberalism was appropriated by new bourgeois strata in non-western contexts. Yet, the obviously oppressive nature of the divergent ‘missions civilizatrices’ led to reinterpretations by new socio-political actors and to the delegitimation of these same ideas. Combined with the social disruptions, new ideological repertoires were used to counter western predominance. One answer was the emulation of Western ideals and the depreciation of those moral and ideational frameworks that were regarded as responsible for one's own decline. The introduction of citizenship rights in the Ottoman Empire during the early years of the Tanzimat are but one example of such a strategy. However, a more profound impact resulted from the rise of the ideology of nationalism which triggered antagonizing mobilizational forces against the western metropolises. The combination of western socio-political and cultural penetration caused conflict dynamics that severely undermined the

³⁸ “Das ist der *doux commerce*!” (Marx, cited in Hirschman 1977: 62)

ideological powers of the West. Depending on which political groups acquired these new repertoires for resistance, on the type of political institutions and the role of the commercial groups that profited most during that era, newly organized political groups emerged that attacked the cultural hegemony of imperialist liberalism and strove for the establishment of a new, 'national' economic order. *Thus, these conflict structures between the middle of the 19th and the beginning of the 20th century are regarded as the relevant transmission belts for the emergence of another type of capitalism which is embedded in structurally divergent power structures and, ergo, for the trajectories of capitalist development in the 20th century.*

Reinvigorating Political Capitalism

In this context, with new political entities being formed after the impact of European imperialism, the relevant difference between western and non-western economies is that, in the latter, the state played an active role in creating a new developmentalist framework (cf. Gerschenkron 1962). No matter who controls it, the state in late developing countries created the institutional setting for economic actors to operate in. Under these circumstances, state elites not only set the new political and economic rules of the game, but heavily engaged in wealth-maximizing activities, too. With their involvement in rent-providing activities for a new group of entrepreneurs, an institutional differentiation between the political and the economic sphere does not occur. This feature marks the birth of modern *political*, not rational, capitalism in late developing countries.

What is political capitalism, and how is it of use in this context? The concept of political capitalism was introduced by Max Weber in his encompassing research framework to explain the emergence of capitalism in Europe. Similar to contemporary researchers, Weber was trying to find a satisfying solution to the vexing question why the transition to modern capitalism did not occur in the economically and technologically more advanced regions than Europe, especially China. As Weber stated in his famous introduction of the Protestant Ethic and the Spirit of Capitalism, “why did not the scientific, the artistic, the political, or the economic developments there enter upon that path of rationalization which is peculiar to the Occident?” (1958: 25) Contrary to Marxist approaches that dwell on the transition from feudalism to capitalism in Europe, Weber assumed that capitalist practices of appropriation, accumulation and reinvestment existed in prior ages and civilizations beyond modern Europe.

However, an economic order of rational capitalism only emerged in Europe.³⁹ Thus, Weber reserved political capitalism for traditional economies in which certain institutional requirements for the flourishing of rational capitalism were absent. In his encompassing comparison of civilizations in which he combined materialist with cultural approaches, he finally ended up with pointing at religious factors as crucial explanatory factors. He established a long linkage starting with Judaism as prophetic religion, initiating a process of demystification and rationalization to the Protestant reformation and the Calvinist idea of predestination the mediate effects of which extended to and unfolded in the economic sphere, leading to the establishment of ‘modern’ capitalism (Weber 2003; Schluchter 1981).

Beyond the West, Weber saw at work economic orders, or, “modes of profit-making” in which profits are made through predatory action, force and domination and “through unusual deals with political authorities”. So, political capitalism resembles somewhat of a residual category similar to “oriental despotism” and “Asian mode of production”. However, in their attempts to counter such Orientalist ascriptions, contemporary scholars have come to argue in a similar vein in the sense that capitalist practices as such have existed out of Europe and before the rise of modern capitalism, ranging from the Arab Islamic world (e.g. Rodinson 1974; Abu-Lughod 1989) to China (Hobson 2004) which is why Weber's conceptualization is still of use even though only after a reformulation based on empirical findings Weber could not refer to. He applied his theoretical ideas mainly for ancient Rome and patrimonial China. As Ganev highlights, in his political writings, Weber hints at the possibilities of ‘state dysfunctions’ in Germany during World War I “in which politically oriented modes of profit making could flourish” (Ganev 2009: 657).

Also, we prefer the term political capitalism to others that have become increasingly popular after the breakout of the Asian and other financial crises during the 1990s, especially “crony capitalism”. This term is closely linked to the neoliberal paradigm and is used in a pejorative manner to disqualify the systemic involvement of the state in East and Southeast Asian economies. Thus, in an overtly presentist way, the developmental state paradigm has shifted towards a crony capitalism paradigm. Ironically, the same characteristics responsible for the unique industrial growth in the second half of the 20th century in these countries (especially Japan, Taiwan and South Korea) could – under the new paradigm – be delegitimized in the

³⁹ “But in modern times the Occident has developed [...] a very different form of capitalism which has appeared nowhere else: the rational capitalistic organization of (formally) free labour.” (1958: 21)

favor of ungoverned markets. Ultimately, however, we favor the term political capitalism because it captures the very specificity of these economies, namely that the economic sphere is not, and has never been in the 20th century, institutionally separated from the political sphere, thereby reflecting the logics of command and authority, in Weber's terms.

Now, how can political capitalism be reformulated in order to capture these realities in modern economies, without referring to traditional inertia? Here, the idea of political embeddedness comes in. While western forms of rational capitalism have been embedded into political structures characterized by strong states and the institutional consolidation of the bourgeois classes, the new, national economies in late developing countries of the 20th century represent a highly different political project given the interests and resources of new political elites. Rational capitalism is marked by the existence of a law-abiding state that crystallized in the long-term process of bourgeois consolidation that occurred through the transformation of the institutional framework. The financial capacities of commercial groups constrained the rulers' powers and prerogatives, its growing economic power became institutionalized via new representative institutions, opening an autonomous space for a judicial apparatus that flourished due to the power equilibrium between rulers and capitalists and which uphold this type of institutional separation. In Polanyi's terms, "a self-regulating market demands nothing less than the institutional separation of society into an economic and a political sphere." (Polanyi 2001: 74)

In contrast, with reference to late developing countries, these boundaries become blurred, or, more specific, other boundaries between state and capital crystallized due to the fact that new state elites created new economic elites or, at least, politically safeguarded the practices of the latter. No, or only a minimal degree of institutional separation took place. In Poggi's words, economic power does not represent "a distinctive form of social power" but is inextricably linked to political power. Similarly, in Weber's terms, the economic sphere does not function along the mechanisms of "a constellation of interests". In sum, there is no 'autonomous place for the economy' because of public-private boundaries unlike those in the West. Not only is political influence used to guarantee economic success, but, to generalize, political influence becomes essential for it, mainly because it develops into such an obvious strategy that it becomes imperative to be engaged in political business.

What distinguishes political capitalist economies from rational capitalism? Not the persistence of corruption, because corruption has been flourishing in all types of economic order, no matter how 'developed' it is. Nor the fact that patterns of cronyism bear a systemic trait. Rational capitalist economies are not immune, contrary to the self-representation of western politicians and businessmen, to mechanisms of closure (social capital, social networks) that are politically consolidated depending on the rules of political finance (cf. Johnston 2005). What distinguishes these orders is that in rational capitalism, doing business without adhering to the rules of politics is possible, whereas in political capitalism, it is not. For, the early practices of new political elites have since then continuously been emulating, thereby maintaining the state not only as a source of political authority, but also of economic capital.

So far, it seems as though according to this framework, the solution lies in the retreat of any state influence in the economy, as neoclassical economy and neoliberalism would have it. However, the issue is not how much state intervention brings forth political capitalism and how little intervention is needed to establish rational capitalism, but rather what *kind* of state structures are involved. For example, weak or disengaged states cannot be law-abiding; instead, they bring forth oligopolistic market structures and unfree political processes. In this context, economic elites easily capture the state in order to keep it weak so as not to create a potential agent or arena of mobilization against their prerogatives. In Europe, the type of state generating rational capitalism was a law-abiding state that emerged under specific conditions, being a product of distinctive political and economic dynamics. Under different conditions, with divergent political structures into which the economy becomes embedded, and thereby in the absence of a law-abiding state, political capitalism emerges and persists.

At first sight, such a statement may look as an exaggeration of the state of political institutions in late developing countries, regarding all of them as corruption-ridden, lacking bureaucratic rationalization and effectiveness. Moreover, it would seem to resemble an outright Orientalist statement by highlighting the unique Western capacity to set up 'rational' bureaucracies. Still, if we follow a historical-sociological framework with which to compare the state of capitalist economies, it would be unjustified not to take these differences into account. We do not adhere to culturalist arguments that deny non-western countries the capacity to 'rationalize' the bureaucracy or economic institutions, not do we refer to cultural relativist arguments that call for different culturally prescribed interpretations of corruption.

These differences are no cultural or religious givens, but socially and historically based differences in the process of state formation.

Therefore, if we start with the notion that there is a connection between certain political phenomena and capitalist economies, and if we accept the idea that capitalist economies represent a political project at the core of which was the political consolidation of the bourgeoisie in Europe, it becomes essential in the context of late developing countries to focus on these same dynamics between politics and the economy.

Characteristics of Political Capitalism

How do these structural features, namely that political elites create economic elites, translate into its characteristics and the mechanisms of its reproduction?

The main feature of political capitalism is the institutionalized, i.e. structural, uncertainty for economic action. There exist formal politically installed rules of the game in the economy. However, the very same way these rules are established and implemented gave birth to the role of informal institutions and modes of economic governance that at the same time undermine the propagated norms (e.g. impartiality, effectiveness) of the formal institutional framework.

This presents a fundamental difference the consequences of which can be observed in the everyday politics of so many contemporary late developing countries. These are marked by low degrees, if not a total absence, of political elites' accountability and their disregard of formally established rules. In fact, the initial lack of institutionalized certainty goes back to the process of primitive accumulation in the context of establishing new economic orders. As in early capitalist development in Western Europe, capitalists acquire their position through mechanisms of dispossession with the backing of the state. Marx's description of the enclosure movement in England and the state-favored processes of accumulation in the colonial era are prominent examples for the disruption of existing social orders through 'innovative' means and for setting up new social property relations. Primitive accumulation occurred in parallel to the processes of state formation in Western Europe, with decades, if not centuries, to create boundaries between politics and the economy. In late developing countries, similarly lengthy time frames were absent. The new political authorities, through

the installment of property rights, created a new economic framework and spawned – through their access to state resources – the first new, national economic elite. This new group, in turn, invested its resources in upholding its status as reliable business counterparts of the state elites. Doing this, it reproduced not only its position in the upper echelons of the economic sphere, but also its position of dependence to political actors. From the beginning, then, it was bound to the political rules of survival, being tied to the political class through patronage relations. In this context, no, or very low degrees of, institutional trust are realized as the formal economic rules of the game (competition, entrepreneurship, fairness) are overloaded with the political mechanisms or patronage. Thus, formal institutions do not serve as the basis of orientation for economic actors, but power and personalized forms of trust do.

In essence, trust dynamics form the link between the macro (dispersion of political power, political competition structures, arenas of contestation) and the micro level of economic action which may then still serve as the explanatory factor for explaining how these structures were reproduced during the 20th century. They are reproduced at the micro level in the sense that the strategies entrepreneurs adapt to existing informal strategies of profit-making (clientelism, corruption) in order to survive under conditions of politics-induced uncertainty (with those closer to the political power centers being more successful than others) continue to undermine the emergence of institutional, i.e. generalized, trust. This marks the mutual exclusiveness between political and rational capitalism. To come back to Weber in that perspective, in his rather unsystematic account of the social prerequisites and institutional characteristics of rational capitalism, which he mostly conflates, the notion of calculability is crucial for the rational mode of profit-making (Collins 1986; Hutchcroft 1998). Even though he addresses this notion from a variety of angles (rational officialdom, procedures, law, calculation, technology etc.), at the core of his argument is the establishment of institutional trust. In this context, we do not refer to problems of ‘political trust’ in contemporary democracies⁴⁰, but the establishment of trust conferred upon the impartiality of central political and economic institutions (see Rothstein & Stolle 2008).

In classical sociology, institutional, or generalized, trust is one of the essential characteristics of modern society and life. Individuals and groups convey trust (or confidence) into the “symbolic tokens” (Giddens 1990) of institutions. In the economic sphere, the importance of institutional trust is highlighted by the transition from personal to impersonal exchange

⁴⁰ See Hardin (1999, 2004) and Cleary & Stokes (2006).

relations without which a capitalist economy is virtually impossible to create or uphold.⁴¹ That such a transition occurred is not debated, but what its ontological foundations (rationalistic, structural, phenomenological). While economists ascribe a purely rational calculatory nature to processes of trust-building in terms of transaction and information costs (Williamson 1993), sociologists focus on the social and phenomenological characteristics of impersonal trust, i.e. on Durkheim's 'non-contractual conditions of contracts'.

It is obvious, then, that the persistence of personal forms of trust relationships (family, friendship, nepotism, clientelism) in late developing countries presents somewhat of a puzzle. This puzzle has mostly been solved by ascribing to these phenomena a traditional or transitional feature that has until now inhibited the emergence of full-scale capitalist economies and modern societies (most recently e.g. Greif 2006). Explanations on incomplete transformations and the survival of traditional, or pre-capitalist, social relations are abundant, both in the modernization and the marxist-dependency paradigms. Clientelism and patronage are regarded as outcomes of lacking capitalist social relations, therefore accounting for the low degree of economic dynamics or the predominance of non-capitalist groups, obstructing the construction of market competition, on the one hand, and 'pure' working class solidarities, on the other hand. Even though these two approaches differ in their ideological thrust (blaming traditionalism versus blaming world system), both concur in their handling of clientelism. Yet, the reliance on such dichotomies has not proven helpful and has shifted too much attention on unresolved debates on the degree of modernity in late developing countries. The lacking erosion of clientelist relations as such is no indicator for the degree of traditionalism. Not only the study of patronage parties in northern American and western European political systems (Piattoni 2001; Kitschelt & Wilkinson 2007), but also the proper analysis of social exchanges and the 'gift economy' in modern, i.e. also western, societies (Blau 1964; Cook 2001; Adloff & Mau 2006) have shown that such supposedly premodern phenomena are not restricted to late developing countries. Therefore, the classical dichotomous typology cannot be sustained. One should instead refer to late developing countries as modern societies, with the significant difference that their transitions to modernity have occurred under different conditions, leading to different outcomes concerning the role of personal trust forms (Eisenstadt & Roniger 1984; Zucker 1986).

⁴¹ See, e.g., Zucker's (1986) analysis of the erosion of process- and characteristic-based trust in the U.S. during 19th century and its slow replacement by institutional trust forms.

This dynamic interplay between institutional uncertainty (or generalized distrust) and personal forms of trust-making has, among other, been applied by Diego Gambetta (1988, 1993) to explain the emergence and perpetuation of the Mafia phenomenon in Southern Italy.⁴² Accordingly, the untrustworthy societal conditions, caused by the “unpredictability of sanctions” (1988: 162), are reproduced, not lowered, by particular actors and groups providing, and even marketizing, protection for private actors. However, the difference between the Mafia and political elites manipulating access to financial resources lies in the fact that the former is a societal group benefiting from the untrustworthy state, whereas the latter represent the state. Thus, it is their practices as such that generate the blurred nature of public-private boundaries.

In other words, personal trust relationships “suspend” (Möllering 2005) the overall uncertainty that arrives from the existing power constellations. But they do so only for those elite actors involved while perpetuating uncertainty at the macro level. Trust is predominantly invested in people, not in institutions. This does not rule opportunities to newly or re-institutionalize trust in certain domains in the economy, or that corrupt practices may be effectively fought. What we do imply instead is that such movements and projects have to entail *successful social and political mobilization against those elite groups who are currently profiting most from corrupt resource flows*. Corruption flows reflect a certain constellation and dispersion of social power, and most people living under those conditions are aware of the fact that mobilizing against the status quo is extremely costly, dangerous and also unpopular. Activists know of their limitations in trying to curb the unrestrained influence of certain elites and in fighting for more effective institutions (or, 'good governance' in the popular terminology of development specialists). Although generating institutional trust is not impossible, its establishment is very hard to pursue in these contexts. This is not a matter of traditional values as cultural predicaments (cf. Banfield 1958; Harrison & Huntington 2000; Greif 2006), but of structural conditions and opportunities, more concretely, of power struggles.⁴³

⁴² Concerning its emergence, Gambetta refrains from mere culturalist explanations and instead embeds it into particular historical trajectories. “We discover that behaviour has a *genesis*, that the seemingly intractable backwardness of southern Italy emerges from a *plausible history*.” (1988: 159; emphasis party added)

⁴³ Cf. the analyses of lower-class mobilization and empowerment against established party machines, e.g. Fox (1994), Shefner (2001), Garcia-Guadilla (2002), Gibson & Woolcook (2008). But only if such counter-movements have to overcome the “problem-solving” capacities (Auyero 2000) of patronage machines can they have a lasting impact on local power structures.

Family business groups as social institutions

Furthermore, one related feature shared by most late developing countries is the emergence and persistence of family business groups (FBGs). Similar to diversified corporations in the USA before the processes of deconglomeration and firm specialization in the 1980s, these groups consist of legally independent companies (operating in seemingly unrelated areas) linked through cross-shareholding and tied – formally or informally – to one group, i.e. one family. However, what is striking about FBGs in late developing countries is that ownership and control are not separated. Even though the daily business is left in the hands of professional managers, important corporate decisions lie in the responsibility of family members (according to the succession rules after the decease of the founding father). During the last decades and contrary to the predictions of neoliberal economists and policy advisors, FBGs have not dissolved, but have proven quite effective as can be seen from high degrees of ownership concentration in non-western economies (e.g. La Porta et. al. 1997, 1999; Khanna & Yafeh 2005; Schneider 2008; Gourevitch & Shinn 2005). Thus, we may conclude that FBGs present the organizational outcome of certain political, economic and institutional traits specific to late development, where, according to Schneider, “the names may change, but the corporate form lives on.” (2008: 379)

The stability of this peculiar type of corporate governance is increasingly being acknowledged as a puzzle worth explaining. Chandler’s seminal work of family capitalism (1962) posits that this feature is but an early and transitional stage of capitalist development which will eventually give way to a managerial type of capitalism, given the growing problems of family succession and the necessity of professional management. For contemporary scholars in the NIE tradition, the predominance of FBGs must be traced back to market failures, resulting from asymmetries in access to information and capital that, combined with weak regulatory frameworks in the fields of finance and corporate governance, render business groups efficient (Leff 1978).⁴⁴ ‘Legal family’ explanations, which focus not on FBGs as such but on the development of financial markets (Beck, Demirgüç-Kunt & Levine 2002; La Porta et. al. 1997, 1999; Shleifer & Vishny 1997), highlight the effects of different law traditions and systems on ownership concentration and

⁴⁴ See Chang’s prediction of South Korea’s corporations after the Asian financial crisis and the new IMF-oriented corporate reform program: “Because we believe chaebols are creatures of market imperfections and government intervention, we argue that, as those forces diminish, chaebols will decline in the long run.” (2003: 238)

shareholder rights. Rival approaches underline political conflicts leading to certain institutional outcomes in the fields of finance (bank-based versus securities-based) and antitrust (e.g. Roe 1994). Gourevitch & Shinn (2005, 2008) and Keefer (2008) explicitly target the legal family argument by tracing the outcomes back to political institutions and conflicts between owner, managers and organized labor in shaping financial development and, accordingly, ownership concentration and minority rights. Socio-cultural approaches, on the other side, emphasize the identity-creating role of the family (Granovetter 2005) and the normative underpinnings of family control (Whitley 1991). Thus, it is not just economic performance that counts in FBGs, but also the cohesion of the family which may even conflict with profit-maximization goals. Most promising, though, because it takes into consideration the institutional complementarities (between family control and management, blockholding and diversification, labor rights and skills regimes) within the economic system, is Schneider's (2008) analysis of the continuity of FBGs. Institutional reforms may ultimately lead to the separation of ownership and control, but such changes are likely to occur only incrementally.

In sum, these approaches all point to certain aspects of the persistence of FBGs in an era of globalized capitalism. What we highlight, instead, is that FBGs social institutions originating in contexts of high uncertainty. Thus, more personalized forms of trust secure individual economic action, with the family being the strongest domain of solidarity and identity-building. Individual profit-maximization and norms of paternalism merge in the figure of the founding father whose goal is the erection of his own networks of privilege and social power and to pass them onto his offspring, thereby reproducing these early modes of profit-making..

Although FBGs prevail in western countries as well (Colli 2003), what is distinct about FBGs in late developing countries and what serves as explanatory factor for their persistence is that they have been successful at establishing themselves at the center of economic power. Beyond that, due to the precariousness and fluidity of the boundaries between politics and the economy, between the public and the private spheres, these families also stand at the apex of political power constellations.⁴⁵ Again, in political capitalist economies, state elites spawn new economic elites which come to dominate the economic sphere. They are crucial partners for politicians who rely on their enormous financial resources in the game of political

⁴⁵ At this point, many explanations based on political factors (Gourevitch & Shinn 2005; Keefer 2008; even Schneider 2008) fail to realize that regime type and political institutions have to be included as markers of political power dispersion.

survival the stakes of which are extremely high. Business families emerge that do not confine themselves to western-like ‘rational’ profit-making along pure economic goals. On the contrary, it becomes all too rational to stay involved in politics in the search for rent-generating ventures, on the one hand, and increase the internal cohesiveness of the family, on the other hand. These incentive structures are kept intact through the emulation of those early political business strategies by rival political and business families.⁴⁶

If it were only for economic reasons, such power considerations could be regarded as invalid from a scientific perspective. Yet, this blending of power sources represents a major obstacle to a possible transition to western types of corporate governance (dispersed ownership, minority shareholding rights, separation of ownership and control) because it would strip the families directly from its basic resource to influence political elites and state bureaucrats.⁴⁷ In political capitalism, such a step would entail overcoming a fundamental collective action problem among those dominant oligarchic families: only if all of them refrain from using their political capital for enabling or safeguarding economic activities would an institutional and functional separation between politics and economy be possible. Due to the high degrees of informality, there is no way to enforce the implementation of such commitments between rival families. Given that the state not only creates these economic groups but also becomes the target of their rent-seeking activities, no actor can guarantee such a transition.

Hence the linkage between FBGs and political capitalism; the lacking organizational capacities of businessmen who rely primarily on their families and on their clientelist networks as sources of trust perpetuate an overall state of affairs in which institutional, i.e. generalized trust remains low. Further, political actors themselves become dependent on the financial resources of these influential families who combine two identities, one economic and one political. That is, like businessmen who are dependent on political resources, political elites and bureaucrats become dependent on the financial capacities of business and thereby undermine their own organizational cohesion.

⁴⁶ Khanna & Yafeh correctly state that “when evaluating the role of corporate groups [...] we do not know what the appropriate counterfactual is – what would have the economy looked like without groups?” (2005: 58) This “fallacy of the idealized counterfactual” (ibid.) becomes all too obvious in late developing countries in which the family business model has been the only one, at least for big business.

⁴⁷ Thus, after the Asian financial crisis, IMF-led corporate governance reforms were intended to weaken the political power of FBGs and their impact on market forces and the regulatory capacities of the state. E.g., in the South Korean case, it was “difficult to conclude that the corporate restructuring measures succeeded in reducing the influence of the largest *chaebol* in the South Korean economy, which was arguably one of the not-so-hidden agendas of the corporate sector restructuring.” (Kim & Chang 2002: 32)

Until now, we have elaborated the general pattern of economic action in political capitalism. However, to argue that all late developing countries suffer to the same extent from such a ‘birth defect’ would be a gross misinterpretation of political and economic realities. What is needed in order to differentiate among political capitalist economies is an analysis of state strength which can actually vest power, and thereby trust, into an institutional framework. This becomes apparent when comparing Russia’s and China’s post-communist capitalist developments and the role on informal relations during the erosion of the socialist order.⁴⁸ In Russia, the transition to capitalism was marked by the breakdown of political order, the proliferation of power centers and the rise of an uncontested oligarchy that severely weakened the state apparatus. Only with Putin’s successful efforts to centralize and monopolize political power were the oligarchs constrained. Even though informal relations and corruption networks continued to exist and proliferate, the higher degrees of political order strengthened trust in public institutions, at least more than was possible under Yeltsin. In China, the Communist Party slowly introduced market reforms and resisted any attempts to liberalize the political process. Capitalism did thus not cause similar upheavals in social and political order, since the new oligarchy is tightly linked to party cadres and personal networks have no space to undermine the capacities of state institutions.

State power, social forces

After European imperialism, many types of states have emerged in the developing world, with enormous variation in terms of capacities, autonomy and cohesiveness, raging from authoritarian-developmental states in East Asia to predatory and failed states in the African continent. Some states use their power to engage heavily in promoting industrialization and in restructuring existing social structures. Others are not capable, or even willing, to steer social and economic processes in a top-down fashion. In such contexts, the new state infrastructure is just one along several sources of social power. Even more, with no impact on the socio-economic framework, it becomes a mere instrument in the hands of other, already existing power groups. From this variance follows that, whether, in Marxist terms, the state is an ‘executive committee’ of or relatively autonomous from capitalist classes is essentially an empirical question.⁴⁹

⁴⁸ See Heilmann (2000), Ledeneva (2003) and Hsu (2005).

⁴⁹ Lisa Anderson made such an argument already in the 1980s: “Whether the state in any given case acts as an independent causal factor, autonomous from social forces, or serves simply as a vessel for social conflict and domination is more appropriately the subject of empirical investigation than an a priori assumption. To what

Due to the multiplicity of power sources and groups in many developing countries, critics of traditional state theories argue vehemently against adopting Weber's definition of the state as the "human community that (successfully) claims the monopoly of legitimate use of physical force within a given territory". However, what many fail to realize is that Weber's conceptualization of the state is at least open to comparative research through which to differentiate between more and less autonomous and/or effective state apparatuses. During the early 'Bringing the State Back In' debate in the 1980s, these conceptual issues were not on the agenda yet. Scholars have increasingly pointed to the structural weaknesses of states and political institutions and elaborated on different definitions and concepts to cope with these obvious empirical realities, especially in those cases where the state definitely do not dispose of the monopoly of the means of physical force.⁵⁰ We shall stick to the Weberian concept, with the main difference that we do not use it as an ideal type, by leaving the adverb 'successfully' out. How effective the state is in claiming the effective monopoly of violence-making is then to be regarded as the main indicator for state strength.

As for this analysis, we rely on Mann's infrastructural power which he defines as "the capacity of the state to actually penetrate civil society and implement its actions across its territories" (2008: 355). Mann's approach is specifically useful because it does not evade the question how states can gain autonomy from social forces without, however, ascribing such autonomy to all states in the world. Also, Mann's comparison of England and France highlights, against Anderson (1974), that absolutist states are not in themselves strong, but rather fierce. Instead, the representative institutions England installed and the engagement of state actors with societal groups buttressed its state powers. As noted above, it is the interactional dynamic between state elites and social forces that determine how far top-down restructuring measures can actually go.

One important question is, of course: where does infrastructural power come from? Why do some states dispose of capacities to penetrate and transform their societies, while other fail

extent and by what means any state maintains an autonomous capability to influence social relations is properly an empirical question." (1987: 1)

⁵⁰ In that time, Joel Migdal (1988) questioned the empirical validity of labeling countries like Egypt under Nasser as strong states, instead arguing for state capacities as the main differentiating characteristic. Meanwhile, he has turned into a fundamental critic and elaborated upon a political anthropology of the modern state which does not encompass any variation among different state types, given his encompassing definition according to which "the state is a field of power marked by the use and threat of violence and shaped by (1) the image of a coherent, controlling organization in a territory, which is a representation of the people bounded by that territory, and (2) the actual practices of its multiple parts." (2001: 15-16)

utterly? To repeat, in the European context, the crystallization of strong states is linked to processes of bureaucratic centralization and bourgeois empowerment. The most drastic examples of bureaucratization and centralization without the rise of the bourgeoisie are, of course, the 20th century totalitarian regimes that drew on the revolutionary fervor of their ascension to power and started adopting the means to change not only the political rules of the game, but also the ideological-cultural fabric towards a constant mobilization for upholding this new political religion. Hence, infrastructural power is not confined to democratic polities.

In contrast to these trajectories, states in developing countries could not draw on similar repertoires. In the debate on the origins of state strength, authors have referred to the colonial origins (as in South Korea, see Kohli 2004), initial levels of elite conflict (Waldner 1999) and geopolitical considerations (Doner, Ritchie & Slater 2005; also Waterbury 1999) We argue that infrastructural power is directly related to the outcomes of nationalist counter-mobilizations against European imperialism. Success of such movements, which results in the change of elite personnel, leads to cohesive states with high infrastructural powers, whereas failures do not.

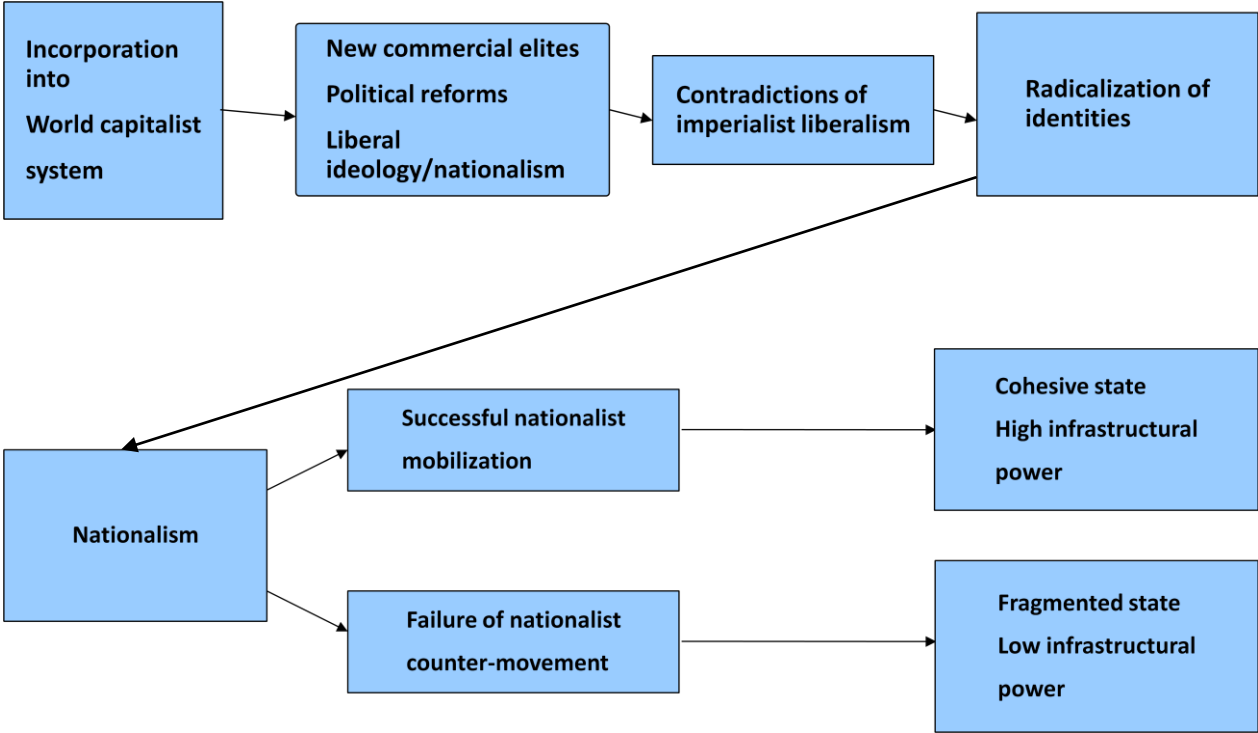


Figure 2.1. Capitalism, nationalist mobilization and state type

Nationalism is regarded as relevant because it has the capacity to transform social discourses and realities and to reshape the political opportunity structures of elites because it serves as a mobilizational resource against the existing socio-cultural fabric of European imperialism. This is not a mere functionalist conceptualization of nationalism according to which states always find and design their respective national identity as a tool of political legitimization (as critics of Gellner (1983) and Anderson (1991) would see it). To evade functionalism, it is important to outline at which point nationalism had these transformative capacities in peripheral regions. We mark the shift from liberal to antagonistic nationalism in the course of the 19th century which eventually occurred given the contradictions of liberal nationalism's linkage to the political, military and cultural 'superiority' of the colonial powers. Subsequently, the successful antagonistic nationalist mobilization leads to the transformation of the public sphere. By the coming to power and the consolidation of new, nationalist political elites, social and economic restructuring measures are adopted to outmaneuver rival groups. In contrast, the failure leads to the creation of fragmented states in which elites are effectively constrained, if not paralyzed, by already existing power groups. In most cases, these are agrarian oligarchs who have been profiting most from the peripheral position in the world capitalist system and who use their power repertoires to constantly undermine efforts to increase the effectiveness of the new state apparatus.

Political institutions, regime dynamics and path dependency

In addition to the origin of state power, we need to include an analysis of regime types and political institutions in order to specify how power is actually exercised what specific conflict dynamics dominate the 'arenas of contestation' and what kinds of changes occur in the course of capitalist development.

Institutions are broadly defined as "constraints that shape behavior" (MacIntyre 2003: 2), or, more specifically, as "building blocks of social order [that] represent socially sanctioned, that is, collectively enforced expectations with respect to the behavior of specific categories of actors or to the performance of certain activities" (Streeck & Thelen 2005: 9). They are strategically devised by elite groups and regulate, i.e. give meaning to, individual and collective action in various spheres (e.g. economy, science, law) of society. The cross-regional divergence of institutional frameworks shows that they are shaped by divergent political, socio-economic and cultural contexts and practices. In the political sphere, the

relevant institutions that shape the strategies and interactions of individual and collective actors are the fields of political conflicts and cooperation (parliament, parties) as well as the established rules of the game which are generally codified in a country's constitution (party law, laws of association, etc.). In short, they regulate how political power can be gained and exercised.

Political institutions are context-specific. They are established for a reason, and most of the time, this reason lies in the intention of political elites to consolidate their power status in society. In Thelen's terms, political institutions are “enduring legacies of power struggles” (1999: 388). Starting with this argument, it goes without saying that the different distribution of power and the different capacities of state elites to consolidate their position in the political arena will bring forth variant institutional outcomes. Due to the importance of both power relationships and institutions, the relevant factors for the analysis are, whether elections serve as tool of legitimation, whether these elections take place in an authoritarian or non-authoritarian framework⁵¹, and the type and degree of social and political exclusion.

In this sense, *cohesive states* are marked by a new political group that is not linked to the already existing agrarian oligarchic social relations and that appropriates the state apparatus. These new elites erect new political institutions and develop new ideological frames in a manner uncontested from other political and social collectivities and actors. Thus, they attain a high degree of social control and order through the political apparatus and perpetuate that new social fabric they themselves brought forth in the first place. The mechanisms of social and political control entrench their position while propagating and institutionalizing new symbols of community and the nation contrary to the ancient régime. Essentially, the less restraint by other social forces, the more authoritarian the new political institutional framework becomes. Formally participatory and representative institutions are erected as a tool of political legitimation through the structuring of the political discourse, thereby

⁵¹ In recent years, comparative political scholars have been shifting their focus to the functionality of political institutions, especially elections, parties and parliaments, in authoritarian contexts (e.g. Schedler 2006; Brownlee 2007; Lust-Okar 2005; Gandhi 2008). It becomes increasingly important to find out under which conditions authoritarian rulers are not capable anymore of structuring the rules of the political arena in an uncontested manner and when they are actually forced to abide to the rules and institutions they themselves installed. We argue that what counts in such analyses is whether elections actually can and are perceived by elites and the electorate to cause change of the political recruitment and enact political change. E.g. in contemporary Egypt, it is clear from the onset of each electoral campaign for those participating and ‘publicly’ challenging the President that there is no point in believing to succeed. In this case, there is no contestation over de-facto political leadership. Even though these elections are not uncompetitive as in the former socialist regimes, they still are ‘elections without choice’. (Hermet et. al. 1978)

preventing any within-group opposition from breaking up. Elections are not mere facades, they so convey legitimacy through demonstrating the will of the people. But they are facades if we portray into them free and fair political competition for the votes of the population. They, too, are mechanisms of control, through channeling social protest into a national arena and public discourse which are dominated by state elites and their ideological orientations. In short, elections are not installed to open a field of power contestation.

On the contrary, *fragmented states* are nothing but the political arena of competition among the agrarian oligarchic elites that easily capture the state's allocative capacities in order to improve their position. Political contestation occurs through the instalment of 'democratic' institutions which are also dominated by these same power groups who control the national apparatus by their local power networks and their patronage capacities. Social mobilization against this political fabric is possible through the liberal political process and through public discourses. New political actors can successfully mobilize votes because of the high degrees of social exclusion which results from the socio-economic status quo. Yet, the continual organization of protest is very hard to uphold, because the existing elites dispose of enormous financial and political resources to coopt any rival political actor or group. All in all, the political process in fragmented states is more liberal than in cohesive states, but the economic conditions are not changed, given that there is no group with the incentive or the capacity to do so. In terms of trust, institutions in cohesive states are more capable of delivering in an impartial way. Although corruption and patronage relations are not eradicated, they are at least not that destructive as those in fragmented states. *So, the more cohesive a state is, the higher the degrees of institutional trust.*

From the arguments made above concerning the origin of political capitalism and the role of state power and regime dynamics, we can elaborate the following typology of capitalisms; more specific, a typology that does not focus on institutional differences as in the VoC framework (cf. Jackson & Deeg 2006), but on the prevalent power structures. To evade the terminological contradictions inherent in the rational-political dichotomy (as, of course, rational capitalism is also a political construct), we replace *rational capitalism* with the term *democratic capitalism*.

	High bourgeois power	Low bourgeois power
High state infrastructural power	Liberal (rational) Capitalism	State Capitalism
Low state infrastructural power	Oligarchic Capitalism	Patrimonial Capitalism

Figure 2.2. Subtypes of capitalism

High state infrastructural power, high bourgeois power: what has hitherto been labeled rational capitalism represent the *liberal capitalism* predominant in the Western world. The western trajectory to capitalism was marked by the political consolidation of the bourgeois classes and the incremental institutionalization of political rights and civil liberties, constraining the ruler and, later, also the capitalists by extending political participation. Out of these political struggles came forth an institutionally separated judiciary, in particular, and impartial political, bureaucratic and economic institutions, in general. Only in this type of capitalism does the state dispose of capacities to uphold these principles of impartiality, and political and economic agents alike act under conditions of specified rules and procedures. Of course, corruption exists in this economic order. But the main difference to political capitalist economies lies in the fact that actors, civil societal groups and political parties have the necessary capacities to uncover corruption networks. Also, corruption is closely linked to the dynamics of political competition, i.e. in the field of party financing. Even though processes of oligopolization occur and rent seeking is part of the game, personal trust networks can at least be uncovered and unmade.

High state infrastructural power, low bourgeois power: state capitalist economies emerge on the context of cohesive state that creates a dependent class of capitalists to promote the nationally-defined goals of development and autonomy. The organizational cohesion of the politico-bureaucratic elites, who rule in an authoritarian manner, is reproduced through

measures to alter the socio-structural conditions. Given the high degrees of order in the political process and the binding ideology according to which state and society are shaped, there is a certain degree of impartiality vested into state institutions. Corruption and personal trust networks enter the field via the survival strategies of the state-spawned capitalists. Hence, maintaining such close networks to politicians and bureaucrats becomes a stable avenue to entrepreneurial success, for state elites themselves live off the resulting financial gains. In state capitalism, the direct linkage between the politico-bureaucratic and the economic spheres is perpetuated by these individual political business strategies. Thus, as entrepreneurs aim to overcome this environment of uncertainty (which stems from the sheer monopoly of power by state elites), no functional and institutional separation between these spheres is possible. Another factor contributing to the high level of uncertainty for economic action and the organizational weakness of capitalists is the fact that power rests within the state alone and that, accordingly, corrupt practices can be exposed and sanctioned.

Low state infrastructural power, high bourgeois power: oligarchic capitalism is the result of weak state institutions and the predominance of already existing capitalists who, on the one hand, need access to the state to acquire financial resources but who, on the other hand, continuously weaken the state by their capture practices. Institutional trust is very low, and due to the fragmented nature of power constellations, corruption and clientelist networks proliferate beyond control. Rival sources of trust, especially the family, perpetuate this condition, and attempts to fight the developmentally disappointing outcomes of the state are hard, if not impossible, to realize, because the state does not, in fact cannot, constitute an autonomous source of social power. Even well-connected economic actors can suspend the prevalent uncertainty only temporarily and cannot leave the political process to itself. Otherwise, other actors transform the state into a rent-generating machine. Thus, compared to all other political capitalist economies, *institutional trust is lowest in this oligarchic variety.*

Low state infrastructural power, low bourgeois power: within *patrimonial capitalism*, neither does a cohesive state apparatus exist, nor do capitalist classes form an effective source of power. Power, both political and economic, is vested in the hands of the central ruler who, through repression and divide-and-rule tactics, can act aloof from daily political affairs in which political and economic elites vie for his support. Through centralized and personalist ruling principles, the president/king/leader has the sole capacities to create and destroy wealth, himself being constantly aware of the possibilities of rival influence bases. Trust in

institutions is almost non-existent, although not as low as in oligarchic regimes. For, even though patrimonial rule in itself negates notion of impartial institutions, his position at least brings a certain degree of order into the stage. However, arbitrariness and the monopolization of sanctioning and market manipulating capacities exert enormous pressures on entrepreneurs to be willing to make contributions to the regime in exchange for favors, even if the only favor the patrimonial ruler extends is not to destroy their riches. All in all, power lies in the hands of the ruler, not within the state apparatus as such, and therefore, in patrimonial contexts, power is exerted in a fierce, not in a strong manner.

Finally, what is still missing is the analytical linkage between these early politico-economic constellations and the contemporary state of affairs. Contrary to unilineal models of social and economic change, we claim that the creation of modern national economies presents a structural turning point that sets the stage for distinctive historical dynamics, with lasting repercussions for the developments in the 20th century. In fact, the current socio-political struggles in developing countries, in general, and in Turkey and the Philippines, in particular, in a certain way still reflect those early conflicts and their institutional outcomes. In Turkey, on the one hand, the recent processes of liberalization and Europeanization are continually stalled by the structural forces of nationalism. Further, even though the moderate Islamist AKP government has been able to consolidate its hold in politics and to reorient public discourses against the Kemalist bloc during the last years, it has to engage in constant struggles with non-democratic power groups to survive as a political force. On the other hand, in the Philippines, until now every president has had to deal with the ironic fact that he or she came to power through the reckless use of clientelist allocation without being able to change this setting after coming to office. Discourses on corruption, the inefficiency of public institutions and the persistence of poverty and social exclusion reflect the same problems at the beginning of the century when oligarchic power was buttressed by the American colonial apparatus. Counter to culturalist explanations based on the enduring legacies of Ottoman Islam and the Spanish Church, we trace these features back to that structural turning point.

Therefore, we develop a path-dependent argument in the tradition of Historical Institutionalism (Hall & Taylor 1996; Steinmo & Thelen 1992; Thelen 1999; Mahoney 2000, 2001; Streeck & Thelen 2005). Against rational-choice models of political and institutional change which centers in external ruptures that cause shifts in relative prices and actors'

incentive structures, Historical Institutionalism aims to explain change endogenously, by illustrating the dynamics between change and continuity of certain patterns.

For this, we rely on Mahoney's path dependency model, more specifically, on his model of reactive sequences (2001: 5). According to that model, a trajectory is composed of five distinctive stages, *antecedent conditions*, *critical juncture*, *structural persistence*, *reactive sequence* and *outcome*. Its application in this analysis would look like the following: the *antecedent conditions* are equivalent to the high phase of European imperialism in the 19th century. In this era, both the Ottoman Empire and the Philippines had already undergone processes of incorporation into the capitalist world system. In those countries, however, the political process was characterized by attempts of mobilization and resistance against the existing order. Also, liberal nationalism was increasingly waning in favor of antagonistic nationalism which called for a new identity and for the national liberation. The structural turning point is labeled *critical juncture* in which a particular outcome crystallizes which solves, so to speak, the ongoing conflicts. Mahoney states that this outcome is a highly contingent one, meaning that, for instance, the success of the nationalist revolution under Mustafa Kemal was no organic process as past and contemporary nationalist historiographies would have us believe. *Structural persistence* stands for the forces of continuity. In Turkey, the new state elites created a new, Turkish bourgeoisie (on the ruins of Greek, Armenian and Jewish capitalist classes). The CHP consolidates its power position through new political institutions, cultural scripts and through the suppression of religious and Kurdish segments of the population. In the Philippines, the oligarchic system was taking shape, relying on a mild version of nationalism while cooperating with the new US colonialists who secured the agrarian oligarchy from dissenting political groups.

However, in this same structural pattern lie the roots for the *reactive sequence*. The policies of state-sponsored development trigger social changes (industrialization, urbanization) which backlash onto the political stage through shifts in legitimation resources which political actors can mobilize to effect institutional changes in politics and in the modes of resource allocation. In Turkey, the authoritarian political system gave way to multi-party competition, the establishment of class-based politics which shook the ideological foundations of the state. Also, the deepened capitalist development led to the rise of new business oligarchs that began dominating the political process, without striving for further political liberalization. In the Philippines, President Marcos was effective in introducing an authoritarian regime in order to

strengthen his bargaining powers vis-à-vis the family oligarchs. The *outcome*, again, solved these new conflict dynamics. In the Philippines, oligarchy underwent a restoration, veiled as democratic transition, in 1986. In Turkey, the last defenders of Kemalism, the Turkish Armed Forces, took over power and initiated neoliberal restructuring measures, even though they were not capable of further prevailing in the political process. It finally turned out that in Turkey, through this dynamic process, a new counter-elite could emerge and establish itself in the political sphere. This may have been possible, ironically, because of the enormous impact the Turkish revolution had which triggered a similarly effective backlash. On the contrary, in the Philippines, the oligarchy proved to be too flexible and fluid, its hegemony too uncontested, given that the state could never, not even under Marcos, act as a source of political power as it could in Turkey.

3. Turkey: from state to oligarchic capitalism, and beyond

The Turkish case represents an example of astonishing processes of change which challenge not only domestic, but also foreign, especially European identities. With the official start of European Union accession talks in October 2005, the EU faces the decision of incorporating a country that has been for several centuries been portrayed as the ‘Other’ when compared to Europe’s ‘civilized’ trajectory (Keyder 2006; Walter 2008). The obvious resistance toward Turkey’s potential accession, not only among European conservatives, underlines the difficulty of western politicians themselves to recalibrate markers of identity that would change the status of minority Turkish populations. Within Turkey, the accession debate is characterized by similar notions of identity building that could undermine the ‘Turkic’ character of its society. However, the year 2005 represents more than new societal discourses over the Turkish nation. It stands for substantive political and economic transformations that have occurred since the late 1980s and that have led to the emergence and consolidation of a new political elite, the Islam-oriented *Justice and Development Party* (JDP). The fact that accession talks began under the JDP government may seem paradox for observers, but makes sense considering Turkey’s peculiar transition to modernity that started in the 18th and 19th centuries. Its particular conflict dynamics has culminated in the contemporary struggles between so-called ‘Kemalists’ and ‘Islamists’.

This new polarization in politics and society is yet another dichotomous characterization domestic and external analysts rely on to structure fuzzy public debates. Many similar dualisms have been ascribed to the Turkish case, according to which developments in Turkey stem from the struggle between state and society, Turkish nation and ethnic minorities, laicist state and Islam, white and black Turks, and, most prominently, conservative contenders of traditionalism and progress-oriented and dynamic reformers. For almost two hundred years, these last two forces seem to stand opposed to one another, but on the whole, the reformists have been capable of incrementally opening up and Europeanizing state and society. Beyond such ritualized ascriptions, Turkey is deemed to be a transitory country, metaphorically functioning as a bridge between orient and occident, tradition and modernity, liberty and despotism, stasis and progress.

Developments of the last two decades seem to fit into that pattern. On the one hand, the 1990s, the so-called lost decade, were characterized by macroeconomic imbalances, open

corruption, a dirty war against the rebelling PKK during which paramilitary troops harassed the civilian population and conducted extrajudicial killings against opponents, illicit and unrestricted activities of the so-called deep state (Gunter 2006), overall political instability and a military coup against the Islamic *Welfare Party* (WP). On the other hand, the twin financial crises in 2000 and 2001 (Önis 2003) paved the way for the emergence and coming to power of the JDP which set in motion developments that were until then regarded as impossible in the Turkish context.

The government under Prime Minister Recep Tayyip Erdogan enacted measures towards political inclusion and liberalization of the Kurdish and religious minorities, formal civil supremacy over the National Security Council (NSC), strict adherence to IMF and World Bank conditionality, regulation of the banking sector and engaging the so-called Ergenekon networks between members of the Turkish Armed Forces (TAF), politicians and bureaucrats. In the economic sphere, the JDP government was highly successful. Growth rates, FDI and privatization gains rose to unprecedented levels, at least until the current global financial and economic crisis, and the government effectively smashed the Uzan family media conglomerate, highlighting its rigid anti-corruption policy. Furthermore, economic activities are not focused on the western Turkish established family business groups any longer, but include the central Anatolian SMEs who have been capable of increasingly gaining shares in export markets. In the field of foreign policy, the country has, for the first time, successfully claimed its position as an honest broker in the Middle East, mediating between Israel and its adversaries, e.g. Hizbollah during the 2006 war, Syria and Hamas. Before that, Turkey was willing to make possible the reunification of Cyprus in 2004, which was eventually thwarted by the referendum of the Greek Cypriots. Last but not least, in 2005, the rapprochement with the long-term Armenian enemy through reciprocal ‘soccer diplomacy’ has even triggered public debates about the country’s multicultural past and the fate of the Armenian Ottomans.

The fact that such obvious successes occurred under a religious political force questions the usual above-mentioned dichotomous depictions. Still, what do they mean in the Turkish context?

Among the various interpretations, there is a trend to acknowledge the end of Kemalist hegemonial discourses in Turkey (e.g. Kieser 2006; Yavuz 2006). Accordingly, the transformation of political elites signals the dissolution of the last pillars of Kemalism that

have hitherto been regarded as guarantors of Turkey's modernity project. For, state elites, mainly the TAF, have after several conflictive engagements lost their status as the sole legitimate heirs of Atatürk. The role of religion, which was to remain a private affair, was transformed by social groups and political parties by continuous encroachments into the public sphere. New religious identities were formed according to which religion does not replace other forms of political community. On the contrary, they have given birth to a new kind of religious nationalism by including notions of individual liberties and democratization.

These discursive shifts will be hard to unmake given the political consolidation of the JDP. The overwhelming majorities in the 2007 presidential and parliamentary elections destroyed any hopes for policy reversals and lower the chances for societal counter-mobilization (e.g. the 'republican rallies' in 2007). Beyond politics, Kemalist secularism has lost another stand in the private media sector that has traditionally been controlled by established family business groups, most importantly Dogan Holding, which participated in the so-called 'post-modern coup' on 28 February, 1997. The Dogan Media Group has not only lost shares in the newspaper market to *Vakit*, *Yeni Safak* and, especially, *Zaman*, but risks political confrontations with the government which may have, as it currently does, direct financial implications. While media owners traditionally used their influence to gain special privileges from political elites in the 1990s (a business strategy the Uzan family had perfected), such channels seem to be closed under the JDP.⁵²

Also, the JDP can credibly claim to have, to some extent, freed the political arena from the grip of the TAF which has a known history of military interventions (27 May, 1960; 12 March, 1971; 12 September, 1980), the last of which (28 February, 1997) was cloaked as a joint project with civil society organizations. The JDP is the first political party to directly oppose and counter the, mainly unofficial intrusions, of the TAF leadership, and, beyond that, to expose the illicit dealings of the co-called 'deep state'. The *Ergenekon* investigations mark a decisive turn in civil-military relations in which the latter used to have the upper hand. Although it is not clear where this process will end, and how deep the investigations will go,

⁵² Media discourses are highly interesting in that perspective. Compare, e.g., the daily coverage of *Hürriyet Daily News and Economic Review* (formerly *Turkish Daily News*) and *Today's Zaman* (Zaman group), and you will get an impression of the deep ideological cleavages which are manifest in almost all political and societal affairs of the country. While columnists of *Today's Zaman* generally (with few exceptions) support the AKP government, *Hürriyet Daily News* columnists generally (also with few exceptions) condemn it, no matter what the issue is.

the fact that it is possible to engage the military institution represents a highly symbolic victory of JDP politicians who can thereby underline their democratizing impact.

Besides politics and religion, the neoliberal reform project the government has adhered to since 2002 was embedded into discourses emphasizing the break with the statist outlook of the economy that focused on political rents rather than entrepreneurship, thereby causing macroeconomic imbalances and inhibiting sustainable growth. Under the new order, domestic and foreign private capital are considered to function as the sole motors of economic and social development. Although privatization and FDI promotion were on the agenda since the 1980 IMF structural adjustment program and were first implemented under the Özal administration in the late 1980s, they took off rapidly under the JDP. The government was in the comfortable situation of being able to legitimize neoliberal reforms after the severe financial crisis shattered the reputation of its rivals.⁵³ New forms of consumerism (due to the liberalization of credit card markets) and religious discursive shifts concerning the relationship between Islam and profit-making (Tugal 2002, 2009) and community (White 2003; Tugal 2006) paved the way for the economic expansion of the current decade.

Furthermore, the government can claim to have dealt a decisive blow to the system of political business of the 1990s by regulating and depoliticizing the banking sector. Although the new regulatory framework was institutionalized before the JDP took over, it could easily reap the fruits of this step by promoting the entry of foreign banks and equity capital. Consequently, banks seized to function as rent-generating organizations for political business networks. Through sequestration and resale of banks under the new banking regulatory authorities, the highly stable banking system (which has until now not been affected by the financial crisis) seems to be a secure backbone of Turkey's growth. Thus, the government seems to have learned from the dangers of cronyism and adopted the necessary institutional changes to pave the way for a liberal economic order based on efficient and dynamic entrepreneurship, not on political patronage.

In sum, these transformations are revolutionary in light of the structural problems usually associated with Turkey's modernity project. Obviously, the consolidation of the JDP rule seems to have solved those contradictions by refilling the gap between state elites and broader

⁵³ Ironically, it could be argued that, had it not been for the forced replacement of the Erbakan government in 1997 and the dissolution of the Welfare Party and its successor, the Virtue Party, the religious parties themselves would have been punished in the post-crisis parliamentary elections. Thus, with those drastic measures, the TAF and its political allies are responsible for the elite change that has occurred since then.

segments of society that were excluded for a long time from the political process. This rupture is acknowledged by many recent academic publications on Turkey in the post-crisis era⁵⁴, which fit into the global highly contested debate on the compatibility of Islam and modernity in which Turkey and other moderate Islamic countries tend to be portrayed as model cases.

However, this is not the whole story to recent Turkish developments. The self-portrayal of the AKP in many instances openly clashes with its actual practices, be it in politics or the economy. On the one hand, political liberalization as a measure to include non-violent Kurdish activists into politics has until now been fairly limited. It can be doubted whether the government is interested in peacefully solving the Kurdish problem, as it often recurs to coercive measures towards members of the Democratic Society Party (DSP). Also, no institutional changes have been effected concerning the political equality of Christian minorities. On the other hand, clientelist linkages between politicians and businessmen continue to prevail in economic affairs. Informality remains on high levels, and economic policy-making keeps being based on generating riches for individual supporters. The prime example in recent years was the re-privatization of the ATV-Sabah media group in 2007, at the end of which the Calik Group won the bidding process despite violations of the tender regulations. Government members rely on discretionary practices in terms of selective tax exemptions without being held accountable by an ineffective political opposition. Therefore, it is fair to assume that what occurred was merely a transformation of political patronage, which is centered (as in the Özal era) on the very hierarchical ruling party.

What are we to make of these contradictions? In analytical terms, we have to view the JDP rule in light of Turkey's state formation since the late 19th century when the Ottoman Empire was in a state of obvious decline. Understanding the JDP is only possible if we refrain from the above mentioned dichotomous ascriptions and refer on a historical-sociological framework to assess the societal backlashes against Kemalist politics. Moreover, the notion of Turkey's political capitalism and its change dynamics is essential for this task. With the establishment of the Turkish Republic in 1923, state elites perpetuated the project of the ethnic homogenization of its commercial classes, at the expense of Greeks, Armenians and Jews. During those early years, elites set the stage for a state capitalist order, which was marked by high degrees of infrastructural power of state elites (given the success of the

⁵⁴ Among many others, see e.g. Yavuz (2006), Yavuz (2009), Atasoy (2005), Carkoglu & Kalaycioglu (2009), Nasr (2005), Dagi (2008), Turam (2007).

nationalist liberation struggle). Businessmen had organic links to the state, but were heavily dependent on its elites for economic ventures. Yet, *state capitalism* gave way in the course of political (multi-party politics) and economic (industrialization, urbanization) changes to *oligarchic capitalism* since the 1970s, at the center of which were the western Anatolian industrial conglomerates. Compared to the Philippines, though, the Turkish oligarchy was a closed and rather cohesive one and restricts its official activities to the spheres of business. Since the 1970s, it has gone through stages of political centralization (1980s, 2000s) and fragmentation (1970s, 1990s) that determine the bargaining powers of influential families.

According to this framework, the practices of the JDP do not seem that contradictory at all. It represents an alternative socio-political force that opens up the political arena. How deep this process goes is restricted by the fact that it does not democratize the system for ethnic and religious minorities, but for its own social support base mainly. Also, as political power and economic power are directly linked, it uses financial resources of the state to promote its own business champions and to keep up mass support through party patronage. Indeed, the JDPs perpetuation of power is revolutionary. For the first time in decades, the ruling elite is marked by high degrees of cohesion. This cohesion is linked to the fierce ideological struggles over the public sphere. And it gives the JDP the necessary leverage to counter the power of the TAF and influential business families. That is why it remains to be seen where the country is headed in the coming years, and whether oligarchic capitalism can change or not.

Antecedent conditions – reform of empire, bourgeois classes and breakdown

The narrative begins in the second half of the 19th century. In this time, the deepened commercialization of the Ottoman Empire's economy (as process that began much earlier) led to the establishment of capitalist classes linked to the European centers of global capital. Due to the preferences of European states and commercial agents, the Ottoman commercial bourgeois groups consisted of ethnic and religious minorities, mainly Greeks, Armenians and Jews. Decreasing military capacities of the Empire and territorial losses after wars with separatist nationalist groups and Russia accelerated capitalist incorporation, namely through upholding the Ottomans' dependence on foreign, public and private, loans. The declaration of official bankruptcy in 1876 and the founding of the Ottoman Public Debt Administration (PDA), which took over economic governance capacities, perpetuated the image of the 'sick man' of Europe. The Sultan was increasingly forced to meet the political demands of the

bourgeois classes for official political equality, the introduction of civil rights and the institutionalization of the separation of powers. Liberalist Muslim and Christian Ottoman reformers saw in such a – political and economic – liberalization project the only way to catch up with the European great powers.

However, the liberalist paradigm disintegrated as a legitimate value-system. Because of the persistence of nationalist struggles in Balkan provinces, ideological shifts swapped over to the imperial center. Several cultural projects were followed to save the state from breaking apart. On the one hand, Sultan Abdülhamit II put an end to liberal political reforms after 1879 and adhered to new forms of Islamic legitimation against subordination to the Christian West (Deringil 1991, 1999). On the other hand, Turkish nationalist identity formations occurred, which broke with the multicultural tradition of the Empire and began to ‘other’ all but Turkish-speaking Muslims (Hanioglu 2002; Göcek 2002; Barkey 2008). The continuing geopolitical conflicts at the dawn of World War I resulted in further polarizations and radicalizations of national identities that envisioned an ethnically and religiously homogenous state. Although the outbreak of World War I, in which the Ottoman Empire sided with Germany, Austria-Hungary and Bulgaria, closed many doors to save the state, it simultaneously created new opportunities for the Committee of Union and Progress (CUP) to fulfill that vision.

Before we treat these 19th century capitalist transformations in detail, a short overview of the traditional Ottoman political and economic order will be presented. As outlined in Chapter Two, the aim is to write a non-orientalist narrative. Usually, Ottoman politics, economy and history have been depicted in two ways, which underline the representations and reifications of Ottoman oriental despotism and traditionalism. First, the Ottoman Empire was for the most time characterized by stasis and rigidity, and substantive institutional changes occurred only with the tightened linkages to the European capitalist economies which exposed the inefficiencies of Ottoman institutions. Such contacts triggered transformations and paved the way for the Tanzimat reforms in the 19th century and, later, the creation of a modern republic. Second, Ottoman history was framed in terms of an early and long-lasting expansion that lasted until the 17th century when the empire began to decline due to the superiority of Western powers.

However, as recent Ottoman scholarship is eager to emphasize⁵⁵, such accounts are one-sided and simplistic. They fail to take into account the complexity of Ottoman rule, its institutional changes by relying mainly on temporary Ottoman sources that tended to convey an image of decline after the so-called classical age in the 16th century under the reign of Süleyman the Magnificent. Contrary to these representations, the Ottoman Empire was continuously undergoing processes of change to counter politic, economic and military challenges all states and empires were facing. Also, in economic terms, the AMP model has not proven helpful to approach Ottoman history, for many changes occurred before the ‘capitalist incorporations’.⁵⁶ Only in the last decades was the high degree of dynamism and change of the Ottoman economy accounted for without which the longevity of the Empire would probably not have been possible.⁵⁷

In the following broad overview, we focus on the most important of such institutional changes that were affected both by geopolitical rivalries and endogenous state-society dynamics. The main changes refer to the continuous expansion of tax farming that replaced the timar system and which allowed for the increased accumulation of capital in the hands of regional de-facto land-owning elites (ayan) in the 18th century, while at the same time the Ottoman sultans were facing new forms of contention both within and beyond the state bureaucracy.

Territorial expansion, patrimonial order, economic institutions

The geographic and cultural origins of the Ottoman Empire lie in 13th and 14th century western Anatolia. In those times, the Rum Seljuk realm had already disintegrated under pressure from Mongolian raids, and the political and religious centers of the Islamic Middle East shifted to Egypt and Iraq, where the Mamluk and the Mongol sultans struggled for superiority. Most parts of Anatolia were fragmented into petty realms (*beyliks*) ruled by Turcoman tribes that competed for influence and control over trade routes. The Ottomans

⁵⁵ See, among many others, Islamoglu-Inan (1987), Barkey (1994, 2008); Abou el-Haj (1998), Salzman (1993, 2004), Pamuk (2009), Inalcik & Quataert (1994) and Quataert (2000).

⁵⁶ Keyder (1987), Decdeli, Kasaba & Wallerstein (1987), Pawelka (1991), Berberoglu (1982).

⁵⁷ “Notwithstanding the numerous misconceptions about it that remain to be clarified, the Ottomans were successful at maintaining imperial rule over a vast territory for many centuries. This success was based on their intrinsic flexibility and ability to adapt. Contrary to images of wild barbarians who conquered territory and then degenerated into unyielding Asiatic forms of despotism, they showed tremendous adaptability. Furthermore, although they were often brutal warriors, warfare was only part of their success. What was unusual in the Ottoman Empire was an early ability to absorb diverse populations and create new identities and a new elite, which was the hallmark of all successful empires.” (Barkey 2008: 7)

were one of these tribes, but their common frontier with the remains of the Byzantine Empire had the effect that the first emirs meddled into conflict-ridden Byzantine affairs.

Ottoman rule was from the start characterized by its multi-religious outlook which reflected the composition of its population. While most other Turkic tribes fought one another, the Ottomans shifted their attention to Balkan provinces of the Byzantines and independent kingdoms and principalities. The Rumelian campaigns, which were only briefly but massively interrupted by the Mongolian raid of Ankara in 1402 and the erupting succession rivalries, consolidated the new multi-religious and multi-ethnic realm. The population of the conquered territories comprised Sunnis, orthodox Christians, heterodox and mystical Muslims and tribes partially adhering to shamanistic Turcoman traditions. Accordingly, the further conquest of Christian peoples on the Balkans did not pose any problems for the legitimation of Ottoman rule, as it was marked by tolerance and flexibility toward religious minorities who kept their own ecclesiastical organization structures.⁵⁸ The fact that the Ottomans ruled over a Christian populations rendered possible innovations concerning their inclusion through the slave-status (*kul*) into the Ottoman army and bureaucracy. The Ottoman disposed of a stable reservoir of slaves in the Balkans whereas former or rivaling empires (Mamluk Egypt) were dependent on their access to regional slave markets. Through the institutionalized *devsirme* system (lit. boy's levy), the Empire annually conscripted a certain amount of the fairest and brightest male children before reaching adolescence who were converted to Islam, underwent the most privileged military, religious and administrative education and formed the military-bureaucratic backbone of the empire.

Only after the conquest of Constantinople in 1453 did the legitimizing character of the Empire change. While Mehmet II 'Fatih' (the Conqueror) regarded himself as the heir of classical Greek and Roman Emperors and maintained the new imperial city as the center of the Greek and Armenian churches, the symbolic victory of Islam nevertheless altered the religious character of the Empire toward its Islamization (as became obvious through the transformation of the urban landscape in the new capital). This deepening of Islamic identities was furthered by the new confrontations with rival Muslim states, the Mamluks in Egypt and Syria and the Iranians. After the Ottomans eliminated the last rivaling Turkoman tribe-states in Anatolia, the Ottomans engaged and defeated the new Iranian Safavid dynasty in 1514 and

⁵⁸ This fact can be regarded as evidence against Paul Wittek's gaza thesis, see Imber (1987) and Kafadar (1995: 47-60).

the Mamluks in the battle of Marj Dabiq in 1516. As Barkey (2008) argues, the expansion of its rule over Syria, Egypt and the Hijaz, and, more importantly, the suppression of Shia Muslim groups in Anatolia who supported the Iranian shah, since the 15th century ended the Ottoman's flexible tolerance toward heterodox Muslims and strengthened the Sunni Muslim outlook of the Ottomans, as Istanbul replaced Cairo, Damascus and other Arab cities as the new religious-cultural center of the Islamic world.

The era after the 16th century is usually described as the long-term decline of the Ottoman Empire. For, starting in the 17th century, the Ottomans for the first time had to experience painful military defeats at the hands of the Habsburg and the Russian empires. Also, in piecemeal fashion, the Sultan was losing his exalted status, as costly military campaigns, the outreach of European states into the long-distance trade with South East Asia and demographic and inflationary pressures weakened the state-controlled economy, leading to several long-lasting social rebellions. Yet, the substantial crises of the 17th century were at the same time experienced by European states, and as Goldstone (1991) claims, the Ottomans were capable of competing with its rivals until the 19th century, both in military and in economic terms. And the respective crises impacted the Ottoman structures of domination, as they did so in Western European contexts.

In its early shape, the Ottoman Empire represented a classical case of bureaucratic-patrimonial rule which was effective in reproducing uniform administrative structures across a culturally and geographically highly diverse territory. The patrimonial element was reflected in the personalism of decision-making processes. The Sultan and his household were the sole organizational source of power. The state apparatus and the state elites around and within it are personally bound to the figure of the Sultan who has to come from the Ottoman ruling family. Patronage ties and gift exchanges mark the rivalry among elites for the favor of the Sultan who can unilaterally decide over the fate of whole clientele networks. His monopoly over sanctioning and elite recruiting, mostly in the form of rotation of elites, the Sultan has the capacity to disorganize potential autonomous power bases, as most elites until the 17th and 18th century were recruited through the slave system. Another pillar of patrimonial rule was the religious-symbolic legitimacy of the Sultan as the sole guarantor of Islamic justice and defender of the official orthodox Sunni faith (cf. Jacoby 2008; Barkey 2008)

To understand this patrimonial nature of Ottoman rule, we have to take into account its bureaucratic dimensions. Over the centuries, a highly differentiated imperial administrative structure emerged with its various (military, fiscal, judicial) subdivisions each of which had its own functions, on the one hand, and standardized education and remuneration patterns, on the other hand. Through its regional and provincial administration, the empire managed to reach a high degree of uniformity, especially in the fields of fiscal policy and military mobilization, while conceding certain degrees of autonomy of local practices in the Arab provinces. The case of the judicial apparatus highlights this bureaucratic dimension. Although classical ways of religious learning in *medreses* and regional universities and facilities were conserved, the imperial bureaucracy transformed scholars into members of an *ilmiyye* class the members of which competed for the most valued administrative posts in Istanbul. Their main function was to render compatible the canonic sources of Islamic law (*sharia*) with the secular Ottoman sultanic law (*qanun*) which allowed important religious and moral legitimation of political and economic institutions. The most prominent example was the fatwa of the Seyh-ül-Islam Ebusuud Effendi approving income from interest in order to upkeep the common welfare (Zilfi 1988; Imber 1997).

This combination of patrimonial and bureaucratic elements, which defy purely personalist conceptualizations like sultanist regimes (Weber 1978; Chehabi & Linz 1998), is further reflected in the empire's bifurcation into members of the ruling bureaucracy (*askeri*) with its *seyfiyye* and *ilmiyye* branches and the non-elite population (*reaya*; lit. flock) which provided the basis of Ottoman order. On the one hand, bureaucratic elites formed an exclusive group with distinctive privileges (tax exemptions, right to bear arms, land grants etc.) that derived from the *kul* and administrative status. On the other hand, these groups were mainly bearers of the emanation of sultanic power. The centrality of the Sultan's position, his monopolization of political power and the importance of official positions increased the bargaining power of the Sultan and lowered the possibility of rival sources of social power to emerge (e.g. regional officials, urban guilds, religious leaders, wealthy elites). In sum, the Ottomans "engineered a system in which the allegiance of members of the military and administrative apparatuses was practically unchallenged. The state made these men for its own purposes and rewarded them through its own channels, tying their livelihood, rewards, and status to itself through methods of divide and rule. This was partly the reason for the long-lasting success of the state; even as economic and military ills hit them, officials looked for rewards from the state and tried to advance within the state apparatus rather than challenge it." (Barkey 1994: 25)

In the realm of economic policy, the two main pillars of the Ottoman Empire were its fiscalism and the central role of urban and military provisioning. The central institution that reflects both the dimensions of military expansion and social control was the prebendal *timar* regime, which stands in a long tradition of indirect and non-monetary tax collection in the Middle East (cf. Sato 1997). Under this system, the Sultan assigned varying plots of land for cavalymen (*sipahi*) to tax, administer and to conscript and provision fighters for military campaigns. This system prevailed across the Empire, with upper provisional elites (governors, governor-generals) obtaining grants and privileges according to accomplishments in the battle and to personal relationships in the center. Short-term tenures for *sipahis* prevented any long-term communal solidarity bonds to the peasants who mainly cultivated subsistence-oriented family farms and who disposed of hereditary usufruct rights on the land. Although the state aimed at restricting the rural population's mobility and at binding it to the land, during times of distress or conflicts with *timar* holders (over tax or harvest issues), many individuals and peasant families tended to leave the countryside to move to the urban commercial and manufacturing centers which regional elites could rarely prevent (Barkey 1994; Inalcik & Quataert 1994).

The state adopted a variety of policies to guarantee a stable provisioning of cities (esp. Constantinople) which were major entrepôts of intra-Ottoman and long-distance trade⁵⁹. Through low import duties, higher duties on exports, the granting of trading privileges to European merchants (capitulations), official price ceilings, public purchasing procedures for military campaigns and the urban guild system that regulated market entries, prices and quality standards, the Ottomans stabilized the inflow of goods into the major cities.⁶⁰ In these, upper members of the bureaucracy, wealthy merchants and moneylenders, janissaries and religious authorities formed the core of a distinctive urban higher culture (Faroqhi 2007). These economic institutions established the basis for the continuous Ottoman expansion and war campaigns until the 16th and 17th century. The following decades, however, were marked by enormous ruptures and institutional changes given the increased military capacities of

⁵⁹ Long-distance trade did not lose its importance after the Dutch and the Portuguese began establishing colonies in Southeast Asia. (Faroqhi 2007: 46)

⁶⁰ However, Pamuk argues that such regulative policies, especially the price ceilings for certain goods, were mainly effected in a selective and flexible manner. "They [narh lists] were issued primarily during periods of extraordinary instability and distress – wars, crop failures, and other detriments to the food supply, as well as such monetary crises as the debasement or reform of coinage – when prices, especially food prices, tended to show sharp fluctuations or upward movements. In the absence of such problems, however, local administrators did not issue narh lists for long intervals, sometimes decades." (2004: 237)

European powers. Subsequently, “a vicious cycle developed: wars burdened the treasury, and the lack of financial options encouraged those in government in their inclination to take advantage of as many unpaid supplies as possible, resulting in a considerable weakening of the manufacturers. Because of this weakness it became increasingly difficult to supply the armies and therefore to win wars. This in turn led to an increased burden on the treasury.” (Faroqhi 2007: 51)

Internal and external dynamics of change

Since the 16th and 17th centuries, a variety of factors (population growth, military failures, budget and inflationary pressures) forced the Ottoman state to introduce overall institutional changes, especially in the field of taxation. The solutions that overcame the budgetary problems helped the empire to continue its costly military campaigns against the Habsburg and the Safavid empires. Still, in the long run, they at the same time triggered or accelerated other socio-political dynamics that generated new constellations of political power until the early 19th century.

Yet, the external pressures met with ongoing internal Ottoman political dynamics. These arose mainly from the intra-elite competitive struggles to overcome the rigidities concerning the boundaries that restricted the *askeri* status to the Sultan’s *kuls* who tried to maintain and pass their wealth and positions to their offspring. They did so by establishing pious foundations⁶¹ to secure their assets from the Sultan’s reach. But only with the allowance of descendants of elites into the state bureaucracy was it possible for influential figures to build extensive patronage networks. Grand viziers and other high-standing elites began emulating the household-building practices of earlier Sultans, thereby transforming the political arena into a more decentralized model in which extensive factions competed with one another over important posts in the administration (cf. Göcek 1996: Chap. Two). In this process, de-facto decision-making powers shifted from Sultans to Grand Viziers many of which were capable of entrenching their family in the apparatus, most notably the Köprülüs during the second half of the 17th century. Such highly competitive structures contributed to new forms of wealth generation (commercial ventures, money-lending, urban real estate) which military, judicial and regional elites relied on to increase their influence. Individual sultans could manipulate

⁶¹ See Kuran (2001) for a discussion of the ‘waqf’ system.

this environment, but such attempts also rendered their own lives more dangerous, as can be seen by the assassination of Osman II in 1622 by opposing Janissaries.

The external challenges the empire faced were the heightened geopolitical rivalries and the increasing military capacities of European states. With the end of territorial expansion, new campaigns began to overburden the budget and hindered urban manufactures. At the same time, similar to developments in Europe, demographic changes, urbanization, growing commercialization and the monetarization of the economy, but most importantly, the influx of Spanish American silver into European and Ottoman markets triggered inflationary dynamics that endangered the traditional social order by causing land flight, rural rebellions and banditry.⁶² The main institutional solution to these structural challenges was the extension of tax farming (*iltizam*) at the expense of the *timar* regime.

Under this semi-public revenue contracting regime, which already existed to a minor extent in the 15th century and was applied to urban taxes), state revenues were collected by officials or individuals tax farmers who bought this right in a public bidding process (usually for one to three years). This seemed to be an effective way out, as it also addressed the military nature of the crisis. For, it was accompanied by a long-term change in the composition of the Ottoman army during warfare by gradually replacing cavalymen with Janissary infantries who formed the core of the expanding standing army.⁶³ This was not a revolutionary event but an incremental process during which the amount of *timars* was decreasing and during which they were allocated to various members of the military establishment and not restricted to cavalymen any longer.⁶⁴ This process entered a new stage when in 1695, when the state again faced budgetary shortages in midst of another campaign against the Habsburg empire, the government introduced life-term tax farms (*malikane*). These brought higher degrees of certainty both for tax farmers in terms of profit expectations and for peasants who were exposed to the short-term orientation of yearly leases (Barkey 1994; Salzman 1993, 2004).

The institutionalization of the *malikane* had several direct and indirect consequences. The empire consolidated its budget, gaining surpluses at the turn of the 18th century. Initial cash payments proved to be a reliable source of income. Over the next decades, both the number of

⁶² For explanations on the long-term inflation trends and the price revolution see Pamuk (2001).

⁶³ Number of janissary corps rising from around 8,000 in 1527 to around 40,000 in 1670, 53,000 in 1699.

⁶⁴ See Barkey (1994: 60-76) on the observable changes of the *timar* regime between the 16th and the 17th century, especially the variety of reforms under the centralization program of Murat IV.

contracted taxes through *malikane* and the absolute amount of tax income increased drastically (Barkey 2008: 239). These renewed financial capacities, which flourished during the rather peaceful ‘Tulip era’ at the beginning of the 18th century⁶⁵, enabled the empire to re-engage in long-lasting military campaigns against the Habsburgs, the Russians and the Iranians, a fact that belies assumptions on the inevitable Ottoman military decline.⁶⁶ It was only with the renewed wars against the Russian empire in the latter quarter of the century that the inferiority of Ottoman warfare became obvious. The losses according to the Treaty of Küçük Kaynarca (1774) and the Russian annexation of the Crimean set the stage for the first efforts of Sultan Selim III (1789-1807) to modernize Ottoman military structures in line with European developments. With French military advisors, Selim III devised plans to introduce new troops, the *nizam-i cedit* (new order), against the interests of the Janissaries who had already begun to act in concert against changes that would undermine their socio-economic and functional basis.⁶⁷ The Janissaries, who had developed organic ties with urban guilds and ulema and acted as defenders of the traditional order, prevented the reform program of the sultan by rebelling against and deposing Selim III and ultimately, when intra-elite tension was heightening, assassinating him in 1808. It was only through the intervention of loyal regional notables that another reformist sultan was installed, Mahmud II, who would later initiate the Tanzimat period.

The *Sened-i Ittifak* (‘Deed of Alliance’) of 1808 by which the new sultan acknowledged the political status of regional notables represents a revolutionary event in Ottoman political history and reflects profound socio-economic transformations over the preceding century. These were the indirect and unintended consequences of the *malikane* institution. For, it enacted a process of de-facto privatization of rural estates and formed a new economic basis for a heterogeneous group of landowners who grasped the opportunities of deepened commercial agriculture and growing trade (Salzmann 1993, 2004). Thus, before the full-fledged advent of capitalist social relations in the 19th century, the *malikane* functioned as the institutional dynamic element that changed the whole economic outlook of the empire. How did this transformation into a political elite look like?

⁶⁵ On new consumption patterns during this era, see Salzmann (2000) and Faroqi (2007).

⁶⁶ In the Treaty of Belgrade in 1739, the Ottomans could regain territory it had lost – for the first time in its history – according to the Treaty of Karlovitz in 1699.

⁶⁷ The two most important dates signifying these transformation were the so-called the Edirne event in 1703 and the Patrona Halil revolt in 1730; for an elaboration see Barkey (2008).

On the one hand, most of the early malikane holders were members of the Ottoman state bureaucracy, viziers, military officials, ulema and fiscal officials who were already engaged in tax collecting. These groups relied on these new profit sources as a further source of augmenting their status. On the other hand, these groups subcontracted parts of their tax rights within their own patronage networks, mainly to provincial urban elites. Business partnerships emerged and tax farms were marketized with the help of Muslim and non-Muslim bankers and moneylenders. Thus, out of the original distinction between *askeri* and *reaya*, elite actors with multiple social identities (military, bureaucratic, economic) developed who passed the privatized landed estates on to their descendants.⁶⁸ In the provinces, wealthy notables (*ayan*) used their brokerage capacities between central bureaucrats and rural populations to secure local tax payments. In this process, they created distinctive regional power bases and contributed infrastructure projects and pious foundations as tools of legitimation.⁶⁹

Such were the politico-economic dynamics that prevailed in the Ottoman Empire toward the 19th century. Although private forms of accumulation existed, the position of the property of outsiders was tenuous at best, and that of insiders depended on the dynamics of competition and patronage networks. Also, the marketization impetus of the malikane was not accompanied by changes in overall state policies that still aimed at provisioning cities and the military which led to enormous damages on local producers in times of war. Rural insecurity and migration flows prevented any substantive commodification of rural labor. Most tax farmers adhered to their rentier status that was appropriate due to the fiscalist premises of economic governance. Although agriculture and manufacture grew over the century, such growth began under pre-capitalist conditions, with the state being the main motor of growth (and decline).

⁶⁸ “Over the course of the eighteenth century some 1,000 to 2,000 Istanbul-based individuals, together with some 5,000 to 10,000 individuals based in the provinces, as well as innumerable subcontractors, agents, bankers, accountants, and managers, controlled an important share of state assets. The pasha-viziers and high-ranking ulema, rural gentry, urban notables, and provincial janissaries who comprised these malikane-holding elites constituted a semi-privatized but interdependent institutional component of the ancient régime’s administrative and political structure.” (Salzmann 1993: 402)

⁶⁹ While the rise of the *ayan* was usually described as a phase of declining central state power (e.g. Keyder 1987; Inalcik & Quataert 1994), Barkey (2008) counters this argument by highlighting the specific interests of most *ayans* in a reorganized and strong state.

State restructuring, capitalism, nationalisms

The first wave of military and bureaucratic reforms began under Sultan Mehmet II., who was aware of the danger of Janissary opposition to any changes of the traditional political and economic order. Conflicts with Russia intensified, as it had begun to interfere into internal Ottoman affairs by mobilizing ethnic-religious dissent in the Balkans to rally nationalist movements. One important milestone of this strategy was the acknowledgement of Serbian autonomy in 1815. It was only due to the inabilities of the Janissary-based armies to stifle nationalist rebellions that the Sultan acted under different opportunity structures than his predecessors. As the Janissaries failed to counter the Greek national liberation struggle (for which the Sultan had to rely on Mehmet Ali's reorganized Egyptian troops) the Sultan finally succeeded in breaking the Janissary factor by utterly destroying them with *nizam-i cedid* forces. The rise of this 'New Army' was effected through the help of western instructors, higher military budgets and arms imports, new educational facilities according to western-secular curricula. At the same time, the rationalization of the Ottoman bureaucracy was initiated. The introduction of new ministries, strict hierarchies and regular salaries created a new bureaucratic class that aimed to achieve a similar status as bureaucrats in western countries, based on meritocracy and impersonality. These attempts, though, were seriously constrained by the lack of financial resources of the empire that was involved in constant warfare, Russian aggressions and the loss of territory, most important the loss of Egypt which after 1840 was only formally tied to the empire.

The second wave of reforms occurred under Sultan Abdülmecit (1839-61) and was, for the first time, publicly proclaimed in the Gülhane Edict of 1839. To increase central control over finances, the state officially abrogated the tax-farming system, trying to replace it by direct taxation through financial authorities. Yet, the attempt was not successful, so that the center relied on its strategy to reduce the overall share of tax farms and to charge individual tax-farmers through divide-and-rule tactics. This strategy goes back to the early days of Mehmet IV who did not feel obligated to the 1808 Sened-i Ittifak and who increasingly outmaneuvered regional power brokers. Still, the transition to direct taxation did not occur.⁷⁰ On other fields,

⁷⁰ "Thus, the Istanbul government never won direct access to the agrarian surplus of an agrarian empire. The continued prevalence of tax-farming vividly illustrates the tenacious power of local notables in almost every area throughout the century. In many respects, Istanbul did impose its will on the notables. It did reassert itself as the single most important factor in domestic politics. It often appointed once-autonomous dynasts to government posts at a distance from their former seats of influence. In the later nineteenth century, for example, Karaosmanoglu family members from western Anatolia served as governors of Jerusalem and Drama. But the

the new Sultan was quite effective. He introduced the general conscription, abolished the *cizye*⁷¹, reorganized and secularized the judicial system by implementing new penal (1843), commercial (1850) and maritime trade (1963) codes. Similarly, a public education system was introduced, as well as secular secondary schools that brought forth a new generation of administrators (Zürcher 2004; Hanioglu 2008).

Although the state implemented these far-reaching reforms, out of internal reasons and to counter foreign demands for political liberalization and equality, they did not secure the Ottomans' stand in the European balance of power. Most European states only sided with the Ottomans as soon as Russian aggressive expansion seemed too dangerous for the whole order. The Crimean War between 1853 and 1856 perpetuated the precarious position of the Ottomans.

While the Tanzimat reforms were mostly a project of the bureaucratic class (e.g. prominent figures being Fuat Pasha and Ali Pasha), the opening of the Empire to western political, economic and cultural influences also led to new ideological struggles over the meaning and the goal of the project. From the ranks of the new bureaucratic segments, many came in touch with new political ideas of liberalism and nationalism. Through the proliferation of new communication techniques, especially newspapers, these groups identified the lack of political representation as the main problem that needed to be overcome to maintain internal stability. Among this heterogeneous bloc, actors differed concerning the role of Islam, the position of religious minorities and the emulation of western institutions. What united them ideologically was their common stand against the Ottoman regime and the call for representative institutions to counter the power of the Sultan and the upper bureaucracy that had implemented the Tanzimat without societal consent. In the context of the press censorship from above, new transcultural communication networks emerged, as many actors engaged in public discourses from European capitals. At the center of these debates were the Young Ottomans, who formed a secret society in 1865 to mobilize support for a new normative basis of empire in a context of ethnic secession, western penetration and military inferiority.⁷² Although the direct impact of this movement was fairly limited, it constituted the ideational

central administration did not destroy the political, economic and social power of most notables. Instead, it reached accommodations, winning the cooperation of local groups by allotting them, for example, continuing political privileges." (Inalcik & Quataert 1994: 855)

⁷¹ Which was informally maintained, as minorities could still pay a sum to be excluded from being drawn into the army.

⁷² For a detailed overview of these debates, see Mardin (1962: Chap. Two).

background for the coup d'état in May 1876 and the declaration of the constitutional monarchy in 1878. Designed according to the Belgian constitution of 1831, it made possible the first elections to the Chamber of Deputies in 1878, which comprised 71 Muslims, 44 Christians and four Jews.

Again, these internal political developments were overshadowed by Russia's expansive drive and support of the uprisings in Serbia, Montenegro and Herzegovina in 1875 and in Bulgaria in 1876. As Russia then officially declared war in 1877, after the Ottomans refused the proposals of the 1876 international conference, the empire was defeated once more and had to accept the Treaty of San Stefano (3 March 1878) that foresaw the independence for Montenegro, Rumania, and Serbia and autonomy for Bulgaria. The realization of the treaty was only stalled by western interference and the Berlin Conference of June/July 1878. Still, territorial losses were disastrous for the Ottomans who not only faced financial losses but also the concrete consequences of the massive immigration of Balkan Muslims, a fact that contributed heavily to the feeling of helplessness in the face of atrocities committed by Christians against Muslims (cf. McCarthy 1995).

In this context, the Sultan referred to his constitutional prerogatives and suspended the parliament, imposed drastic measures against the Liberals, re-enacted press censorship and neo-absolutist monarchy. More so than his predecessors, the rule of Abdülhamit II (1878-1909) was based on the reassuring of Islamic symbolism and religious identity politics (Deringil 1991, 1999; Karpat 2001) as a way out of the ideological incoherences of the reform movements; i.e., between the emerging liberal Ottomanist worldviews, the geopolitical situation and the fact that the granting of constitutional rights to religious minorities undermined the millet system. Contrary to the contemporary depictions of Abdülhamit II, he did not break with the restructuring project of the Ottoman state. He retracted political liberalization to symbolize strength and order in an ever increasingly dangerous environment. Also, his shift to religious sources of legitimacy did not reflect an anachronistic view of religion, but constituted a distinctive modernist position in line with the emergence of Islamic modernism, as elaborated by contemporary influential religious thinkers as Abduh, al-Afghani and Rida (cf. Karpat 2001; al-Azmeh 2009: Chap. Six). He intended to redraw the boundaries between religion and the state to counter alternative, especially ethno-nationalist notions of solidarity that could unleash centrifugal forces in the empire. However, his rule faced the opposition not only from the religious minorities who fought for the realization of political

equality, but also by Muslim Ottomans who strove for the re-instatement of the parliament and the adoption of western political principles, i.e. liberal nationalism to maintain social order.

Although it is impossible to name a specific date, capitalist social relations were expanding over these decades and accelerated rapidly over the next century. During this process, the Ottoman Empire underwent several drastic transformations that eventually led to its structural dependence on European powers and its ultimate demise. Faced with the military expansion of both the Habsburgs and the Russians, the Ottoman initiated changes in its military administration and regained formal authority over the *ayan*. By emulating western organizational patterns, Mahmud II aimed at nothing less than the total reorganization of state rule and state-society relations. Economically, the industrialization processes in Europe led to high demand for Ottoman commodities, rendering foreign trade, over the long run, more profitable than intra-Ottoman regional and local trade. The new class of merchants that was formally secured by the introduction of individual property rights was the main winner of these changes. Politically, Ottoman dependency directly translated into institutional reforms toward political liberalization which mainly benefitted the new commercial bourgeois groups who acted under the tutelage of Great Britain, France and Russia. As upward social mobility was more and more restricted for Ottoman Muslims in the economic field, Muslim elites tended to enter the modernizing state bureaucracy and army. Although these two elite segments had similar ideological orientations and adopted Ottoman liberalism as a way out of the crisis of the state, this bifurcation deepened over time with the influence of ethnic and religious nationalist worldviews. The continuous secessionist struggles in the Balkans radicalized such markers of difference which Ottoman liberalism could not contain. Although liberals had a common enemy in Sultan Abdülhamit II after the abolition of parliament in 1879, the perpetuated geopolitical and financial crisis deepened ethnic cleavages which took on a revolutionary shape when the Sultan was finally dethroned and parliament re-established in 1908.

The 19th century constitutes an era of enormous economic changes in the Ottoman Empire. On the one hand, processes of commercialization continued as before. On the other hand, this process was accelerated due to a variety of interrelated factors, i.e., the geopolitical weakening of the empire and the predominance of western imperial powers in the new world

system, the capitulations regime and the internally-devised Tanzimat reforms that provided a new institutional framework for capitalist ventures.

Despite the continual interruption by wars and secessions, the Ottomans experienced the long-term growth of trade relations with Europe, a process driven mainly by the increasing demand of the early industrializing countries, especially Great Britain, for commodities and raw materials. Thus, the great leap of British textile exports from 1820 to 1850 initiated the further opening of the empire and led to annual growth rates of foreign trade by 5.5 percent from 1840 to 1870. In absolute terms, exports and imports increased threefold during these years (Inalcik & Quataert 1994: 828-29). Although the country was hit hard by the depressive years from 1873 to 1896 – a factor that contributed to rising rural tensions and the first atrocities against the Anatolian Armenians (ibid: 871) - foreign trade resurged until World War I which ended the ‘first wave of globalization’ (Owen 2001). The expansion of trade was accompanied – and accelerated – by institutional changes that unmade trade restrictions, most important of which was the destruction of the Janissary corps in 1826 that was closely linked to the urban guild system. This event not only paved the way for military reforms, but also to further the integration of the empire into the global economy. This position was ultimately institutionalized by the 1838 Anglo-Turkish Convention and the 1839 Gülhane edict that implemented a liberal trade regime (three percent import duties, 12 percent export duties) and prohibited local trade monopolies (cf. Owen 1981: Chap. Three). Through these measures, combined with changes of the landholding regime “that provided a more secure legal context for entrepreneurial investments” (Inalcik & Quataert 1994: 860), foreign trade became ever more important for economic developments, representing six to eight percent of the national income in 1880, and 14 percent in 1914, respectively.

We should not ignore distinctively Ottoman characteristics, though, that differ from other regional examples. For, the Ottoman market was shaped by a mixed pattern of landholding and the importance of intra-Ottoman trade that surpassed commerce with the Europeans. Dependent on the extension of tax farming, geographical conditions, disposal over machines and proximity to ports and communication networks, large estates emerged only in Moldavia, Wallachia, the Cukurova plain and Syrian and Iraqi provinces. The overwhelming share of extensively cultivated areas was managed by smallholders, a pattern – together with the prevalent sharecropping arrangements – that was fairly stable well until the republican period.. Still, the new foreign demand structure completely transformed the activities of

commercial peasants and landowners who shifted from cultivating cereals to fruits and vegetables (especially with the drastic increase of US wheat exports) and particularly, cotton, raw silk and tobacco, to find their niche in the global market conditions. The state promoted these agricultural developments by attracting foreign capital for infrastructure projects, by enlarging the area for cultivation and by providing financial resources to peasants and establishing agricultural schools (Quataert 1994).

According to dependency and world system theorists, native manufacturing is the biggest loser in the incorporation process. This is a view that holds only partially in the Ottoman case. Of course, the effects of the opening up of the economy were rather negative for local artisans and manufacturers who could barely compete with the cheap European products. However, this did not result in the utter destruction of local manufacturers. In many instances, Ottoman manufacturers and capitalists responded effectively to the global market changes. The first major disruption occurred in the 1820s with the surge of British exports and the lifting of local trade monopolies. But, this step did not end the granting of monopolies as such. Furthermore, many guilds were no mere agents of traditionalism, as many restructured their organizations, merged with others and, through state intervention under the Industrial Reform Commission (1967-74) transformed into company-like ventures. Thus, the guild system remained intact, although stripped of its original market-constraining prerogatives, and did not obstruct the liberalization of manufacturing. On the one side, local manufacturers were hit hard, and many industries, especially those competing with western textiles (i.e. cotton yard weavers and silk reelers) declined, paving the way for the production of raw cotton and raw silk for the British market. On the other side, in many instances industries resurged due to several factors, e.g. increasing wages in Europe, occupational shifts to more profitable ventures, technology transfers through western entrepreneurs, the deepened exploitation of female and child labor, the unstopped growth of urban markets, decline of agricultural exports in times of crises, the opportunities from importing British textiles, and the crystallization of distinctive Ottoman tastes and styles which were hard to address with British imports. Hence, Quataert refers to the cases of the Bursa silk industry, cotton yard production in Arapkir/Malatya, the carpet industry as examples of the 'post-1870 manufacturing revival' (Quataert 1994).⁷³

⁷³ Quataert similarly critically tackles the question of the supposed decline in Aleppo. "In Ottoman historiographical literature, Aleppo has been cited as a major example of industrial decline. This decline, however, was in the eyes of the beholders and not in reality. Put simply, European consuls and other Western contemporaries carelessly presented statistics to demonstrate the decline they were convinced must have

One other important characteristic of Ottoman capitalist development was the ethno-religiously based stratification among businessmen. While Muslim traders dominated intra-regional trade at the beginning of the 19th century, the process of integration shifted higher profits into foreign trade. It was the Ottoman religious minorities who could acquire crucial positions between foreign traders and the internal market (Owen 1981: 88). The main instrument for this transformation was the capitulations regime. Originally, capitulations were handled as a privilege for foreign merchants without any impact on the Ottoman social structure as a whole. In the 19th century, this institution translated into substantive changes. Foreign entrepreneurs with trading privileges increasingly relied on Christian and Jewish local actors in the fields of translation and accounting. Within the evolving networks, they gained a “structural hole” (Burt 2005) and outrivaled both Muslim (who still controlled most of intra-regional commerce) and foreign merchants. These commercial activities were originally welcomed and promoted by the state in order to prevent the rise of a strong Muslim capital-owning class.⁷⁴ Yet, the situation changed with increased geopolitical tension and the western call for political reform within the empire. Russia, France and Great Britain began portraying themselves as patrons for the minority communities and extended their citizenships toward local intermediaries, thereby excluding them from the financial and bureaucratic reach of the Ottoman state. Subsequently, a new social class emerged that was not part of the traditional order. In the process of the Tanzimat reforms, Göcek (1996) identifies the bifurcation of the Ottoman bourgeoisie into one commercial and one bureaucratic segment as the main background factor for the further dissolution of the empire.

Contrary to assumptions about the long-term decline due to capitalist incorporation only, what seriously undermined the empire was the structural debt problem. This was not only related to growing trade imbalances, but furthermore to the increasing geopolitical competition and the

occurred. They established the decline of the Aleppo industry in their own day by comparing it with production levels of the past. To give just one example: a consul at Aleppo in 1862 proved the manufacturing collapse in the city by comparing the 3,650 looms of 1862 with the 10,000 looms that he said were present just a decade before. But a consular official in 1871 used the 1860s as the basis for comparison. He proved a sharp decline of the Aleppo industry by comparing the 5,000 looms then operating, in 1871, with the 10,000 looms that he said had been present ten years before. Rather than declining, nineteenth-century Aleppo textile producers were encountering constantly changing conditions, as we have seen. Wars, political instability, international crises, or crop failures affecting their peasant customers depressed output and caused many weavers to put away their looms, waiting for better times. A return to normal conditions, bumper crops, or the misfortunes of the city's competitors brought the weavers back to the looms. Thus, downward shifts in the number of looms operating do not show decline but they do reflect widely fluctuating market opportunities.” (1994: 101-102)

⁷⁴ “Sultan Selim III feared the threat that an indigenous merchant class under foreign protection posed to the Ottoman economy and the state. In its stead, he created a new category of Ottoman merchants, the so-called ‘European merchant’ (Inalcik & Quataert 1994: 838).

imperatives to reorganize the Ottoman armies and constantly wage wars against Russia and Balkan secessionist movements. From the early 1850s onwards, the empire was drawn into the foreign debt nexus, beginning with the first loan agreement with western financial houses in 1854, i.e. during the Crimean War. Until the 1870s, 13 new government loans were extended to the Ottoman state, as interest levels were below those of private Ottoman financiers, most prominent the ‘Galata bankers’ (cf. Owen 1981: Chap. Four). The main obstacle was the capacity to tax, as it was prevented by further territory losses and the fact that minorities under foreign protection could not be taxed, in the first place. As the financial demise of the state continued due to infrastructure and military expenditures, in 1876, when foreign debt had accumulated to £T 5,000,000, official bankruptcy was declared. In 1881, the state had to surrender its financial capacities by handing them over to the newly created semi-public Public Debt Administration (PDA). To repay outstanding debts, the PDA controlled state monopolies, farmed out taxes and promoted infrastructural projects to further export agriculture. Although the government secured its access to international capital markets through the PDA, it was heavily curtailed in its choice of economic policies and could do nothing against the increased dependent status of the empire (Owen 1981: 215).

To these new material constellations that introduced new, and more rigid, social boundaries came new ideological and cultural articulations. The Christian minorities of the Balkans and Anatolia were the first to re-frame their position in an empire unwilling to implement principles of political and religious equality. Through the proliferation of print media, civil societal organizations and through the closeness to European discourses of liberty and nationhood, they found the ideational repertoire to effect new representations of themselves and the Ottoman state. Christians began to write their own histories, independent of the Ottoman factor, and new emphasis was laid upon language as the main unifying principle (Göcek 2002). A similar pattern emerged in the Arab provinces of the empire, as well as among the Kurdish population. Ironically, the last ones to redefine themselves were the Ottoman Muslims among whom identity shifts occurred in response to the contradictions of Ottoman liberal nationalism aiming to restore the social order based on religious and political equality against the despotic rule of Abdülhamit II. In the 1890s, thinkers for the first time elaborated a specific Turkic identity that should form the core of the empire. Growing ever more suspicious of the socio-economic rise of Christians at the expense of the empire, they

dismissed notions of trans-communal solidarity.⁷⁵ Yet, it would take a revolution and two wars for this new ideology to become reality.

Critical Juncture: from empire in crisis to a nation victorious

The preceding section outlined the prevalent conflict structures in the late and already dissolving empire. This part deals with the specific outcome of these struggles beginning with the Young Turk revolution in 1908, the topple of Sultan Abdülhamit II in 1909, the Balkan wars, World War I and the full-fledged nationalist military mobilization against the Armenians in the East and the Greeks in the West. Under the consolidating leadership of General Mustafa Kemal Pasha over networks between bureaucrats, army members, landowners, merchants and ulema to reorganize the remnants of the Ottoman army, the Ottoman Muslims came forth victorious out of these clashes. This outcome was highly contingent and depended on a variety of external (exhaustion and demilitarization of European armies, rapprochement with Bolshevik Russia, rivalries between Britain, France, Italy and Greece) and internal (discrediting of CUP authorities, new immigration waves, delegitimization of the Sultan and Istanbul-based political circles) factors.

A whole variety of outcomes could have been possible. Sultan Abdülhamit's position was not as precarious as it seemed in ex-post explanations. As in other authoritarian contexts, instrumental political liberalization may have secured his power, as would more probably have been the case if the state leaders and the Young Turk opposition did not have to fear further territorial losses. Also, without the disastrous outcomes of the Balkan Wars of 1912 and 1913, the intra-communal polarization may not have led to further fragmentation of national identities, as it eventually happened with Ottoman Muslims opposing Greeks and Armenians. But, those were exactly the events that sparked internal ideological struggles over the appropriate Ottoman citizen. These crucial materializations of new 'imagined communities' within the same empire took place as the Young Turk revolution of 1908 did not solve the geopolitical and economic dilemmas of the empire. These developments and debates had direct implications for the economic sphere, as they would signal the birth of Ottoman Muslim commercial and industrial entrepreneurs, through state promotion policies and later, during World War I, through the exclusion and annihilation to shift assets from

⁷⁵ This suspicion of the Christian minorities had been prevalent since the days of the Young Ottoman movement; see Mardin (1962: 36-37).

Christians to Muslims. These Turkification measures served as the blueprint for the emerging state-business relations for the next decades.

The Young Turk revolution

After more than a decade of agitation by more or less secret organizations in European capitals, Egypt and the Rumelian provinces, in July 1908 CPU agents in Salonica took direct measures to topple the Hamidian regime, capitalizing on the overall fears aroused by the British-Russian rapprochement in 1907 and preventing a preemptive strike by the Sultan. The revolutionaries staged a military rebellion and mass demonstrations to articulate their demands for the restoration of the constitutional system. Defecting Ottoman troops and Macedonian nationalist armed groups supported these claims, displaying the societal Ottomanist movement against the despotic rule of the Sultan under the banners of liberty and equality. As the countermeasures of Abdülhamit II proved futile due to further defecting troops, on 23 July 1908, he gave in to these demands and reinstated the 1876 constitution, while at the same time manipulating public opinion across Anatolia by emphasizing his own role in making this change possible (Zürcher 2004: 93). The declaration of constitutional monarchy resulted in a euphoria across social, religious and ethnic groups, and, as the first elections drew nearer, the Ottoman public sphere experienced a vibrant era of political activism as press censorship was abolished.

Although the direct outcome of the revolution was the restoration of the constitution, it did not lead to the dethronement of the Sultan. It merely curtailed his prerogative and rendered him accountable to the new Chamber of Deputies. This reflects the ‘constitutionalist’ orientations of the revolutionaries whose main aim it was to save the empire by a reinvigorating a more popularized notion of Ottomanism (in contrast to the Ottomanist identity ascribed from above since the autocratic Tanzimat reforms) and the abolishment of despotism. Thus, the CUP, that had only begun to expand its organizational networks into Anatolia, did not gain immediate ideological supremacy, engaged in institutionalized struggles with the Sultan and the emerging opposition groups. A variety of new parties was founded, which reflects the broad spectrum of ideas to direct the revolutionary fervor. Libals, influential bureaucrats, traditional and modernist religious groups, socialists and radical ethnic nationalists organized their campaigns for the elections in October and November 1908. Even though the Unionists gained a clear majority in the Chamber of Deputies, this victory did not

translate into effective control over parliament and societal discourses. For, the Unionist party was merely a platform for cross-ideological alliances and hence lacking organizational cohesion, while the more coherent inner circle of CUP revolutionaries decided to act beyond the parliamentary domain.

The most challenging opposition came from conservative-religious groups, who had lost most in status given their role in legitimizing the Sultan's rule and who tackled political, cultural and scientific westernization. On 12 April 1909, the 'Muhammedan Union' launched an armed rebellion in Istanbul, calling for the dismissal of the government and the upper Unionist members of the Chamber of Deputies. Surprised by this counter-coup, it took the CUP some time to organize societal demonstrations across the empire, to state public declarations against the Sultan and the countermovement and to begin a military campaign to regain control over the capital on 24 April 1909 and to oust Abdülhamit II. The CUP then took decisive measures to restrict political freedoms, especially the right to strike and to form associations. Press censorship was reintroduced and Hamidian groups within the civil bureaucracy were purged. The most drastic change, however, was the extension of military conscription toward non-Muslims.

Contrary to the identity formations of the Young Turks before 1908 that aimed at liberalizing the political landscape, what emerged after the consolidation of Unionist power was a regime in which the secret CUP networks operated parallel to its own party organizations and the civil bureaucracy (Zürcher 2004: 101). Also, because of their importance in intra-elite struggles, army officers became highly influential figures in the political process, contrary to constitutional principles. For the CUP, as well as for the Tanzimat reforms before, the legitimacy deficit was growing, and its hold over political power was worsening with the renewed geopolitical challenges to the empire.

Before World War I, regional calls for autonomy (in Albania and Yemen) and foreign annexations of imperial territory (Bosnia-Herzegovina in 1907, Tripolitania in 1911), continuously constrained the Ottoman authorities who has decreasing military capacities to solve these conflicts. While agreements could be reached with Albanian militants, the Ottoman Empire could only prevent the further advance of the Italians into the Libyan hinterland. The ultimate strike against the Empire, though, came from the coordinated effort of the new Balkan states (Serbia, Bulgaria, Montenegro, Greece) who claimed the

Macedonian provinces, declared war on 8 October 1912 and defeated the Ottomans who lost their remaining European territories. Profiting only from internal rivalries over the spoils of the first campaign, in 1913, the Ottomans at least reconquered the symbolically important city of Edirne from the Bulgarians. Still, in 1913, they again experienced the disastrous consequences of war and massive immigration waves from Balkan Muslims into Anatolia. Not only did the state lose some of its richest provinces, but its leaders were challenged to continue the search for the appropriate binding ideologies and identities as the Christian element in the population was waning. The CUP would decisively do this in military, political and economic terms during World War I, but in the context of the Balkan Wars, it grasped the opportunity to stage a coup in January 1913 to further disempower the parliament and to suppress opposition members of the liberal camp. The CUP, “led by an inner circle of some 50 men” (Zürcher 2004: 110) has by then outcompeted most of its rivals and, directly and indirectly, controlled the army, the civil bureaucracy and the public sphere. CUP authoritarian rule, though, would not last long as it disintegrated in parallel to the Ottoman Empire itself. Still, the measures it implemented had a long-lasting effect for Turkish-Ottoman affairs.

World War I, demise, Turkification

The Ottomans entered the war in October 1914 on the side of Germany, Austria-Hungary and Bulgaria. The decision to side with the axis was mainly due to the lack of alternatives. For, already in 1913 did the Ottomans approach Great Britain, France and even Russia to work out possible alliances that would end its geopolitical isolation. As the entente powers rejected such arrangements, in the weeks of preparation and mobilization for war after the assassination of Archduke Ferdinand in Sarajevo (28 June 1914), a small group of CUP leaders (Enver Pasha, minister of war, Talat Pasha, Sait Halim Pasha) agreed with the Germans on a concrete defensive alliance, for the case that Russia would enter the war.⁷⁶

Given the loss of troops during the Balkan Wars and the lack of financial resources and military facilities, improper transport and communication infrastructure, the Ottomans fared badly during World War I, with some notable exemptions. In the Caucasus, Ottoman troops suffered heavy losses against the Russians who, from 1915 onwards, occupied broad parts of Eastern Anatolia. That year, the main battles with the British began in the Dardanelles that caused most casualties. On the one hand, Ottoman attempts to conquer the Suez Canal in

⁷⁶ See Hale (2002: 34), Zürcher (2004: 111).

1915 and 196 failed. On the other hand, the fight against the British turned out successful, forcing the latter to recede in 1916. Yet, the British were successful in mobilizing a new front with the support of the Arab revolt in the same year by promising to the Hashemite Sherif Husain an independent Arab state. Until the end of the war, Arab and British forces took Bagdad in 1917 and Jerusalem in 1918. Although the Ottomans were spared from further fights with the Russians after the Bolshevik revolution and troops under Enver Pasha reoccupied East Anatolia, this event did not turn the tide for the Ottomans. By 1918, the Ottoman army was already exhausted by lack of military resources, hunger and the outbreak of epidemics, leading to growing desertions among the troops after 1916. For the Ottomans, the war ended with the signing of the Mudros armistice on 31 October 1918 that foresaw the demobilization of the army, foreign control over the straits as well as the right for the victorious powers to interfere militarily, particularly in the provinces with Armenian populations (Zürcher 2004: 133).

Beginning with the armistice, shortly after which the British occupied the Mosul region and the French the Iskenderun district, peace negotiations were prepared. The most important factor in late 1918, though, was the breakdown and escape of the CUP leadership, most of which fled to European capitals. The exemption was Enver Pasha who left for the Caucasus to monopolize regional troops for the realization of his Pan-Turkist goals. The CUP flight left a power vacuum in the empire ready to be filled by rivaling Istanbulite factions (liberals, Unionists and the Sultan) with more or less linkages to foreign powers. The choice set of these actors to legitimize their position and to gain international reputation, was heavily constrained, not only due to foreign intervention, but also due to the politics of the CUP since 1913 that unilaterally reshaped the identity boundaries according to Muslim Ottoman nationalism (Zürcher 2000; Hanioglu 2002; Barkey 2008).

The disadvantageous state of the Ottoman economy in light of the capitulatory regime and the institutionalized preferential treatment of minority economic groups was a continuous source for discontent among political circles since the late 19th century. Although ideas of state intervention and the national economy were seen as necessary steps to economically save and reorganize the state, liberalist principles of free trade and welfare prevailed among the CUP leadership as was reflected in their economic policies. Therefore, to deepen the support of Muslim and non-Muslim entrepreneurs, the CUP curtailed civil rights for the working classes (to strike and to form associations) and engaged in infrastructural projects to increase the

profitability of traders and manufacturers. However, the growing geopolitical tensions before World War I and the increasing reluctance of western bankers to provide loans to the Empire contributed to the debates over the lack of autonomy and economic independence without which political independence would be impossible to attain.⁷⁷ The CUP made use of these ideological reorientations simultaneously to its efforts to alter the empire's national identities.

Since the 1908 revolution and the monopolization of political power by the CUP upper circles, in an incremental fashion, ethnic Turkism began to add to the propagated Muslim-Ottomanist ideologies. Although the full shift toward Turkish ethno-nationalism was effected only *after* the establishment of the Republic under Mustafa Kemal, during the Young Turk era, influential writers and agitators (e.g. Yusuf Akcura, Ziya Gökalp) proposed Turkish as a way out of the contradictions of Ottomanist nationalism, that could be claimed by religious minorities as well. The CUP leaders, who were not directly involved in these debates, adopted several of their arguments, but mainly adhered to a distinctive Muslim Ottomanism that depreciated the role of religious minorities without giving up the Islamic outlook of their rule.

The economic policies of the CUP reflect this dominant stand as state interventionism was geared toward the establishment of the 'national economy'. But it was only with the outbreak of World War I that the CUP freed itself of foreign pressure. Even before the war, in June 1913, the government enacted the Law for the Encouragement of Industry to support the role of manufacturers through tax exemption and direct financial subsidies. After the war broke out, the CUP adopted more drastic measures, the first one of which was to unilaterally suspend the capitulations granted to foreign and minority merchants. Afterwards, according to the National Economic Program, import duties were increased in general, and different values assigned to specific goods, in particular. Beyond the increased financial resources at hand (that came with the taxation of formerly excluded businesses and the state's control over resources originally reserved for the PDA), the government actively promoted Muslim entrepreneurs at the expense of minority capitalists by forcing them to employ Turkish-speaking Muslims in their businesses and through official harassment and expulsion. This happened to western Anatolian Greeks who were driven out of their businesses and no less than 100,000 of them fleeing to Greece after they sold their enterprises for a prices well below

⁷⁷ "The bourgeoisie of the Ottoman Empire [...] was not national and therefore could not be trusted. For this reason a new class of entrepreneurs had to develop from among the Moslem population who had so far been confined to posts in the military-civilian bureaucracy and to tilling the land." (Keyder 1987: 62)

their market values to Muslim businessmen who were either Unionist members or had direct linkages to the government (cf. Gingeras 2009: 39-41).

Even more, the plan to create a new Muslim capital-owning class occurred through enormous profits stemming from the overall shortages of agricultural and military goods. The railway monopoly of the CUP served as the main mechanism to guarantee profitable transport deals for merchants.⁷⁸ Thus, new patronage networks were established around this monopoly, where political favoritism was essential for obtaining preferential treatment.⁷⁹ These same businessmen also controlled black market activities, which were tolerated by the government, although they directly undermined the state-controlled purchasing plans and increased the problem of shortages.⁸⁰

By far the most drastic Turkification measure adopted by the upper CUP cadres was the plan to physically solve the Armenian question. Faced with the threat of Armenian support for Russian troops who had entered Eastern Anatolia after defeating the Ottomans in the Caucasus, the inner circle of the CUP decided to transfer the Armenian population to destinations in the Syrian and Iraqi provinces. The operation was carried out by the Special Forces (Teskilat-i Mehsusa), a para-military organization founded by Enver Pasha in 1913, and local Kurdish tribes. Through deportations, mass killings and starvation, which probably were part of the plan from the beginning, between 600,000 and 1,000,000 Armenians perished in what can only be described as a genocidal act.⁸¹

Thus, in the course of the war, the seeds were spread for the emergence of a new class of Muslim Ottoman capitalists at the expense of Armenians and Greeks. Spawned through

⁷⁸ “Since means of transport were scarce, *political favourites* who could obtain the use of a railway freight car became instant magnates.” (Keyder 1987: 62; emphasis added)

⁷⁹ “As belligerence and mobilization continued, political control over the distribution of foodstuff and military material increased, and within this war economy, *political privilege* came to make even more of a difference in terms of mercantile profit.” (Keyder 1987: 62; emphasis added)

⁸⁰ For an analysis of the state’s attempt to control commodity and foodstuff prices during the war, see Pamuk (2005). See also Ahmad’s (1980: 339) account of the patronage capacities of bureaucratic elites, e.g. of the Istanbul prefect Ismet Bey, who was himself a client of Talat Pasha and who profited enormously from black market operations although he was officially responsible for the regulation of commodity purchases.

⁸¹ The genocide issue has always been the source of controversy in Turkish politics and historiography. While official Turkish accounts of the ‘1915 events’ deny the genocide label, there are several indicators in favor of it. First, Ottoman politicians who were confronted with genocide charges from western diplomats evaded these accusations and pointed to the sole responsibility of the CUP for the atrocities which were not negated. They emphasized this claim by persecuting CUP the responsible figures in a special court. It is obvious from the statements in court, from reports of German and Austrian officers and from the post-war debates that the CUP indeed planned to eradicate the Anatolian Armenians; see Zürcher (2000), Akcam (2004) and Mann (2005). For a rivaling account, see Lewy (2005) and Gingeras (2009).

political primitive accumulation under the CUP leadership, the new Muslim entrepreneurs and landholders not only proved vital in the national liberation struggle from 1919 to 1923, but also represented the first group to profit substantively from the realization of the national economy under the Turkish Republic.

National Liberation

Post-war developments were determined by several factors: first, the internal struggle for power after the flight of the CUP, and second, the plans and interferences of the victorious countries (Great Britain, France, Italy, Greece) to institutionalize their influence in the post-Ottoman Middle East, according to which the Ottoman should be punished for their allegiance to Germany and the genocide against the Armenians.

As during the 19th century, the infringement of foreign powers seriously endangered Ottoman autonomy, but at the same time, the internal rivalry among Great Britain, France and Greece created new opportunities for Ottoman elites to direct the post-war process. After the declaration of the Mudros armistice, the incoherence of western interests to reshape the Middle East became obvious. While Great Britain and France had already in 1916 come to an agreement over partitioning the Arab Ottoman provinces according to which Great Britain would control Iraqi provinces and France Syria and Greater Lebanon while the territory in-between would be granted as a formally independent state but remain under the influence both powers (cf. Owen 2004: Chap. One). The Sykes-Picot agreement became official colonial policy after the war, even though it directly contradicted the British promise to the Sherif of Mecca of an independent state in the liberated territories⁸², a fact that led to the violent clashes between Arab and French forces until 1920. These colonial agreements marked the birth of four Arab states, Iraq, Syria, Jordan and Lebanon on formerly Ottoman territory. These territorial losses did not attract the attention of Istanbul elites as they had far more pressing problems to address in Eastern and Western Anatolia. In fact, being forcefully stripped from the Arab provinces helped the remaining Ottomans to sharpen the ethno-lingual character of their new national identity.

⁸² In addition to the Balfour declaration of 1917 that guaranteed the Jewish-Zionist movement a homeland Palestine.

In Anatolia, Great Britain and France had no territorial claims – other than the indirect control of the Bosphorus straits – but nevertheless supported those of Greece and Italy. During the peace talks that began in late 1918, the latter two countries tried to convince Great Britain and France for the partitioning of Southwest Anatolia. However, the Italians soon stepped back from those claims and proved approachable for the Ottomans, as both tried to counter the Greek influence, who enjoyed the support of Great Britain for acquiring Izmir and its hinterlands, in line with the pan-Hellenic goals of Prime Minister Venizelos. Also, in Eastern Anatolia, the Entente powers foresaw a further reduction of Ottoman territory in favor of an independent Armenian state and the proposal of autonomy for the Kurdish population.

After one and a half year of peace negotiations, from which Ottoman diplomats were excluded, the Treaty of Sèvres was presented to the Ottoman government in May 1920, which realized – and even surpassed – Ottoman fears.⁸³ According to the treaty, the Armenians would get their promised state, East Thrace and Izmir were assigned to Greece and the Dodecanese islands to Italy. Even though Kurdistan would remain within Ottoman territory, it could be granted official autonomy with the option for full independence in the following year. Even more, within the remaining rump state, Italy and France would get spheres of influence in which they could deploy military troops in times of disorder. Istanbul and the straits would come under international supervision, and France and Great Britain secured their mandates over the Arab provinces. On 10 August 1920, after futile protests by the Ottoman government against these devastating outcomes, the treaty was signed. However, it met with internal Ottoman power struggles and only strengthened the position of those groups who realized that they could neither count on foreign support nor on the Ottoman government and the Sultan who seemed all too willing to accept the treaty.

During the 20 months between the Mudros armistice and the Sèvres Treaty, the power vacuum left by the CUP leadership was quickly filled by the renewed aspirations of Sultan Mehmet VI Vahdettin, nationalist Unionist factions and liberal politicians who refounded the Party for Freedom and Understanding. Thus, in the aftermath of the war, the tide had turned against the CUP which alone was made responsible for entering the disastrous war. The Sultan and the Liberals (under Ferit Pasha) therefore, in accordance with western conditions, repressed Unionist activities, in general, and persecuted CUP members they had deemed

⁸³ See Guida (2008) on how the Sèvres catastrophe has until now shaped political discourses in Turkey.

responsible for the planning and the execution of the Armenian genocide.⁸⁴ So, the Unionist position in Istanbul politics was quite constrained, as the government, to strengthen its hold and secure majorities in the 1919 parliamentary elections.

In the meantime, Unionists had begun to mobilize an encompassing resistance movement in Anatolia. Official plans to demobilize the troops were not adhered to. Arms and supplies were stored and smuggled through locally-based resistance networks between Unionists, army officers, bureaucrats, local notables and ulema. Under the organization of *Teskilat* members and the *Karakol* (Guard), from November 1918, ‘Societies for the Defense of National Rights’ were being established across Anatolia. Through several regional congresses, they articulated their demands against Ottoman elites to arrange for the reinstatement of the nationalist government and not to give in to the foreign pressures (cf. Zürcher 1984: Chap. Three).

The ultimate catalyst for the growth and legitimation of the revolutionary movement came on 15 May 1919 when Greek troops, with British consent, landed in Izmir, causing enormous disorder in Anatolia. Four days later, Mustafa Kemal Pasha, a long-term CUP member and renowned army commander in the Gallipoli battles, was sent to Samsun as inspector of the 9th army to ensure public order and oversee the collection of arms. With substantive administrative and military prerogatives, Mustafa Kemal, contrary to the official orders of the Sultan but in accordance to plans within the War Ministry), took measures to strengthen the Anatolian resistance movements to fight for defending the Sultan and Caliph against the encroaching foreign powers. After several months of preparation for the national congress that took place in Sivas from 4 to 11 November 1919, Kemal was announced president of the ‘Society for the Defense of the National Rights of Anatolia and Thrace’. Through the representative committee, Kemal increasingly outrivalled other Unionist actors. By relocating his headquarters to Ankara and intensifying local networks, nationalists managed to win the majority of seats in the Chamber of Deputies that in February 1920 proclaimed the National Pact calling for the territorial integrity of the nation. The British responded by occupying Istanbul on 16 March 1920 and imprisoning opposing deputies. As a reaction, the deputies decided to dissolve the Chamber two weeks later. In fact, the British move only strengthened the position of Kemal’s faction, as other Istanbul-based nationalists were hit most by the occupation (Zürcher 2004: 156). Also, the Sultan and the Liberals were further delegitimized

⁸⁴ See Akcam (2004b) for an overview of the proceedings and statements of the tribunal.

by their cooperation with the British. The Istanbul-based government itself tried to mobilize troops to quell the Anatolian movements, but these attempts remained unsuccessful.

So, simultaneous to the signing of the Sèvres Peace Treaty, the full-fledged wars of independence began, first against the Armenians in the East (Göl 2005) and then against the Greeks in the West. On the eastern front, nationalist forces defeated the Armenians very quickly, while the nationalists engaged in negotiations with Bolshevik Russia which had their own territorial goals concerning Armenians and supported the former. Fightings ceased already in November 1920 and led to the Peace of Alexandropol on 2 December. In the west, the situation was more uncertain, as the Greeks had rapidly advanced into central Anatolia and could be halted only at İnönü in January 1921. The short period of negotiations with the Greeks was used by the Nationalists to set aside the disputes with France and Italy. Fighting resumed in April, and during the next months, the Greeks, who were still supported by the British, advanced toward Eskisehir. On 13 September 1921, the Nationalists gained a decisive victory at Sakarya, short of the new capital. After yet another year of diplomatic mission, they attacked again on 26 August 1922, causing the Greeks to retreat to Izmir which was retaken on 9 September 1922.

Lausanne and the Turkish Republic

Through the victory over the Greeks, Mustafa Kemal could undoubtedly claim for himself to have liberated the country from internal oppressors and foreign powers. This allowed him to consolidate control over the, still quite heterogeneous armed groups and their activities. The High Treason Law of 1920 gave him an institutional lever to arrest opposing actors who might have challenged Kemal's position. In December 1922, he founded the Peoples' Party (PP) to increase the organizational cohesion of his support base for the second elections to the Grand National Assembly in April 1923. Legitimized by the military victory, Kemal's PP gained an overwhelming majority in parliament. The official abrogation of the Sultanate in 1922, the political elimination of possible rival figures (like Enver Pasha) and the repression of Communist agitation were all measures that paved the way for Turkey's authoritarian regime after 1923.

In November 1922, peace talks began in Lausanne that took over eight months until an agreement was reached. According to the new treaty, there was no more talk of possible

Armenian and Kurdish state. Although the Arab provinces were irrevocably lost, Anatolia and Eastern Thrace remained within the boundaries of the new state. The straits would be internationalized and demilitarized. The end of the capitulatory regime was officially acknowledged, but in return, Turkey was not allowed to change the liberal tariff regime until 1929 and agreed to repay a specified sum of Ottoman outstanding debts. In whole, the Turkish delegation succeeded at realizing the goals of the 1920 National Pact. In fact, for the first time in history, the agreed-upon territory bounded an ethnically and religiously rather unified population. For, Greece and Turkey negotiated the exchange of their populations. During the next year, around 1,000,000 Anatolian Orthodox Greeks and 400,000 Muslims from Western Thrace were forced to leave their homes.⁸⁵ Through this measure, the long era of territorial uncertainty, ethnic cleansings and migration waves had ultimately come to its end, allowing the Kemalist nationalist elite to realize its vision of national cohesion and independence.

Structural Persistence: authoritarianism and state capitalism, 1923-1950

After the successful national liberation struggle, the Lausanne peace treaty and the establishment of the dominant party authoritarian regime, the new leadership under President Mustafa Kemal perpetuated its infrastructural power and symbolic legitimacy by enacting an encompassing reform program. The new state bureaucracy aimed not only at disempowering possible rival groups, but in a unique manner, relative to its neighboring Muslim countries, chose to break with its Ottoman heritage by subordinating Islam to the normative principles of ethno-nationalism. The radical culture reforms of the 1920s and 1930s did not eliminate the role of religion from the public sphere. Instead, it adopted a vision of secularism in which religion ceased to be a rivaling source of social power. While the Young Turks legitimized their rule through establishing rigid boundaries between Muslims and non-Muslims and thereby propagated Ottoman Muslim nationalism, Kemal and the RPP officially suspended Islam as a relevant identity marker, maintaining that all citizens of the new Republic were ethnic Turks. However, the top-down nature of the cultural reforms to create this new identity led to new contradictions between state visions and actual societal realities. Eventually, these contradictions have materialized continually since the second half of the 20th century, which will be dealt with below. At this stage, we focus on the way the new political class monopolized political power by suppressing dissent, obstructing political competition and

⁸⁵ For a lively account of these months, see Clark (2009).

suppressing the working classes. Yet, after the death of Mustafa Kemal Atatürk, the deterioration of social and economic conditions of Turkey during World War II, and the external pressure by the U.S. toward political liberalization, the RPP lost its hold over the political process and in 1950 failed to stall the rise of the Democratic Party (DP).

Economic developments in this period were marked by the dependence of economic actors on state institutions and elites for profits. Given the lack of private capital (a long-term consequence of the elimination of the minority commercial classes), the disastrous state of the economy by World War I and the initial principles of politically-based accumulation strategies, symbiotic state-business relations emerged in which the new Turkish entrepreneurs had limited bargaining powers to counter state elites with. In the context of limited political competition, patronage networks were relatively stable. Also, to decrease economic dependency and substantiate the claims of national autonomy, the state directly promoted key industries through public banks which were the centers of political business networks. While the state could implement these industrial policies only to a certain extent until 1929, official Turkish autonomy in economic policy issues and the Great Depression of the early 1930s marked the beginning of import substitution and Turkish statism according to which the state was supposed to directly intervene in economic affairs for maintaining national autonomy and welfare. However, the mobilization of troops during World War II, which Turkey did not enter until 1945, severely strained the country's economic capacities, limiting the overall impact of this first wave of import substitution. Still, the principles of statism and state corporatism did not fade away with the end of RPP rule but remained ideological bases for the more substantive second import substitution period after 1960.

The politics of authoritarianism and Turkish ethno-nationalism

Through the national struggle, Mustafa Kemal gained substantive legitimacy even though his position as the leader of the new state was not uncontested. His predominance did not only derive from his charisma as the state's savior, but also from his eliminating rivaling political actors and parties and of existing armed groups (Green Army, loyalist troops, irregulars, Cerkez Ethem's forces, Mustafa Suphi's socialist armed fighters, Enver Pasha) to centralize military capacities under the regular army. With the establishment of the Republic then came the empowerment of a politico-bureaucratic elite that had been socialized under and participated in the reformist discourses of the late empire. These 'Europeans' (Zürcher 2005)

who underwent western-style civil and military education could now engage in the project of constituting, through the state apparatus. In short, in this new elite were vested high degrees of infrastructural power to structure social life and meaning systems in accordance to their own views of nationalism that had proven victorious only after expelling the Greeks. The political sphere was not left without contestation to Mustafa Kemal and the PP. Also, the regime faced several rebellions in reaction to its centralization and socio-cultural reform efforts. Still, despite these forms of opposition, the one-party regime remained highly cohesive, not allowing any fragmentation of political power, if only through repression.

In terms of ideology, the regime did not tolerate rivaling power sources, the most important of which was religion. Although the Sultan-Caliph was stripped of any political prerogatives with the abolition of the sultanate in 1922, the figure of the Caliph was in still bound together the Turkish population that had fought the wars of liberation on the basis of preserving the Muslim character of the nation. In 1924, though, parliament decided to abolish the Caliphate as well and have the remaining members of the Ottoman dynasty expelled. This step marked the deliberate attempt to establish ethno-nationalism as the only source of solidarity and reflected the elites' approach to symbolically break with the Ottoman past and to enter Western rationalist civilization. It also stripped societal and bureaucratic religious groups of a potential source of political mobilization that could have harmed the standing of the People's Party, especially among circles in Istanbul where opposition was generally fiercer than in Ankara.

The political system that was established in 1923 to 1924 (when the new constitution officially replaced the 1876 one) can best be described as an electoral authoritarian regime. On the one hand, representative institutions were founded according to the principles of the separation of powers. The constitution, the presidency, the parliament, the rather non-exclusive nature of the electoral process⁸⁶, the prohibition of members of the army to engage in politics underline the regime's claim to have the popular will represented in a democratic fashion. On the other hand, the leadership disposed of enormous prerogatives to curtail political freedoms and the electoral process. Associations and parties could be banned and

⁸⁶ Women were granted the right to vote in 1930 and the right to be elected in 1934. In that perspective, Turkey's electoral regime did not diverge from those existing in European and American countries. However, the fact that these rights were 'granted' by the state seriously hampered the development of civil society organizations fighting for women's rights in Turkish modern history. For, in 1935, as there was nothing more to achieve through social mobilization, the existing Turkish Women's Union was closed down. For a discussion of this dilemma see, among many others, Altınay (2004).

press censorship enacted. Candidates generally had to undergo a screening process by the ruling party's leadership in order to run for seats in parliament. These provisions were justified in reference to the maintenance of order and the 'national will' (as proclaimed by Mustafa Kemal). Although parliament was more than just an ineffective debate club, as its discourses reflected the overall political dynamism of the first half of the 1920s, in terms of actual prerogatives, its members more or less abided to the President and the government.

To secure consent in parliament, the regime did not allow rivaling political parties to compete effectively with the PP. This political practice became real with the first opportunity to deal with organized dissent. In 1924, intra-PP frictions led to its split and the founding of the Progressive Republican Party (PRP) that opposed the Republican People's Party (RPP), as it was renamed shortly after, over issues of political representation and the nature of socio-cultural reforms.⁸⁷ Mustafa Kemal tried to contain this group that expanded its organizational outreach into the Anatolian periphery, by replacing Prime Minister Ismet with Ali Fethi, a PRP member. But, the PRP episode was a short one. The RPP, opting for the radicalization of its reformist program, used the incident of the Sheikh Sait rebellion in February 1925 not only to restore order through martial law. The Law on the Maintenance of Order and the reinstatement of independence tribunals (as during the war of liberation) were used to close down newspapers and the PRP on 3 June 1925, based on manipulated claims that its members were in favor of the rebellion. So, the RPP ruled through a combination of limited contestation within its own members, repression of political outsiders and the constriction of civil rights to deal with societal groups. The authoritarian elite thus prescribed the extent of public discourses and reacted aggressively as the boundaries of this political arena could be breached. Beyond state repression, what shaped this narrow arena most were the evolving Kemalist articulations of nationalism and corporatism (Zürcher 1984, 1991).

Many attributes have been ascribed to the Kemalist transformations (rational, positivist, secular, enlightened, modernist) in Turkish official historiography and among western scholars, Bernard Lewis (1961) and Dankwart Rustow (Rustow & Ward 1964) being the most influential of them. Contrary to this particular Turkish version of orientalism (vis-à-vis the Arab world), Parla and Davison (2004) correctly emphasize that Mustafa Kemal did not introduce democratic politics in Turkey, and did not intend to do so. Even though Kemalist

⁸⁷ Underlying these issues was also the struggle between the Kemalist and other Unionist factions the latter of which felt increasingly alienated by the former's course and its aims to monopolize power; see Zürcher (1984, 1991)

rule did not display overtly fascist elements as was common in other countries in interwar Europe, Kemal was still an authoritarian ruler.⁸⁸ What the Kemalists labeled popular rule and the public interest was determined by their own interpretations of nationalist ideas (e.g. Ziya Gökalp) over how the new state, and the new society, should look like. Since the early 1920s, Mustafa Kemal developed his thoughts of an ‘organic’ Turkish society, in which no ethnic, religious and social cleavages exist that could have harmed the harmony of the sole entity, the nation. Based on this corporatist ideology, the regime justified its actions to ban political parties and societal associations. Existing organizations promoting Turkism (Turkish Hearths) were incorporated into and controlled by the Ministry of Education, until they were reorganized as People’s Houses and People’s Rooms in the Anatolian countryside. Most important for future socio-political developments, though, was the ban of worker’s associations and of the right to strike.⁸⁹

Thus, democracy was not seen as an element of Turkey’s modernity project. Instead, the Kemalists ascribed to themselves the sole role of representing the national will for which a harmonious social order was essential. It is from this perspective (to regard Kemalism as an emergent hegemonial ideology that buttressed the state’s infrastructural power that we have to analyze the social and cultural reforms of the 1920s and 1930s that took place in parallel to the oppression of countervailing social forces. During this era, Turkishness was constituted.

⁸⁸ A fact that he himself heavily denied in public, and he was angry at Turkish and western news coverage that portrayed him as a dictator. In order to stress the non-authoritarian character of Turkish politics, Mango even goes so far to rely on Atatürk’s logbook to counter such arguments. He concludes that “Mustafa Kemal drew a line between single-party rule, which he had come to see as inevitable, and a full-blown totalitarian dictatorship. [...] The party had a flag, but no uniforms or shock troops. Totalitarian ideas stepped in, but Mustafa Kemal did not allow them to dominate the country. Turkey in the 1930s, in the last phase of his rule, was a disciplined country under an unopposed pragmatic government which respected the forms of constitutional democracy.” (1999: 479-80)

⁸⁹ The Kemalists were especially concerned about socio-economic cleavages and partisan activity which can only contained by the nation’s cohesiveness, as is reflected by Atatürk’s speeches and the RPP program. Here are just two statements: “Small farmers, Small manufacturers and traders, the worker and the laborer, Free professionals, Industrialists, the large landowners, and businessmen and merchants of the major occupational groups that form the Turkish community. The work of each of these is requisite for the life and happiness of one another and of the general body social. The objective that our party aims at attaining with this principle is to provide or secure social order and solidarity instead of class struggle and to establish harmony of interests in a manner that would not be mutually contradictory.” (RPP party program of 1931, quoted in Parla & Davison 2004: 62-63) “In return for a political party that is formed to protect the interests of a class, another party is formed with the purpose of protecting the interests of another class. This is very natural. Well known are the consequences that we witnessed thanks to political parties that have been formed as if there existed in our country separate classes. Whereas when we say People’s Party, not only parts but the whole of the nation is included. [...] [I]t is not possible to separate into classes practitioners of various occupations because their interests are compatible with one another, and all of them comprise the people.” (Mustafa Kemal speaking in Balıkesir in 1923, quoted in Parla & Davison 2004: 61-62)

The cultural reforms formed part and parcel of modern Turkish identity politics; not in the sense that they were effective from the start and were not resisted by a predominantly agrarian society for which religion represented a fact of life. In fact, concerning the impact of the reforms, the penetrative capacities of the new state were limited and only began to expand into the countryside. Public primary education was only instituted in the 1920s, and the so-called village institutes through which teachers and nationalist groups from the center engaged in social and educational projects were only slowly having an effect. Also, the government had just begun to expand the communication infrastructure (railways, roads, telegraphs). But rather in the sense that, compared to state-religion relations in the rest of the modernizing Islamic world, the Kemalists succeeded at radically reshaping the boundaries of religious practices by subordinating them to the nationalist-corporatist ideology. After abolishing the Caliphate, the regime changed the everyday practices of religion by closing the shrines of local Sufi saints and the dervish orders in 1925. Further, more symbolic steps were taken by introducing the hat law, the Christian calendar (with Sunday replacing Friday as weekly holiday), the Latin alphabet (1928) and the Turkish *ezan* (call to prayer) in 1932. Also, the judicial system was restructured by adopting European civil and the penal codes in 1926 (from Switzerland and Italy, respectively). At the same time, Turkish public spaces changed fundamentally, as religious symbols and traditional architecture were being replaced by modernist styles in architecture (Bozdogan 2001), urban planning and a proliferation of statues and busts of Atatürk which have maintained their sacral status until today. This new symbolism did not gain their sacred nature through proclamation, but through the repression of countervailing social and political forces, as can be seen in the second attempt to open the political process to a new loyal opposition party.

In 1930, when the country was hit hard by the global economic crisis and when state elites perceived rising dissent over economic and cultural issues, President Kemal allowed the creation of a new party to institutionalize and control the articulation of discontent. Well-established Kemalist elites founded the Free Republican Party (FRP) with a program that resembled the former PRP's liberal, decentral and democratic worldviews (Angrist 2006). However, the regime did not expect countrywide support for the new opposition (which won 30 councils in local elections in October 1930) that dared to breach the narrow political space by exposing corruption and fraud practices of the RPP and publicly expressing demands to the regime. Tensions increased as the FRP came under massive criticism by the RPP while Kemal did not remain true to his assurance of his impartiality.

Without this support, the FRP dissolved itself only three months after on 16 November 1930. Shortly after, as in the PRP interlude, a minor rebellion broke out in the western Anatolian town of Menemem. It was quickly suppressed but served the RPP to link multi-party politics with the threatening of social order. Despite the local nature of the rebellion, the regime announced martial law in several provinces and especially targeted members of Sufi orders who were represented in public speeches and the newspapers as reactionary and fanatic enemies of the state with whom the FRP was cooperating willingly. Despite the heterogeneous attitudes of Sufi sheikhs toward the regime (Kücüük 2007), the Kemalists exploited the situation by legitimizing authoritarianism through the myth of existing reactionary forces endangering the Republic's principles through the new political party, even though no proof existed for any type of collaboration.⁹⁰

State capitalism emerging

After almost ten years of war, the Turkish economy was in ruins. Massive casualties, epidemics, crop failures, immigration waves and the exodus of the originally dominant commercial and agrarian bourgeoisie had devastating impacts on the agrarian export economy which had to be reestablished by the new regime. Labor shortages, the lack of communication networks and of qualified personnel restricted its capacities. However, it did not have to start from scratch, as a new class of Muslim-Turkish entrepreneurs had already begun to emerge on the ruins of the minority Ottoman bourgeoisie. Consisting of landowners, merchants and, to a limited extent, manufacturers, these groups had organic links to the CUP. Especially in the countryside did landowners and notables form the backbone of the resistance movement. So, when the republic was established, the politico-bureaucratic elites had already identified the "missing bourgeoisie" (cf. Keyder 1987: Chap. Three) that they intended to cultivate as the economic manifestation of national independence.

⁹⁰ "Kemalist historiography treats the closure of the FRP and the Menemem Incident as two events having a causal relationship. Official history textbooks of Turkish secondary schools categorize the Menemem Incident in a subsection of the part titled 'Attempts to initiate the multi-party system and reactions against the Revolutions'. The selected 'reactionary rebellions', the Sheikh Sa'id revolt of 1925 and the Menemem Incident of 1930, are covered in these textbooks in conjunction with the opposition parties, the Progressive Republican Party and the FRP. Accordingly, both rebellions are associated with the formation or opposition parties, with the implication that their leaders 'abused the free atmosphere' and 'Mustafa Kemal's search for democracy' - This way, Kemalist historiography not only echoes the RPP leaders who felt threatened by the popular support to the FRP in the autumn of 1930, but also legitimized the continuation of the single-party regime. In this discourse, democracy should be delayed in order to protect it from 'fanatics' or 'enemies of the regime' who use religion for political ends." (Azak 2007: 148)

These attempts were restrained by the economic provisions of the Lausanne Treaty. Turkey accepted not to change the liberal trade regime (with a nominal tariff rate of 13 percent) and not to touch the existing commercial privileges of foreign traders until 1929. These provisions were not that much of a problem as Turkey's economic policy-makers themselves adhered to liberal economic principles. Still, the ideological debates of the 1920s centered on the possibilities of state-based development projects. On the one hand, it was agreed upon on the Izmir Economic Congress in 1923 that private property and entrepreneurship functioned as the main source of growth (Bugra 1994: 98). On the other hand, it was clear that the state should help private capital, given the overall capital shortages. State promotion of banking and infrastructure projects were marked as the main fields of activity, as it was acknowledged that the state should step in where private entrepreneurship was too costly. Yet, the concrete boundaries of state activism were not defined clearly, and this ideological vagueness made possible the radical shift towards statism in the 1930s.

In the 1920s, Turkey adopted a variety of measures to restore its cash crop economy, while profiting enormously from the worldwide economic recovery. The extension of credits to cultivators by the newly-established Agricultural Bank (1924), the abolition of the tithe (1925) the subsidized import of agricultural machinery and the massive expansion of the railroad network through which the cultivating areas were for the first time directly connected to the coastal urban centers. These measures led to the rapid increase of commodity exports, with the major share of these profits passing into the hands both of a small group of large landowners and western merchants and financial houses, on the one hand, and small and medium peasants who mainly made profits through the abolition of the tithe.⁹¹ Beyond that, they resulted in higher marketization rates for products cultivated by formerly subsistence-oriented peasants. The state extended its own control over agricultural affairs by buying up the tobacco monopoly that was owned by the Régie Francaise. And, it promoted new cultivation procedures to catch up with western developments. While most peasants profited directly from these market-enhancing measures (as private land ownership was formally strengthened under the new civil code in 1926), most of the profits were made by medium and large landowners who used money-lending strategies to expand their estates. As a result, agricultural output grew by 115% from 1923 to 1929 and commodity exports from 84.7

⁹¹ Bugra (2003, 2007) emphasizes the political goal of safeguarding social order in the Anatolian countryside by limiting the further commodification of rural labor and maintaining petty landownership.

million TL to 155.2 million TL, respectively. However, the liberal trade regime was also a major source of discontent among merchants and elites; among the former, because they had to compete with privileged western traders who dominated shipping, while they formed intermediary linkages between foreign exporters and rural cultivators; among the latter, because liberal trade did not end, but rather deepened the problem of structural trade imbalances.

Despite these problems, the 1920 represented a period in which the original CUP-business relations were reproduced. Stable patronage relations emerged between politicians-bureaucrats, on the one hand, and merchants and landowners, on the other hand. In this context of dire capital shortages, the newly established banks (especially the semi-public Is Bankasi) became the main loci of attraction for rivaling entrepreneurs for preferential treatment by the state (Keyder 1987; Berberoglu 1982).

The 1929 New York stock crash and the following world economic crisis confirmed the fears of the Kemalists concerning their dependency vis-à-vis the capitalist centers. As many other late developing countries, Turkey was hit hard by the loss of export markets, as the trade deficit in 1929 soared to around 100 million TL. Hardest hit, though, were peasants and landowners cultivating wheat the price of which plummeted rapidly. Yet, the occurrence of the crisis at the time that the Lausanne Treaty's economic provision ended was realized as the opportunity to enact policies toward import substitution and autarky (which was viable given the decreased of the people's purchasing power and the automatic decline of consumer goods imports).⁹²

The state initiated its first industrialization policies before the crisis, enacting the Law for the Encouragement of Industry in 1927 to replace the preceding CUP measures of 1913. The measures consisted of tax exemptions, import rebates for raw materials and investment goods, direct financial transfers, preferential access to goods manufactured in state factories and 25-year monopoly rights for the manufacturing of new industrial goods. Still, these initiatives only gained momentum and had an overall impact with the introduction of protectionist policies. After the crisis broke out, higher import tariffs and specified import quotas were implemented. Also, the state for the first time gained control over monetary issues and foreign

⁹² "Turkish Republicans [began] to envisage new state-society relations other than liberalism, which could both safeguard the status of the bureaucratic mechanism and achieve the desired national development." (Keyder 1987: 89)

exchange movements with the creation of the Central Bank in 1930 (a role formerly assumed by the foreign Ottoman Bank). With the technical and financial aid of Soviet advisers, the state identified the necessary measures for deepening autonomous industrialization that should center on heavy industries.

For this, during the debates of the early 1930s, the concept of 'etatism' was reinterpreted by the RPP and nationalist societal organization who devised a third way between capitalism and socialism.⁹³ Accordingly, the state was not only regarded as a supporter of private capital, but should itself assume an entrepreneurial role to provide the goods essential for the public interest. Even though a shift of the meaning of etatism did occur, Atatürk was cautious not to take too radical a stand. Therefore, it was the liberal-minded Celal Bayar who came forth victorious from the intra-RPP struggles over the appropriate role of the state and was appointed minister of economy from 1932 (and Prime Minister in 1937 until Atatürk's death). The role of private capital was left unquestioned. Nevertheless, the state became deeply entrenched in economic affairs.

Companies were nationalized, further state monopolies over specific industries set up. Most effective, though, was the further promotion of private entrepreneurship. With new state banks (Sümerbank, Etibank), the state emulated the Soviet developmental model and proclaimed its first five-year plan (with 8 million dollar loan) that was biased toward new heavy industries (steel, paper, cement, glass, chemicals) and the textiles industry. The direct results of this industrialization drive were quite impressive. The composition of imported goods changed rapidly and the share of manufacturing in the GDP grew continuously. The state, for the first time in decades, achieved foreign trade surpluses, and increases of state expenditure relative to economic growth. The latter was the result of profits from SOEs, increasing tax revenues and, especially, through its regulation of the wheat crisis. At first, wheat prices were fixed at which the state bought wheat from peasants to stabilize their income. Yet, the state did not adjust the price when in the mid-1930s international price levels recovered and increased. The gained surplus further strengthened the state bureaucracy that had begun to reorient its focus toward urban manufacturing, at the expense of many small and medium-sized landowners.⁹⁴ Content with the degrees of economic autarky and industrial development, the state intended to further these processes by proclaiming a second five-year

⁹³ Most prominent in this era was the so-called Kadro movement; see Türkes (2001).

⁹⁴ For a detailed discussion of these measures to transfer the agrarian surplus, see Dawletschin-Lindner (1989).

plan from 1938, but the outbreak of World War II obstructed these plans. Even though Turkey managed to stay out from the war, the army was mobilized and the economy was switched to the war economy modus.

The state's expansion in the economy was accompanied by growing patronage capacities of politicians and bureaucrats in the SOEs, the state banks and the ministry of economy. Access to state incentives, subsidized loans and imports, became crucial resources for profits, especially in the case of new industrial ventures that were granted monopoly rights.⁹⁵ As Bugra states, "rent-seeking activities, in this conjuncture, naturally became a significant component of business life as a birthmark" (1994: 110). Political capital directly translated into economic capital, which led to the proliferation of corrupt and fraudulent activities.⁹⁶ Thus, no clear cut boundaries emerged between political-bureaucratic and economic actors, especially in the semi-public institutions such as the Is Bank.⁹⁷ The self-ascribed claim to embody bureaucratic rationality was undermined by these encompassing practices. Therefore, state industrialization was marked by the continuation of earlier political business networks under the CUP which seemed functional to end the predominance of non-Muslim businesses. With the increase of the state's infrastructural power also came the increased contribution to the creation of national agricultural, commercial and manufacturing entrepreneurs. Hence the

⁹⁵ Berberoglu emphasizes the transfer of state resources into private hands in the case of the sugar industry. "The first sugar factory was built in Alpullu, Thrace, with such extraordinary concessions as a 25-year monopoly in the five provinces in the vicinity, exemption from the Consumption Tax for 18 years, exemption from the Land Tax for 10 years on the lands on which the beets were grown for the factory, free construction land for the factory up to five hectares, exemption of the factory personnel from the payment of Income Tax for 10 years, etc. The entrepreneurs of the Alpullu sugar enterprise included deputies in the GNA [Grand National Assembly] and Istanbul merchants, who influenced the IB [Business Bank] into providing 68% of the capital and the ZB [Agricultural Bank] 10% leaving only 22% to be supplied by themselves. Thus, the first and major sugar industry in Turkey was created by state funds for the profit of private interests."

⁹⁶ "The majority of the so-called entrepreneurs initiated 'paper' businesses, claimed the bonuses offered by the government, bought the products of the state factories well under their market prices and sold them to other operators. After making exorbitant profits they closed their 'enterprises' before they even started them. Even heavy machinery imported for the establishment of new industries was exported to other countries after their registration at Turkish ports of entry." (Berberoglu 1982: 29)

⁹⁷ "The officially promoted private bank, (İş Bankası) which represented the central intelligence behind private capital, remained vigilant in safeguarding the areas of activity which were thought to be the domain of the industrial bourgeoisie. [...] In 1930 its participation in national industry had grown to 50 per cent of all national banks and by 1937 it held 38 per cent of the deposits in national banks. İş Bankası provided a smooth interface between industrialists and the bureaucracy. Its board of directors consisted of thirteen deputies, and its links with public banks and state enterprises were intricate and strong. Industrialists regarded the bank as their platform when bargaining had to be carried out with the bureaucracy. The boards of directors in all the firms in which the bank held shares included high level bureaucrats and deputies. It was almost impossible to imagine a large manufacturing firm without such participation by the bureaucratic class. In 74.2 per cent of all firms established between 1931 and 1940 (and still surviving in 1968) the founding entrepreneurs were bureaucrats. This high figure was partly due to the bureaucracy's growing share in national income and the opportunities it had enjoyed in public contracts and land speculation in the growing capital city. It mainly indicates, however, the currency which political influence enjoyed during the period." (Keyder 1987: 106)

label state capitalism, for in this period, the new capitalists remained in a highly dependent position vis-à-vis the politicians-bureaucrats. Given the low degrees of political competition under the single-party regime, businessmen stood at the receiving end of financial resources. From the beginning of Turkey's national development initiatives, semi-private corruption networks were established that countered the trust in institutions. Still, there were only few frictions between new capitalists and the state, except for the growth of industrial capitalists at the expense of formerly dominant segments. These conflicts would persist during the next decades, but the main source for the crisis of Kemalism lay in the forms of social and political exclusion that could not be maintained after the war ended.

Exclusion, discontent and post-war crisis

In contrast to the image of an organic and harmonious society, societal discontent could not be stifled and had to be contained through mechanisms of social exclusion and open political repression. Especially since the industrialization policies, new sources of social discontent plagued the regime. Within the ruling party, ideological debates and political rivalries between radical and moderate etatists started undermining its cohesion. As these debates intensified, Atatürk supported the moderates' faction under minister of economy Celal Bayar. İnönü resigned as prime minister in 1937, but maintained his powerful position within the RPP. After Atatürk died in 1938, through the support of the RPP İnönü won the succession struggle against the more liberal-minded Bayar. With the new Prime Minister Recep Peker, he consolidated the radical faction in political and economic affairs. However, the regime also faced growing dissent and opposition from the urban working classes which was contained by the repressive labor and associations laws. While the RPP could uphold its hegemonial position until WW II, the countrywide deteriorating impacts of the war economy led to the first splits within the RPP. After the war, due to the demands of the U.S., İnönü decided to open the political system for competing political parties in 1946. Only a few years later, the RPP lost the parliamentary elections to the Democratic Party (DP) that could establish a cross-class constituency fed up with political repression and the war-related economic dislocations. In the Turkish case, society struck back at the authoritarian RPP elite that had for almost three decades implanted its own version of state and society onto the population. This backlash eroded the RPP's political predominance for the next decades, and set the stage for new political and symbolic struggles over the role of the state and its ideological orientations,

which took place in midst of the further unfolding of capitalist social relations and development.

Since the founding of the Republic, Kemalist elites enacted policies to improve rural socio-economic conditions⁹⁸, but they never seriously addressed the conditions of the new urban industrial working classes that became ever more important for their developmental projects. Although the RPP replaced the illiberal Strike Law and the Law of Associations (1909) of the CUP regime, they used the new penal code and the Law for the Maintenance of Order to obstruct strikes and other forms of collective activities. Under the state industrialization regime of the 1930s, the amendment of the penal code in 1933, the Labor Law of 1936 and the Law of Associations of 1938 further restrained the repertoire for workers. They rendered illegal the founding of class-based organizations, banned strikes and lockouts and imposed a compulsory state arbitration regime, thus de-facto abrogating the constitutionally defined right to establish civil associations (cf. Keyder 1987: Chap. Four).

Labor conditions in the new private and state-owned factories were extremely harsh and wages were low. Child labor was abundant and social security for workers almost non-existing. The low number of strike activities in the 1930s reflects the high levels of state intimidation exerted upon activists (Yavuz 1995: 103-105). In accordance with the corporatist Kemalist ideology, social policies in the 1920s and 1930s were mainly implemented in a paternalist fashion and were seldom applied in small and medium factories (Boratav & Özugurlu 2006: 107). In fact, the whole industrial development project was based in high degrees of exploitation of industrial workers. From 1934 to 1939, real wages in private factories declined by 20 percent, and workers were affected by a variety of indirect taxes. The discontented workers did not struggle for distributional policies in the 1930s, due to state repression, on the one hand, and the fact that many industrial workers were migrating peasants for whom urban jobs were a route of social mobility, on the other hand.

The outbreak of World War II was a major turning point in Turkey's modern political and economic developments. In the 1920s and 1930s, Turkey managed to maintain favorable diplomatic relations with both the western democratic countries, Soviet Russia and fascist Germany and Italy. During this time, many of the open questions of the Lausanne Treaty were

⁹⁸ Against the prevailing view of dependency-oriented scholars, Boratav and Özugurlu refer to the restructuring of the agricultural economy as the "brief golden age for the Turkish peasantry". (2006: 161)

solved. At the Montreux Conference in 1936, Turkey regained sovereignty over the straits. Relations with France improved from the early 1930s as Ottoman debts were rescheduled and France acknowledged Turkey's annexation of the Alexandrette district in 1939. Since 1932, Turkey was a member of the League of Nations and could even come to terms with long-term enemy Greece. As diplomatic tensions increased with the expansive aims of Germany and Italy, Turkey was approached both by Great Britain and France, on the one hand, and Germany, on the other hand.⁹⁹ Yet, President İnönü succeeded through a delicate balance of diplomatic agreements, in staying out of the war. Only when Russia was pressing Turkey to end formal relations with Germany and enter the war and announced its reservations to Turkish territorial integrity did İnönü reconsider the neutralist stand. The government officially declared war on Germany and Japan in February 1945, without being directly involved in military operations afterwards.

Despite Turkey's delicate neutrality, in order not to repeat the CUP's mistake to enter war without being militarily and economically prepared for it, the state mobilized an army of 1.5 million soldiers, after implementing the National Defense Law on 18 January 1940. The main economic policy aims were the provisioning of the army and the urban centers. Through this law, the government had the right to set prices, terms of production and consumption, to conscript people for mandatory labor in factories and mines. Political decision-making powers were further strengthened by curtailing the prerogatives of parliament and the declaration of martial law. In effect, the war provided the regime with opportunities to extend its reach into society and to regulate almost all aspects of social and economic affairs through a radicalized version of etatism (Zürcher 2004; Ahmad 1993; VanderLippe 2005).

The war-related disruptions of foreign trade hit Turkey's new import-dependent industries hard. The decrease of imported investment goods and manufactured parts from 118 million TL (1939) to 75 million TL (1941) and the state's intervention to ration food led to serious shortages of consumer goods and basic commodities. The state purchased agricultural products and allocated them to the army and the cities, while leaving peasants only a certain share of their harvest to market directly, but only at fixed price levels. State controls and shortages immediately led to practices of hoarding, creating a stable black market for most commodities, and high inflation rates that benefitted only private monopolists and smugglers.

⁹⁹ Germany became Turkey's most important trading partner in the 1930s and helped the country gain economic autarky through specified barter agreements.

Hoarding and black marketeering, as during World War I, became profitable venues, not only for commercial agents and large landowners, but also for small peasants and small urban entrepreneurs.¹⁰⁰ The state tried to fight this phenomenon, but in many accounts, politically well-connected businessmen found ways to evade public prosecution.¹⁰¹ At the other end of the scale was the suffering majority of the population. Rural and urban workers had to observe the deterioration of their social conditions, as their wages decreased in real terms while shortages became a lasting experience. Even when the state relaxed its control over distribution and selling to induce peasants and landowners to sell their products on the market, black marketeering did not decrease. In 1938 levels, the costs of living surged continuously to 345.7 percent in 1945, affecting even bureaucrats who were often paid in kind, not in cash (cf. VanderLippe 2005: 66-73).

To extract the excessive illicit profits of the war riches and to counter the growing budget deficits, in November 1942 the government implemented the so-called Wealth Tax (*varlık vergisi*). This tax was a one-time levy to mobilize the sum of 465 million TL. However, the application of this measure was a source of enormous uncertainty for businessmen. Local tax officials had the right to unilaterally identify the actors they intended to tax and to set the sum to be extracted on an individual basis. If the fixed sum could not be paid, businessmen were to be jailed and deported to labor camps. As it turned out, the law was mainly devised and applied against non-Muslim entrepreneurs. Among the total sum levied (315 million TL), minorities paid more than half, Muslims paid around 30 percent and foreigners 20 percent. Thereby, the ruling party further weakened the role of non-Muslim capital that had been identified as easy scapegoats in midst of deteriorating social conditions. This pattern again reflects, on the one hand, the discriminating practices of the state against minorities, and the essential role of political business linkages, on the other hand, as many Muslim businessmen

¹⁰⁰ “Hundreds of millionaires emerged in Istanbul during the war. The war millionaires included new rich peasants and smalltown merchants who flooded to Istanbul after they discovered ways to sell crops at high prices on the black market in the big cities. As migrants crammed into the poor neighborhoods, the newly rich entertained themselves in nightclubs, giving rise to an new idiom, *cumbadan rumbaya*, a term that described nouveau riche moved from traditional neighborhoods to new Western-style apartment blocks.” (VanderLippe 2005: 72)

¹⁰¹ Such as “Ahmet Canakcili, the ‘Rice King’ [who] bought unprocessed rice in southeast Anatolia for 14-24 *kurus*, then sold it in Istanbul for 120-140 *kurus*. He was called before a special court and charged with violating the National Defense Law on three occasions. But later on, because of his connections, Canakcili was selected to serve on the Rice Control Board by the government. After his appointment to the board Canakcili did the country the ‘favor’ of selling thousands of bags of rice in his stock for 95 *kurus* per kilogram, thirty *kurus* below the black market price. But this maneuver netted Canakcili a profit of 42 *kurus* per kilogram in the sale.” (VanderLippe 2005: 72; emphasis in original)

could expand their ventures by buying the assets of Christians and Jews at state-organized auctions.¹⁰²

Because of growing criticism as this measure by native businessmen and foreign countries, the Wealth Tax was abolished after one year. The Land Products Tax implemented in May 1943 had similar aims and targeted peasants and landowners by confiscating specified shares of the harvest. Here again, the measure mainly hit small and medium peasants, as large landowners used their political connections and money-lending as a methods of land-grabbing at the expense of the former. Both these measures had only a limited impact and only served to estrange the business community as a whole that for the first time directly felt the ‘grabbing hand’ of an unconstrained state on whose goodwill they depended.¹⁰³

As the war ended, the RPP’s hegemonial position was already in a state of decline. Within the RPP, a small group of more liberal-minded politicians started expressing their opposition to the radical statist outlook of the economy and propagated economic liberalism, individual entrepreneurship and the retreat of the state. Labeled ‘the four’ (Celal Bayar, Adnan Menderes, Fuat Köprülü, Refik Koraltan), they vehemently opposed the government’s land reform program that was passed in May 1945, which affected only a small number of large landholders and mainly foresaw the distribution of state land. For several months, the RPP leadership tolerated the political activities of ‘the four’, but on 4 November 1945 ousted them from the party, sharpening the party’s statist profile. However, due to international pressures for democratization¹⁰⁴ and the openly stated position of İnönü to allow for the founding of opposition parties to institutionalize popular dissent, the RPP also lost its uncontested hold over political affairs. In June 1946, the Democratic Party (DP) was founded by ‘the four’, and although it failed to win the 1946 early elections, it could mobilize an alliance of landholders, urban capitalists, liberal intellectuals, urban workers and the peasantry, all of which were united in the aim for deepened political representation in order to unmake some of the authoritatively enacted Kemalist reforms. In 1950, the DP won a landslide victory, gaining

¹⁰² During World War II, Turkish Jews for the first time experienced state-tolerated discrimination. Although the country welcomed the migration of German Jewish academics and intellectuals after 1933, there was also a widespread anti-Semitic trend among radical Kemalist groups. For a revisionist account of attitudes against the Jewish minority during World War II, see Guttstadt (2008).

¹⁰³ “In spite of the material gain realized by some of the Muslim businessmen during this episode, it would be impossible to state that the wealth levy left them in a happy state” as the measure was “nothing less than an act of state terrorism.” (Bugra 1994: 115)

¹⁰⁴ The government abided to this pressure to garner financial aid and international support, mainly from the U.S., to counter the Russian claims for reconsidering the question of the straits and the Eastern Anatolian provinces that belonged to the Russian empire after the 1878 Berlin Conference.

more than two thirds of seats in parliament and ending the era of the RPP that never restored from this societal backlash.

Reactive sequence: the fragmentation of political power and the emergence of oligarchic capitalism

The DP electoral victory represents a revolutionary event in Turkey's modern history. Politically, it ended the RPP's supremacy and empowered different social groups in the political sphere. In fact, the RPP recovered from its loss over patronage resources only in the second half of the 1970s when it began developing a more coherent social-democratic agenda under a new leadership. However, the DP was not to remain unchallenged as a new political actor entered the stage, the Turkish Armed Forces (TAF). Aware of the enormous capacities of the ruling party to alter the Kemalist outlook of the Republic, members of the TAF assumed the role of defending Kemalist principles and expressed this claim by regularly interfering into political affairs; first, in 1960 to end DP superiority and install a democratic regime with extensive checks and balances; second, in 1971 to curb the polarizing social and political tendencies by retracting some of the political freedoms of the constitution the army itself introduced; third and last, in 1980 to end 'politics' in the context of heightened class-based, ethnic and religious struggles and social unrest.

Economically, although the main support bases of the DP and its successor, the Justice Party (JP), were landowners and commercial groups, the institutional changes were not substantial. For, it was under the Menderes government in the late 1950s that import substitution was re-introduced after a decade of economic policies biased toward strengthening the agricultural export economy, similar to the years after World War I. With the 1960 military coup d'état, state-planned industrialization again became a formally declared goal of the republic. During this second industrialization drive, the phenomenon of diversified family business groups emerged, who concentrated economic power in their hands and became increasingly valuable clients for fiercely competing political parties, especially in the 1970s. Social polarization and political radicalization could not be maintained within the democratic framework, as the developmental regime was constrained by its own internal limits given the high degrees of import dependency. Faced with the oil price revolutions, the state plunged into systemic crises, while IFI's propagated structural adjustment programs toward EOI. Although an SAP was negotiated by the AP government in early 1980, the TAF decided to interfere again, with

the consent of the biggest holding families, in order to make this institutional shift possible by ending its own democracy project. In terms of the conceptual tools applied here, we identify in this period the erosion of the cohesive state and therefore the beginning of the transformation of a *state capitalist* into an *oligarchic capitalist order* in which the new family business groups constitute the core of power structures.

The liberal interlude

For the next years, the DP under Prime Minister Menderes (Celal Bayar quit the DP to be elected for President) ruled in a rather unconstrained political fashion. It could draw on the disillusionment of broad parts of the population by the bureaucratic rule of the CHP in the 1940s. The DP claimed to unmake the RPP's autocracy, emphasizing instead the popular will that had been suppressed for almost three decades. While the RPP was mainly identified with the expanding state bureaucracy that had attempted to control and steer most social processes, the DP support bases lay among traditional rural communities (small and medium peasants and large landholders) and merchants and industrialists in the urban metropolises. In fact, the DP victory reflects the articulation of the famous center-periphery dichotomy that dominated Turkish politics for the next decades (Mardin 1974).

Although the ideological differences between the DP and the RPP were rather minimal, PM Menderes effectively propagated the differing approaches toward religion and the economy. Already in 1950, the Arabic *ezan* was reintroduced nationwide, religious curricula entered public primary schools, religious Imam Hatip schools were allowed, as were religious radio broadcasts. Even so, the opening of the religious sphere was not part of a broader plan to undermine Turkey's "assertive secularism" (Kuru 2009), to which most DP members adhered as well as the RPP. The DP's economic policies were similarly oscillating between radical liberalism and state interventionism. The primary goal was to strengthen the agrarian export economy with Western financial and technical aid. Together with favorable international conditions (high demand for commodities during the Korean War), road building (1,642 km in 1950; 7,049 km in 1960) and mechanization (tractors and harvesters 1,750/994 in 1948 to 43,747/6,042 in 1960) programs led to a dramatic increase of soil under cultivation (13.9 million hectares in 1948 to 22.94 million hectares in 1959) and formed the bases of rising export and growth rates (1950-53 13 percent), in accordance with the DP's aim to generate one 'millionaire in each neighborhood' (cf. Bugra 1994: 121; Keyder 1987: Chap. Five).

Still, despite its open free market ideology, the government further relied on state interventions, due to the unrealized expectations of FDI and privatization policies. The ‘spirit of profit’ was promoted through state-led investments, mainly the newly created (1951) Turkish Industrial Development Bank (TIDB). Through preferential access to credits, government contracts and foreign exchange allocations for import, as in the 1920s and 1930s, the state supported private entrepreneurs. This feature reflects the Turkish “paradox of liberalism” (Bugra 1994: 123), as “this was an area particularly open to favoritism through the abuse of political authority” (Bugra 1994: 123-24). Rent seeking activities continued to be part of everyday political business, especially in the field of discretionary import controls that benefitted businessmen with close linkages to the DP leadership.

In the second half of the 1950s, the agricultural boom years were already over, as growth rate plummeted to an average of four percent for the rest of the decade. The boom period resulted in increased demand for foreign consumer goods, especially cars, and machinery, causing renewed trade imbalances and depleting Turkey’s foreign exchange reserves. The government countered the capital shortages by unsystematic import controls, by borrowing at international markets and by printing money, without addressing the problems of taxation. Over the years, inflation became a major source of concern, rising to above 20 percent in 1957. The implementation of price controls, as during World War II, again created internal black markets that benefitted landowners and merchants. Still, in general, businessmen were becoming disenchanted by the erratic economic policies and for the first time expressed their concerns through the chambers of commerce, despite their personal business connections to the government.

Being dependent on further foreign loans, the government in 1958 accepted the conditions of the OECD countries and the IMF and, in return for a 359 million US\$ loan and a rescheduling of further 400 million US\$ in outstanding debts, devalued the TL (from 2.8 TL to the US\$ to 9.025). The government’s stabilization plan did not have a lasting impact, though. In sum, the 1950s were a period of “agricultural fortunes, greatly increased physical mobility, and opportunities for rapid accumulation” (Keyder 1987: 139). Growth-oriented policies replaced those of the RPP biased toward order and perpetuated the support of the DP’s peripheral constituencies. However, the DP merely replaced the RPP as the provider of accumulation opportunities and hence as the new political patron for a business community that only

recently began to articulate demands independent of political elites. Despite the shared liberal worldviews, the unrivaled power position of the DP and its disposal over enormous patronage resources did not lower the uncertainty for individual businessmen.

Contrary to its early declarations, the DP did not follow a policy of deepening political liberalization. As soon as economic and financial problems became visible, the DP relied on similar bureaucratic repression measures as its predecessor did, which – together with defecting groups, liberal and academic circles and leftist activists – became the main target of the DP. Already in 1953, the government attempted to control the press through censorship and forbid political activities in universities. Increasing autocratic practices, such as the expansion of DP followers into the distrusted state bureaucracy, and discourses that denied legitimacy to the claims of the working classes, shattered the liberal-reformist view of the early DP. Beyond the discontent among liberals, businessmen and bureaucrats, PM Menderes further estranged the TAF which suffered a decline in its social reputation and its financial standing, as salaries and defense budgets were not increased along with high inflation rates. Radical nationalist lower and middle-rank groups within the TAF planned taking over power and on 27 May 1960 staged a coup d'état, banned the DP and jailed its members, justifying their move by the DP attacks against Kemalist principles and its despotic unconstitutional rule.

The army in politics, the Justice Party and state planning

The democratic experiment of the Second Republic was not directly the outcome of the putsch, but of the internal dynamics within the NUC, which was formally headed by the newly proclaimed State President Cemal Gürsel, but de-facto the organizational base of the radical officers under Colonel Alparslan Türkeş. Within several months, though, Gürsel defeated the latter and maintained the seniority principle and the unity of the TAF. He founded a rivaling organization, the Armed Forces Union, and in November 1960 he had the NUC abolished and the radicals ousted.¹⁰⁵ At the same time, several commissions headed by university professors designed a new constitution with codified civil rights and political liberties, parliamentary (Senate) and judicial (Constitutional Court) checks and balances to preclude a return to the possibility of a democratically-elected majoritarian autocracy. The

¹⁰⁵ Opposition from radicals did not end, but new attempts to regain power were unsuccessful and led to the execution of those involved 1962.

last Menderes years were generally perceived in that way, which explains the temporary satisfaction of broad parts of the population with the military intervention. In fact, the 1961 regime has, until now, been the only example of democratic political institutions in Turkey, and Turkish society has never since experienced a similarly unconstrained era of political contention, at least until 1971.

The main targets of the TAF – that institutionalized its prerogatives in politics through the National Security Council (NSC) – were the DP members, especially its leadership. After a trial was held in a special tribunal, the appointed judges issued hundreds of minor imprisonment sentences, and the core of the DP, President Bayar, Prime Minister Menderes, Foreign Minister Zorlu and Finance Minister Polatkan were sentenced to death. Excluding Bayar, all of them were executed in September 1961. However, with the transition to electoral politics, it became obvious that in spite of the destruction of the DP leadership and its organizational base, the TAF did not manage to re-consolidate the position of the RPP. In the first parliamentary elections of October 1961, the RPP won only a slight majority of votes (36.7 percent/ 173 seats), followed by the new Justice Party (JP) with 34.7 percent (158 seats), the New Turkey Party (13.5 percent) and the RPNP (13.4 percent). Thus, the JP, which claimed to succeed the DP, and the NTP, founded by former defectors of the DP, formed a substantive opposition bloc to RPP power. Efforts by President Gürsel to install RPP governments (first with the JP until May 1962, then with the NTP and the RPNP until December 1963, and afterwards as a minority government) did not bring the desired political stability. In fact, the JP leader Süleyman Demirel's claim to represent the same constituency as the DP secured the party election decisive victories in the 1965 (52.9 percent) and 1969 (46.5 percent) parliamentary elections.

The JP predominance in electoral politics reflected the nature of the political process in the new regime, which was characterized by the center-periphery dichotomy the origins of which go back to the bureaucratic Ottoman reforms, the CUP era and the authoritarian reforms of the early RPP (Mardin 1975; Angrist 2006). The JP had, even more so than the DP, its main support bases in the rural periphery and was the first party to erect effective patronage machines through local political entrepreneurs. By extending favors to influential individuals (business contracts, tax exemptions, state bank loans, lack of judicial enforcement) and whole constituencies (infrastructural projects, housing, schools, hospitals), the JP structured the political process along the lines of rural patronage rules. These did not even decrease with

growing urbanization rates, but were deepened as, most of the time, the same rural community structures were replicated in urban contexts in the new shantytowns, the so-called *gecekondu* (literally: built over night). With the expansion of state capacities according to the new ISI project, the JP was the first political power to instrumentalize the shift to democratic direct rule by monopolizing access to state resources that were allocated mainly in exchange for votes.¹⁰⁶ Still, patronage politics also constrained JP power. For, it created strong incentives for individual party members to defect from the party, as soon as their interests were not met, and to set up independent patronage machines. Although the JP was ideologically more consistent than the DP, its organizational cohesion suffered continually. Thus, political patronage, not ideological cleavages, began to fragment Turkey's political landscape.

The JP not only had to govern against the military establishment, opposition parties and internal contenders, but was further constrained in its economic policy choices by the installment of the State Planning Organization (SPO) that was to coordinate and deepen industrialization policies. According to the proclaimed goals and needs, the SPO favored industrial capitalists and SOEs with subsidizing inputs (raw materials, investment goods) and secured their profit expectations by protectionist import tariffs, quotas and bans. The low degree of guaranty deposits at the central bank meant substantive support for industrialist at the expense of merchants who had to deposit higher guaranties and agrarian exporters who suffered most from these institutional changes (cf. Keyder 1987: Chap. Six).

Because of a certain degree of institutional autonomy of the SPO, state planners could target the industrial sectors and SOEs in a more systematic and coherent manner, compared to the 1930s, without being constrained by political party demands. The fact that state industrialization remained the main goal of the JP governments despite its different social base can be regarded as a clear indicator of the aloofness of the SPO from the ruling parties' interests. Another factor contributing to the impressive developments in the 1960s was the maturation of private capital that had, for several decades, been allowed to accumulate so that there were private operators of large industrial investments with the necessary financial, organizational and professional capacities. The 1960s were a period of restructuring and high

¹⁰⁶ On the origins and functions of party patronage in Turkey, see Kudat (1975), Sayari (1977), Özbudun (1981) and Günes-Ayata (1994).

growth, GDP rates between 1963 and 1970 grew on an average of 6.8 percent, while the share of manufacturing increased from 14.2 percent (1962) to 19.7 percent (1965), 22.6 percent (1970) and 46.6 percent (1972). Simultaneously, the composition of imported goods changed enormously in favor of investment goods, as consumer goods made only around 5 percent of total imports in 1970.

Although the SPO managed to fundamentally change Turkey's industrial structure, it could not overcome the internal contradictions of the ISI model, i.e. its continued import dependency and the foreign debt problem. Foreign debt grew continuously in the 1960s, from 184.2 million US\$ (1960-1965) to 256.4 million USD (1966-1970), between 12 and 14 percent of GDP. Given the lack of substantive FDI¹⁰⁷, this problem was only contained by western aid and the remittances of Turkish emigrants (mainly from Western Germany).¹⁰⁸ As the economy faced its first balance-of-payments problems in the late 1960s, the government reoriented its focus in favor of agrarian exports by devaluing the TL by 40 percent. Yet, new socio-political dynamics resulting from deepened industrialization made such reorganizations more complicated as they hit the vested interests of the central supporters of ISI, industrial capitalists and the working classes.

Erosion of corporatist control

The political control of the working classes was a particularly important pillar of the developmentalist regime. Social order as a goal in itself and for the continuation of state industrialization was to be reached, for the first time and radically different from the corporatism of the 1930s, by granting to workers freedoms of associations, the right to strike and for collective bargaining. On the one hand, inclusive social policies and rising wages were institutionalized to appease labor, resulting in the increase of real wages at 5.4 percent annually between 1963 and 1971. On the other hand, the government aimed to coopt the labor movement through hierarchically organized trade unions. The main target was Türk-Is, the first confederation of trade unions founded in 1952, which experienced an appreciation of its role in the 1960s, compared to the deteriorating state-labor relations under the DP government. Under the 27 May regime, Türk-Is gained a preferential, in fact, a semi-public

¹⁰⁷ FDI levels were generally low under the ISI regime, hovering between 15 and 50 million US\$ annually in the 1960s, mainly in the form of joint ventures between western corporations (securing stable profits in the protected market) and native industrialists (for western technologies and organizational skills).

¹⁰⁸ Amount of remittances (in million US\$): 1964: 9, 1965: 70, 1966: 115, 1967: 93, 1968: 107, 1969: 141, 1970: 273. (Barkey 1990: 95)

status in exchange for conservative labor representation strategies and support for the JP governments.¹⁰⁹ Yet another factor accounting for this conservative stand was the dependency on financial and organizational aid from the US trade union, USAID and the US embassy in Ankara. Therefore, Türk-Is resembled the US model of trade unions more than the more activist continental European varieties (Bianchi 1984: 217).

Yet, corporatist control over the working classes could not be maintained in the context of unrestrained political contention which opened the space for student activists and more radical labor rights activists who attacked the conciliatory outlook of Türk-Is. A variety of socialist and communist parties emerged, fragmented by ideological and personal struggles over the appropriate course of action, but nevertheless united in their interpretation of the corporatist control of the state over the working classes. In 1967, out of opposition to this pattern, the Confederation of Revolutionary Trade Unions (DISK) was established which began mobilizing the generally less paid workers in the private industrial sector, who numerically surpassed employees in SOEs.¹¹⁰ With its more aggressive tactics of strikes and lockouts, DISK could expand its membership from around 30,000 to almost 800,000 workers, while Türk-Is membership stagnated at 760,000 (Caglar 2003: 189); a trend that incurred the RPP to engage in ideological reorientations towards a more coherent social-democratic profile promoted by Bülent Ecevit with the support of İnönü.

Although leftist ideological discourses were at first tolerated by the government, as they only helped to weaken the organizational cohesion of the labor movement, toward the end of the 1960s, the government took direct steps to counter the WP by changes in electoral procedures and DISK by amending the organizational criteria that favored Türk-Is. The responding mass demonstration in June 1970 that led to the first clash between leftist and nationalist groups were severely repressed by the TAF. To curb this new phenomenon of political activism from below, on 12 March 1971, the TAF leadership issued an ultimatum to the government calling for the maintenance of public order. Demirel resigned, and the TAF installed a new

¹⁰⁹ “Türk-Is leaders struck a bargain with employers and the Justice Party in which they expected to secure many of the special benefits allowed public association without relinquishing the formal autonomy enjoyed by private associations. The bargain involved an attempt to grant by statute the virtually exclusive right of representation and the guaranteed access to policy making that Türk-Is leaders still could not achieve independently, in return for which they pledged continued moderation in exercising labor’s new rights to strike and engage in collective bargaining. Semiofficial status and secure clientelism were to be exchanged for cooperation in reducing working-class demands and promoting social peace.” (Bianchi 1984: 212)

¹¹⁰ In 1955, 50.5 per cent of industrial workers were employed in SOEs, until 1971 this share had decreased to only 20 per cent.

technocratic government under RPP member Nihat Erim, as proposed by İnönü, and had the constitution amended. The freedom of association, the autonomy of universities and press freedoms were severely curtailed. Also, State Security Courts were institutionalized that began persecuting leftist groups. Nevertheless, this second intervention of the military did not have a lasting impact and could not prevent the ongoing political polarization according to the dynamics of contention in a rapidly changing society. For, state corporatism eroded not only vis-à-vis the activist labor movement, but also in the case of the state-spawned capitalist classes, among which the family business groups were the most influential.

Segments of capital and the rise of big family businesses

Similar to the arrangements with the working classes, the state aimed to control the capitalist classes starting in the 1950s with the founding of the Turkish Confederation of Chambers of Commerce, Industry and Commodity Exchanges (TOB) in which membership by all private companies was mandatory. Under the ISI regime, the role and position of TOB became crucial for entrepreneurs, as it was assigned with the function of allocating import licenses. Thereby, TOB was transformed from a private association into the public center of power and distribution conflicts.¹¹¹ As there existed no other institutionalized channels of communication between political and economic elites, TOB qualified as the decisive corporatist mechanism through which governments manufactured consent among businessmen.

The principal aim was to control conflicts between industrial and commercial and agrarian factions of capital. While the former, favored by the SPO, had vested interests in the maintenance of import substitution, the latter, representing the original constituency of the DP, struggled for lifting protectionist policies. Although these factions were not split according to geographical cleavages (with most companies being located in the western metropolises), they fought over the crucial import license and foreign currency allocations the distribution of which was the major, if not the sole, bone of contention for these groups. Within TOB, due to the principle of equal representation the influence of importing merchants was predominant, and increases of import allocations to industrialists, who felt the necessity

¹¹¹ In her analysis of the political function of TOB, Öncü concludes that “the question of differential access to foreign currency and credits is crucial in understanding conflict and alliance patterns within the broader domain of state-industry relations in Turkey. Control over these resources is a major base for generating political power.” (1980: 456)

to create alternative communication channels to the government, were limited in the 1960s (Amelung 1989).

These corporatist state-business relations collapsed since the late 1960s. In the 1969 elections for the TOB presidency, Necmettin Erbakan defeated his rivals by mobilizing the dissent of central Anatolian small and medium entrepreneurs. They opposed the one-sided preferential treatment of western large companies and merchants by the government so that companies did not have any incentives to create backward linkages with the country's small industry through which the chronic import dependency may have been resolved. Erbakan's unexpected victory plunged TOB and the government into a crisis.¹¹² In response to this new form of opposition, Demirel had the elections annulled and Erbakan and his followers, who occupied the TOB building, removed by police forces. In 1971, after the military intervention, TOB's central role was undermined by the government's decision to transfer the allocation of import licenses to the new ministry of foreign trade. In response to this depreciation, the twelve biggest private industrialists founded their own autonomous business association TÜSIAD.¹¹³ At the same time, the Turkish Confederation of Employers' Association (TISK) was established through which entrepreneurs articulated their demands to the government and engaged in wage negotiations with the increasingly activist trade unions, unwilling to bear the costs for maintaining social peace after the government had lost control over the latter. So, for the first time, the big industrialists who profited most from the ISI policies had the opportunity to articulate their claims¹¹⁴ and to interact autonomously with political elites who were becoming ever more dependent on their support.¹¹⁵

¹¹² At first, Erbakan enjoyed the support of big industrialists who felt increasingly excluded from TOB decisions. As soon as his aims to promote the Anatolian business became clear, they receded and joined the governments counterattack against his election. (Bianchi 1984: 256)

¹¹³ The first attempt to set up a confederation of chambers of industry within TOB failed in 1967.

¹¹⁴ Beyond these political power considerations, Ayse Bugra refers to the aims of creating the institutional and moral basis for unrestrained capitalism. She argues that "rather than forming a forum to promote short-term economic interests of the business community, they constituted the expression of a desire to contribute to the creation of a social environment in which the legitimacy of business activity was assured." (1994: 136)

¹¹⁵ These contributions to the weakening of the cohesion of business associations met the harsh criticism of TOB members. According to a member of the Istanbul Chamber of Industry "everybody should know that the private sector in Turkey is not as influential and effective as a pressure group as it is often thought. It is heterogeneous, and intra-sector jealousies are all pervasive. It is not well-organized. Istanbul versus Anatolia competition persists. Some of the chambers of industry do not view favorably the Turkish Association of Industrialists and Businessmen [TÜSIAD], which they think is an exclusive club of big industrialists. There are no close ties between chambers of commerce and of industry. Only one third of the employers has been organized within the (Turkish) Confederation (of Employers' Associations) [TISK]", cited in Heper (1976: 497).

Who were these entrepreneurs and where did they come from? It is mainly during this fourth period of Turkey's capitalist development that industrialists experienced their great leap to the upper strata of society. In the 1960s, the first so-called holding companies were established (the first and most prominent ones being Koc and Sabanci holding in 1963 and 1967, respectively). In her analysis of the social background of the founders of these diversified industrial conglomerates, Ayse Bugra (1994) outlines that there was no similar professional background for most of these entrepreneurs many of which began their careers as merchants, professionals, bureaucrats, shopkeepers and contractors. Only a small minority was already involved in industrial ventures (Akin, Altinyildiz in the textile sector), and only the Cukurova family had a background in landholding and capitalist farming (Bugra 1994: 59).

The rise of the Koc family is highly illustrative: Vehbi Koc, born in 1901, started his careers in the shop of his father in Ankara and began supplying individual members of the RPP and the growing bureaucracy, until he acquired bigger supply contracts for the government. In his search for new ventures, he imported oil, gas and cars in the 1920s, outcompeting rivals by getting access to import licenses for General Electric and other US companies in the 1930s statist years. In 1948, he reached a joint venture with GE for the production of light bulbs for the Turkish market. After further diversifications into unrelated sectors (textiles, cables, radiators, matches, electrical devices), the biggest push came with the founding of Otosan (a joint venture with Ford), the first national private car manufacturing company. However, Koc faced serious challenges in his life, especially after the electoral victory of the DP in 1950, forcing him to abandon his RPP membership in order to not lose his privileged access to political circles. The Sabanci family, on the other side, was different: beginning as a trader in the textiles and food processing industries, Hacı Ömer Sabancı founded his own financial house, Akbank, in 1948. In 1950, with a 5 million TL loan from the TİDB created the textile company Bossa. From then on, he expanded into producing car tires, synthetic fibers, plastics, cement and into financial services. After his death in 1966, his son Sakip Sabancı founded the Sabancı Holding to steer the investment decisions of the emerging business empire (cf. Bugra 1994; Kocagöz 2002).

Contrary to these two examples, other avenues were possible. While only some families could draw on a long family business history and early connections to the CUP and the RPP, others began as private businessmen after gaining experience and building networks as employees in the SOEs or after undergoing privileged education and getting university degrees in Europe

and the US (compared to Koc and Sabanci who had negligible school education). However, what shaped all these business actors and their families was the close connection they nurtured with political and bureaucratic elites. These proved essential to access state resources, be it subsidized loans, tax exemptions and import licenses through which they surpassed those lacking political capital. Therefore, it is mainly due to the expansion of the state's economic activities that they reproduced their influential positions by diversifying their ventures, which was a viable strategy given the protection and limited nature of the national market). As a result, political and economic power were closely entwined. In essence, the continued nurturing of commercial and industrial capitalists reflects the high degrees of continuity of state-business relations starting with the first Turkification policies of the CUP during World War I.

The nature of economic power originating from the politico-bureaucratic sphere resulted in the overall construction of clientelist networks between political and entrepreneurial elites. The direct entrenchment of the state in the economy was not accompanied by 'rational' impersonal forms of economic governance. On the one hand, economic actors had to accept its own organizational weakness vis-à-vis the bureaucratic agencies and the crucial importance of state resources which directly translated into economic success. On the other hand, political elites faced new conditions with the extension of political competition and the opportunities of rent-generating practices of political entrepreneurs willing to defect from their parties. Subsequently, political elites, especially the JP in the 1960s, competed for financial contributions from businessmen to organize their electoral campaigns. These opportunities arising from state expansion and democratic dynamics created a context of heightened uncertainty both for politicians and for businessmen. What the latter perceived as the grabbing hand of the state¹¹⁶ was for the former a mechanism to secure their formerly rather uncontested position. Thus, rent-seeking based on personal informal relations dominated the economic sphere to overcome this politically-induced uncertainty and perpetuated the low degrees of institutional trust. Also, the family holding company diffused

¹¹⁶ In the words of former TÜSIAD chairman Ali Kocman in December 1981, "in this country our philosophy has always been that of taking the 'Papa State' (*devlet baba*) as paramount, refraining from challenging it, and of pursuing an economic policy, not in spite of, but with the 'Papa State'. ... Hesitancy on the part of the members of the private sector to run for public office stems from the philosophy of not challenging the 'Papa State', from the belief that the state would not bode well for them. Let me give you an example. Today in turkey every businessman thinks that even if he had not done anything illegal, the state, if it chooses to, may find a pretext and crush him."; cited in Heper (1985: 103; emphasis in original).

among the capitalist classes as a trust-maintaining mechanism through risk-aversion in the context of the informal and discretionary economic governance patterns.¹¹⁷

Even so, during this stage, there were more profound changes at work which were caused by the liberal political dynamics of the 27 May regime. Before, authoritarian politics, economic nationalism and state corporatism provided a stable pattern of state-business relations dominated by political and bureaucratic elites which disposed over capacities to structure economic activity according to their nationalist goals. Under the new democratic institutions, the bargaining powers of political and economic elites were turned upside-down, as the latter were becoming increasingly important for the survival of political actors and parties whose position had become more tenuous. As long as one party dominated the political sphere (the DP in the 1950s, the JP in the 1960s), big business did not have the necessary bargaining powers to influence the political stage, without being personally engaged in politics.

Yet, in the 1970s, when political struggles became fiercer and political competition structures more fragmented, big business consent turned into a crucial source of political survival. Hence, these years that were marked by intensified class struggle and the erosion of state capacities reflect the end of Turkey's *state capitalism* and the emergence of *oligarchic capitalism* in which the influential family business groups turned into the main bearer of economic power and found their place in Turkey's society by openly confronting the radicalized labor movement. The role of TÜSIAD was further appreciated toward the end of the 1970s when its members openly supported the third and last intervention of the TAF (as they did in 1971). In exchange, the military regime did not suspend TÜSIAD's activities whereas all other private associations and political parties were banned. In fact, the institutional changes toward export-oriented industrialization (EOI) enacted by the TAF aimed at securing the big industrialist families at the expense of most other societal pillars of the ISI regime.

¹¹⁷ "There is [...] another important factor which must be evoked in an attempt to explain big business strategy and structure in Turkey. This factor has to do with the nature rather than the extent of state intervention in Turkish economy, and it consists in state-induced uncertainty in the economic arena [...] state intervention through frequent policy changes and high discretionary forms of meddling with major economic parameters appear both as a significant source of opportunity in rent-seeking activity and as a risk-generating factor. Consequently, the diversification strategy of big business firms responds to this particular characteristic of the policy process and constitutes an attempt both in rent-seeking and risk-aversion." (Bugra 1994: 188)

Crisis and the struggle for the way out

As stated above, the main contradiction of the ISI model was its structural dependence in imported raw materials and investment goods as well as the expansive fiscal policies to increase the national market through state investments and growing wage rates. As long as the economy and foreign remittances grew constantly, distributional struggles could be prevented from targeting the system. But in the 1970s, due to changing international economic conditions, these internal contradictions translated into a systemic crisis. The most important events were the oil price revolutions of 1973/74 and 1979. The price surges hit Turkey in many related fields. Foreign trade imbalances grew, due to relatively high imports of oil (the increases of which were not passed on to local consumers) and of western investment goods (due to their own oil-related inflationary problems). Although the absolute amount of foreign workers' remittances increased¹¹⁸, many western countries, including Germany, further limited labor immigration. Subsequently, inflation rates grew to 31.8 percent after 1975 compared to 19.6 percent before that year. As Turkey faced unified diplomatic pressure from the NATO members after its occupation of Northern Cyprus in 1974, official development assistance was suspended, forcing the government to finance its deficits by increased reliance on loans from international capital markets that were abundant with petro dollars. Between 1975 and 1977, therefore, Turkey's short-term and high-interest debt positions surged from 1.15 billion to 6.10 billion US\$. All in all, budgetary and trade imbalances, high inflation and debt-service ratios seriously strained the economic governance capacities of Turkish government, who were plagued by class, ethnic and religious struggles, parliamentary deadlock and external demands to restructure the economic toward export orientation (Barkey 1990).

Political developments of this decade were characterized by the rivalry between the JP and the RPP (since 1972 under the leadership of Bülent Ecevit). Yet, the times of a stable bipartisan parliament were over after the second military intervention as no party could secure a majority of votes in the 1973 and 1977 elections. In 1973, the RPP won the elections with 33.3 percent of the votes (JP 29.8 percent) and decided to form a coalition government with the new Islamic National Salvation Party (NSP) under Necmettin Erbakan. After the successful Cyprus military campaign, Ecevit stepped down and planned to call for early

¹¹⁸ From 1.46 billion US\$ in 1974 to 1.7 billion US\$ in 1979 and 2.07 billion US\$ in 1980. But, the individual sums decreased from around 2,000 US\$ to 1,300 US\$; see Keyder (1987: ...).

elections because of his enormous popularity at that time. But in response, Demirel managed to form an encompassing coalition government (labeled ‘National Front’) with the NSP, the ultra-nationalist Nationalist Action Party (NAP) under Alparslan Türkeş, and the Republican Reliance Party (RRP). The 1977 elections had similar results: the RPP again failed to win the majority, and a second ‘Nationalist Front’ government was installed under Demirel, which lasted only until January 1978. Ecevit could convince 13 JP deputies to switch their party allegiance by granting them ministerial posts in his new government, but in October 1979, after a weak performance in the Senatorial elections, retreated again. The last civilian government was a minority government under the JP, tolerated by the Islamists and the Nationalists. It was this government that enacted the IMF structural adjustment program on 24 January 1980, after almost two years of negotiations over financial stimuli in return for economic reforms to dismantle import substitution. The Demirel government, in which Turgut Özal was under-secretary in the ministry of economy and in charge of elaborating the reform program, acknowledged the IMF demands and started implementing the program which included the devaluation of the TL by 46 percent.

Although a civilian government adopted the reform program, it would have been improbable that it could have implemented it to get the needed IMF loans to restore the economy’s credit worthiness on capital markets. Two factors account for this argument. On the one side, Turkey’s economic governance capacities in those years were limited as the bureaucracy had lost its remaining autonomy. In the context of societal polarization and political patronage, various segments of the bureaucracy had been effectively politicized by the new splinter parties who could secure, especially in the Nationalist Front government, certain ministries as their particular spheres of influence. This trend was only the continuation of DP and JP strategies to interfere directly in administrative recruitment processes (Heper 1990: 609), but led to a new form of immobility as many governments in the 1970s had more than 30 ministries.¹¹⁹ While the NSP secured the ministry of industry to promote the development in its central Anatolian constituencies, the NAP was particularly successful in coopting the ministry of education and perpetuated nationalist-fascist ideologies in the school’s curricula

¹¹⁹ “The coalition members were each heavily engaged in unrestrained patronage and nepotism. [...] Never before in Turkish political development has the civil servant been reshuffled in such an arbitrary fashion. The Nationalist Front governments did not confine themselves to bringing their own teams only to the upper ranks of civil service; the reshuffling involved all ranks. In addition, thousands of new civil service posts were created. There was even an attempt to turn the positions of headmen in villages and neighborhoods into salaried posts in order to create still more posts open to patronage. Little attention was paid to the merit principle. It was speculated at the time that the amateurs who were brought in were at least partly responsible for some of the blunders committed by the Nationalist Front governments.” (Heper 1985: 121)

(Keyder 1987: 215-216). On the other side, ideological polarization had already taken uncivil forms. After the official declaration of insolvency, strikes and political violence had become everyday practices which could not be fought from above in a democratic manner.

Outcome: the dynamics of oligarchic capitalism

We have seen how the socio-political tensions of democratic competition undermined the bases of the ISI regime without providing a peaceful solution for ending the financial crisis at the end of the 1970s. Rapid socio-economic modernization gave birth to new social classes articulating new demands and straining the control capacities of political rulers. The remaining actors who could act aloof of social pressures and had at their disposal coercive powers were the TAF. In their search for a new economic model, they adhered to the ideological international changes favoring the ‘liberation’ of the economy from state intervention, a view that was increasingly shared among JP circles.

Despite the desired goal of creating an economic order based on private entrepreneurship and foreign capital flows, it was obvious that this transition would be hard to accomplish as most national industries could not compete with world market prices. Therefore, the post-1980 state, emulating the East Asian models of export developmentalism, took direct export promotion measures after having identified the main bearers of the new economic order, the private industrial conglomerates. Those groups that have benefitted from two decades of heavy protectionism were targeted as national champions and symbols of Turkey’s new liberalism. Hence, Turkey faced the ‘paradox of liberalism’ (Evans 1989) as most other late developing countries giving up the ISI model, i.e. how to free economic affairs (in line with neoliberal worldviews) through direct political decisions and institutional changes. Of course, Turkey’s economic governance was not *depoliticized*, belying the self-representation of the 1980s governments. As in the western democracies and in Latin America (especially Chile), the adoption of neoliberal policies was a political decision, desired by politicians and entrepreneurs aware of the contradictions of ISI and effected through the military intervention.¹²⁰ For this end, a new constitution was enacted, the working classes suppressed and the big industrialists subsidized by the state. In essence, the TAF implemented an oligarchic regime as the political arena was narrowed by excluding the left and curtailing

¹²⁰ This point was made by Schamis (1999) who criticized the predominant arguments based on notions of technocracy and political autonomy as stressed, among others, by Waterbury (1992).

freedoms of speech, of association and of the press. For the TAF, depoliticization meant the exclusion of opposing ideological forces. By freeing the family business groups from societal demands, this new political architecture consolidated the oligarchic capitalism that has slowly replaced the state capitalist order since the early 1970s.

The post-1980 economic order has since developed according to oligarchic dynamics. It brought forth new political elites as all political leaders of the 1970s were banned from politics for life by the junta. On the one hand, the new elites could act, to a certain extent, autonomously from societal pressures given high degrees of state repression. On the other hand, they inherited the patronage opportunities of earlier leaders which they used to entrench their position on the political stage. Because of the importance of new state resources for entrepreneurs, mainly export incentives, political elites acted as crucial patrons for the latter. To soften the impact of deregulating and liberalizing policies for broad segments of society, the governments extended social favors in the form of party patronage.

The high degrees of social exclusion inherent in the oligarchic order were a constant challenge for both political and economic elites, as they increased the chances of countervailing forces to mobilize the discontented in the non-democratic, but still pluralistic, political contention structures. Therefore, the late 1980s, when the predominance of the Motherland Party under Turgut Özal was already fading, and the 1990s represented a period of political instability and unfettered corruption as new political and economic actors flooded the scene, relying on the same political business strategies to maintain their influence. The delegitimization of most parties in the aftermath of the financial crises of 1994 and 2000/01 increased the mobilization capacities of countervailing forces. In Turkey, these forces had their distinct socio-political identity as contenders of the Kemalist outlook of the Republic. Frankly, the identity of religious political parties was to a large degree determined by the decade-long state repression of religious movements and the state's subordination of the role of religion. The electoral successes of the Welfare Party in 1995 and the Justice and Development Party in 2002 reflect the potential of counter-elites to challenge the established parties and actors. While the WP was ousted by the concerted effort of the TAF, TÜSIAD and rival parties, the JDP has since 2002 proven its resilience in political affairs and engaged in institutional changes and struggles with the TAF that no other party had done before. These recent struggles have reshaped Turkey's political arena (delegitimizing the TAF) and symbolic spheres (against the secularist principle). In economic terms, the JDP has adopted

the usual strategy of promoting entrepreneurs among its constituency with state resources so that from the small and medium central Anatolian businesses have emerged new big conglomerates, thereby also altering the shape of Turkey's hitherto rather closed oligarchy.

Economic restructuring, Motherland party predominance, social exclusion

After the military coup d'état and the return to parliamentary politics in 1983, Prime Minister Turgut Özal could finally use the new political space to realize his liberal economic visions (Acar 2002). In particular, these visions included liberalizing Turkey's foreign trade in favor of an EOI model similar to the industrial policies of the East Asian developmental states (see e.g. Evans 1995; Önis 1991). After he overcame the resistance of the Turkish Armed Forces and President Kenan Evren during the election campaign and won 45.2% of the popular vote, he immediately started deepening the policies of foreign trade liberalization which he had already addressed as leader of the technocratic cabinet before 1983. Furthermore, he initiated the capital account liberalization program which also foresaw the privatization of state-owned enterprises (SOEs) as soon as 1984. Other policies included fiscal austerity measures such as reductions in public spending and the introduction of a value-added tax in 1985 (Odekon 2005).

In particular, in order to guarantee a smooth transition towards EOI, the Motherland Party (MP) government relied on financial incentives for exporting companies (e.g. tax rebates, preferential loans and credits of the newly established Eximbank). The core of this restructuring process, however, was the promotion of industrial exports through so-called *Foreign Trade Companies*. These companies, most of which belonged to the family-run Holding companies, were provided with several incentives and subsidies in order to support the cost-intensive transition to an export-led economic order.¹²¹ That Turkey managed to increase its exports from 2.91 bn. USD (1980) to 12.96 bn. USD (1989) within a decade is a major indicator for the success of this transition. Furthermore, the share of industrial goods relative to total exports rose from 36.0% to 78.2% during these years. These successes were accompanied by increasing growth and decreasing inflation rates until 1987. Even though these developments did not solve the country's problem of structural indebtedness, IMF Special Drawing Rights (1.5 bn. USD until 1984) and World Bank Structural Adjustment

¹²¹ This export-incentive regime consisted of exemptions from customs for imports, the financial transaction tax and VAT, reductions of corporate income taxes, preferential credits, energy subsidies, transportation premiums, and tax rebates. (Schubert 1996)

Loans (4.7 bn. USD until 1985) guaranteed Turkey's access to international capital markets (Wolff 1987: 101). Subsequently, from 1981 to 1987, the country's foreign debt rose from 17 to 38 billion dollars, respectively (Böhmer 1990: 78).

Due to these economic restructuring measures, Turgut Özal is still hailed as the first Turkish politician who introduced market principles that would ultimately reduce the role of the state in the economy. However, contrary to such idealistic appraisals that focus on his economic farsightedness and ideational background, we argue that Özal's impact was far weaker than assumed and that he – as the political elites before and after him – did not give up his political allocation capacities. The liberalization of Turkey's foreign trade and current account did not lead to the emergence of a liberal economic order because the political and economic rules of the game did not change. What made a difference, though, was the fact that Özal had at his disposal enormous discretionary powers and that in this transitory stage access to state resources was crucial to outcompete business rivals. In short, the economy was not freed of political logics and still bore the traits of political capitalism.¹²²

What was the political context, and which changes are responsible for the type of economic restructuring? When Özal came to power in 1983, all former party elites were already banned from the political arena.¹²³ In addition, the Armed Forces violently suppressed trade unions and leftist groups in order to safeguard the unpopular reform measures against bottom-up pressures. So, Özal could rule with a high degree of autonomy, both from potential competitors and the discontent working classes that had to bear the social costs of the restructuring measures, given the rising levels of unemployment and decreased net wages. He used these capacities not only to implement the necessary institutional reforms, but also to entrench himself (and his relatives) in the political stage.

¹²² “He who manages to explain his case to the Prime minister or the minister of economy solves his problem. You go to Isin Celebi [one of the ministers responsible for the economy], you cry on his shoulder and he says ‘O.K., I’ll find you the necessary funds.’ When the Central Bank says that these funds are not available, the minister orders the transfer of funds from one budget to the other. This leads to interferences at all levels of the bureaucratic process. And, of course, you are very happy because your problem is solved. You tell others what a nice, understanding person the minister is, and how nicely he has solved your problem. But the institutions cannot function under these circumstances, the State Planning Organization cannot function, the Treasury and the Central Bank cannot function. Institutionalization becomes impossible.” (Bugra 1994: 164)

¹²³ However, these party elites could still rely on their networks and organizational resources and tried to establish alliances behind the veils, more often than not with the help of relatives. E.g., the wife of former Prime Minister Ecevit, Rahsan Ecevit, played a prominent role in those years.

This strategy proved successful due to the distribution capacities he possessed vis-à-vis the prominent family Holding companies that were dependent on the export incentives mentioned above. These incentives, which according to Biddle & Milor (1997) made up around two percent of Turkey's GDP in the 1980s, proved to be an effective power tool in the hands of a Prime Minister who had no competitors to fear and could enrich his relatives as well.¹²⁴ There are indeed many instances in which Özal used the export and other incentives in order to sanction non-compliant Holding companies. Even though the family Holding companies could have used their business organization TÜSIAD as an instrument of bargaining with Özal, they complied with his divide-and-rule strategy and informal type of governing when it came to getting access to state resources.¹²⁵ In the words of Ayşe Bugra (1994: 146), “the state was important because the businessmen were in a position to watch every single move of the policymakers in order to be able to form at least a vague idea about the highly unpredictable changes in the values of the key macroeconomic indicators. Therefore, the state formed, more than ever the center of the businessman's daily concerns.” Nonetheless, these family business groups were no mere victims of an alien political apparatus as they themselves constituted the core of this regime and profited heavily from these resources, some of which could be directly linked to the MP.¹²⁶ Also, these economic elites were themselves involved in illegal activities to reap the profits from the export incentive regime.¹²⁷

Furthermore, in order to provide patronage funds for the MP and its broad constituencies, Özal set up extra-budgetary funds that were supposed to benefit the losers of neoliberal reforms, mainly through the massive expansion of housing and infrastructure investments (Bugra 2003). Still, these attempts to monopolize political and economic resources could not

124 “One of these cases had to do with the decrease from twenty-five to fifteen cents of the payments made to a particular fund by the exporters of dried figs. The decision for this change was taken at the end of the export season for this commodity, and the only person likely to benefit from it was a particular ex-porter who still had a certain amount of this export commodity to be shipped abroad. This exporter happened to be a close friend of the Minister of Finance, the future father-in-law of Turgut Özal's son.” (Bugra 1994: 152)

125 According to Gülfidan (1993: 73), “rather than informing the government of their demands through the Association they belonged to, TÜSIAD's members developed ‘particularistic’ ties with the party elites, which in turn meant clientelism, pure and simple.”

126 See Arat (1991: 144): “When the Motherland Party under Mr. Özal came to power in 1983, TÜSIAD was particularly receptive. The Prime Minister, himself earlier a TÜSIAD member, had twenty ministers in his Cabinet, of which sixteen had worked in the private sector. The Ministers of Justice, Finance and Customs and a Minister of State had close ties with Enka Holding Company, and another Minister of State with Sabancı Group; both the Company and the Group have been leading TÜSIAD members. TÜSIAD had ‘organic’ links to the government in power.”

127 The customs offices were very accessible for bribing businessmen who acquired export incentives for ‘fictitious exports’. Although the actual amount of these fictitious exports remains unknown, Turkish newspapers in the 1980s exposed minor and even several influential family Holdings that were involved in these activities (cf. Schubert 1996).

be upheld over the long term. In the second half of the 1980s, the MP had increasingly lost much of its appeal as could be seen in the results of the municipal elections. Even the public expenditure increases after 1987 could not alleviate the welfare reducing effects of neoliberal reforms, and the former political elites could capitalize on this growing dissatisfaction. Özal knew he could not resist popular demands for the return of the old party elites. He called for a referendum in which a close majority (50.24 %) of the population agreed to lifting the ban and to set up early parliamentary elections. The MP won 36.3% of the national votes and the absolute majority of seats in the parliament. Özal himself used this majority to be elected State President in 1989, while the decline of the MP could not be stopped. In 1991, the Third Republic' first coalition government of the leftists Social Democratic People's Party (SDPP) and Demirel's True Path Party (TPP) was established which set the stage for the political dynamics of the 1990s.

Political fragmentation and uncontrolled rent-seeking: the 1990s

Contrary to the 1980s, the second phase was characterized by volatile growth rates, high levels of inflation, the outbreak of several financial crises and a political deadlock scenario, so that most people refer to this period as the “lost decade”. The main reason for this is the debt trap the economy could not evade. The full liberalization of the financial system under Özal in 1989 was accompanied by high levels of public sector borrowing requirements (PSBR) which – given the lack of institutional robustness of the banking system – had pernicious effects on the economy in general. The government relied on new tools of domestic finance which heavily influenced the incentive structures of both state- and private owned banks and enterprises.

This debt trap looked as follows: the high level of PSBR and the deficit spending policies of the government made the Treasury issue high-interest bills and government bonds (domestic debt grew from nil in 1987 to 25-30% in 2000). Small and medium-sized private commercial banks bought these bonds and financed these activities by borrowing short-term capital at international markets any by fiercely competing for the savings of the Turkish population, thereby contributing to the appreciation of the Turkish Lira (TL). This appreciation secured the access to foreign short-term funds despite the macroeconomic imbalances they caused. First, the appreciated TL weakened the competitiveness of Turkish exports (at a time when the export incentive regime of the Özal period had come to an end due to the GATT regime

and the Customs Union with the EU) and deepened the trade imbalances. Second, the borrowing activities of those private banks furthered the dollarization of the Turkish economy which contributed to the devaluation pressures on the TL (Altunbas, Kara & Olgu 2009). Caught in a vicious cycle of high deficits, high inflation and high interest rates and the decline of the Central Bank's foreign reserves¹²⁸, the lowering of Turkey's credit rating at the beginning of 1994 eventually triggered the devaluation of the TL and the massive outflow of those short-term funds the financial system was increasingly relying on (cf. Cizre & Sakallioglu 2000; Alper & Önis 2002; Önis 2003; Bakir 2009).

The IMF program in 1994 called for fiscal austerity and the regulation of the financial sector to address the moral hazard problem of private banks, but after a slow recovery of Turkey's macroeconomic performance the same pattern of internal and external borrowing became predominant. Another IMF program was adopted in 1999 that addressed banking regulation and inflation.¹²⁹ New banking supervisory agencies were established and started to operate in 2000, but these measures did not prevent the outbreak of the financial crises in 2000 and 2001. The 2000 crisis erupted due to the insolvency of Demirbank, which was heavily involved in lending to the government. The 2001 crisis, however, occurred after the dispute between Prime Minister Bülent Ecevit and President Sezer. This dispute was immediately interpreted as a signal of political crisis which initiated the outflow of short-term capital. The later crisis was much more dramatic given its impact on the whole economy leading to the collapse of growth and severe unemployment in 2001.

It was undoubtedly the return of the old political elites into the political arena after 1987 that impaired the regulatory capacities of the newly established institutions and rules of banking regulation and supervision. With the end of the MP predominance, those old party leaders vehemently fought with one another over the rent distribution tools that Özal disposed of so freely during the 1980s. This high degree of political competition was responsible for the growing PSBR that prevented austerity policies and effective regulatory measures in the financial sector. Especially after the 1994 financial crisis, state-owned and private banks were used as rent-seeking channels by politicians and businessmen alike. The former served as patronage resources for politicians who – given their vulnerability in the political process –

128 This pattern resembles the financial liberalization experiences of Mexico, Brazil and Argentina who all went through financial crises in that era.

¹²⁹ Concerning the inability of the IMF to take the systemic weaknesses of the financial sector into consideration, see (Önis 2003).

allocated funds towards broad segments of society in times of both national and municipal elections.¹³⁰ Beyond these broad-based allocations, politicians started issuing licenses for new banks on mainly political criteria. These new banks, again, were either used to buy treasury bills and government bonds (see e.g. Alper & Önis 2002 on Demirbank), or they served as tools of family business groups to siphon off capital to companies within these groups, without adhering to the regulations on inter-group lending (cf. Soral, Iscal & Hebb 2006). It is fair to conclude that these political competition structures seriously overburdened the financial capacities of the state, and neither politicians nor businessmen had any incentive to fundamentally alter these rules.¹³¹ Although the public was aware of the nature of the political and economic problems, political elites could not be held accountable.¹³²

Beyond this high degree of political fragmentation, other factors come into play, the most important one being the emergence of new actors in both spheres. These are, in the economic domain, new Holding groups that since the 1980s have been conducting the same political business strategies as the big Holding companies had done for several decades. The rise of the Uzan family is a prominent example of those *nouveaux riches*: together with Ahmet Özal, Turgut Özal's son, Cem Uzan set up the first private TV station (Star TV) and immediately diversified into construction, energy and finance (Imarbank) and communication sectors (Telsim). Uzan (like the Dogan group) used his enormous media power as weapon to profitable deals and resources in a way that directly undermined the capacities of state

¹³⁰ Alper and Önis point to the changing dynamics and adaptability of rent-seeking alliances. "Following the crisis of 1994 and the ensuing IMF program, the two major sources of rent distribution in Turkey involving the state economic enterprises and extra-budgetary funds have largely been placed under control. In retrospect, public banks emerged as the new principal avenue whereby rent distribution mechanisms have been reactivated in the post crisis era. This is not surprising in the sense that the utilization of the two major public banks allowed incumbent governments to serve large sections of the electorate. Ziraat Bank helped to channel funds towards agricultural producers, whereas Halk Bank targeted small and medium sized business both on a heavily subsidized basis." (2002: 10)

¹³¹ One striking example of the inability that results from these personal linkages is the example of Cavit Caglar. As a close friend of Süleyman Demirel, Caglar was able to set up a textile company and immediately started to diversify his activities into finance and media. His Interbank was conducting "bankruptcy for profit" (see Soral, Iscan & Hebb 2006) strategies by siphoning off capital within his Holding company. He was also involved in similar practices of the banks of friends within the Demirel network. From 1995 to 1996, Caglar then was appointed State Minister in charge of the state banks, a position he used to safeguard these illegal activities. Eventually, after 2001, these activities were covered up and his bank was transferred to the Savings Deposit Insurance Fund.

¹³² "Countless parliamentary investigatory committees have been set up in the 1990s to investigate alleged abuses in state apparatuses. Almost every day, the media draws attention to human rights violations and public corruption, and highlights social poverty, violence and crime. The opposition parties themselves denounce and challenge political irregularities. Nevertheless, apart from elections, the ability of societal actors to evoke governmental responsiveness or accountability is virtually nil. More importantly, Turkey's political class does not resist, ignore or fail to resolve the explosive social and political problems. Rather, it often operates 'in defiance' of widespread public demands." (Cizre-Sakallioğlu & Yeldan 2000: 494)

institutions.¹³³ These new groups threatened the position of the big Holding companies in that they rendered impossible privatization projects the latter could have benefitted from. The rapid rise of new oligarchs prevented them from consolidating their position without being dependent on political elites who were involved in an increasingly fierce competition over the resources of businessmen.

In the political sphere, it was the rise of the Islamists that challenged this oligarchic framework. They not only attacked the ideological foundations of the Turkish Republic, but also represented the effective articulation of those business strata that had been politically excluded during the ISI and EOI growth models, i.e. SMEs. The Welfare Party (WP) of Necmettin Erbakan was dangerous to the political elites due to the fact that it was regarded as a legitimate alternative in central and eastern Anatolian provinces. These regions were until then excluded from the gains of state-led industrial development, and their political representation was weakened by the prevailing clientelist structures of centrist-right parties. Interestingly, the WP was able to attract these important votes in the mid-1990s since it was regarded as a party that actually tackled the problems of small businesses, problems that were framed according to the preferential treatment of western Turkish business oligarchs (Jang 2005; Yavuz 2009). Thus, the Islamists profited from the existing center-periphery dichotomy and incorporate it into its anti-western, anti-Kemalist ideological framework.

The rise of the Islamists was given an enormous boost with their success in the 1994 municipal election in which they gained a countrywide result of 19 percent and won 329 municipalities, including the mayor's offices of big cities like Istanbul and Ankara. They particularly diverged from the usual strategies of their competitors through their innovative grass-roots based organizational linkages to local civil society organizations. Portraying

¹³³ "Industrialists and financiers are attracted to newspaper and television ownership not just as businesses in their own right, but as 'loss leaders' for their other commercial activities. Dedicated media owners see the advantage of moving into non-media fields. They are prepared to paddle influence in return for credits, incentives and other advantages." (Finkel 2000: 155-156) For an overview of media ownership concentration, see Christensen (2007). See also Karademir & Danisman (2007: 52): "Through the liberalization period, on the one hand, media needed more capital as a requirement of raising cost and advanced technologies, while on the other hand, it was very important for the businesspersons to be involved in media for gaining influence over political actors because of highly individualized relationships of policy makers and businesspersons. There were intensive incentive policies conducted by government to be used by businesspersons. Personal connections had a string role on getting benefits of these incentive policies. Thus, media had a crucial role on the establishment of intimate connections with political actors during this time period. Thus, some business groups were eager to acquire media business to have an influence over politicians when needed. This resulted in a change of governance mechanism of media. That said, most media companies were not under the ownership and control of editorial staff, anymore; instead, their ownership and control passed to the hands of businesspersons, namely to some business groups."

themselves as transparent and efficiency-oriented, the WP elites effectively translated their capacities into stable local power blocs while at the same time uncovering the usual patronage business of their rivals. They used their access to state resources to provide social welfare assistance, healthcare, housing and education facilities to their local constituencies, a strategy that strengthened the networks between party, neighborhood associations, charity foundations and new religious entrepreneurs, which were further linked through family and hometown ties.¹³⁴

The main bases for the success of the Islamists were the so-called “Anatolian Tigers”, an encompassing network of SMEs in the central Anatolian provinces. Contrary to the big industrial conglomerates in Istanbul, Izmir and Ankara, these companies pursued growth and export strategies without having politically secure access to state incentives (cf. Önis 1997). They profited from an abundant stock of unskilled, cheap labor and from inner-group religion-based norms of trust and cooperation. Tightly embedded into this socio-cultural framework, the WP was provided by these SMEs with stable financial incomes (cf. White 2003; Önis 2006). Furthermore, with the establishment of their own business association (MÜSIAD) and trade union (HAK-IS), this movement increasingly capitalized on the unsolved issues of rural and urban poverty in the name of an Islamic, just order (cf. Yavuz 2009; Jang 2005).

Nevertheless, this socio-cultural counter-elite was prevented from access to political power. In the 1995 parliamentary elections, the WP won 21.3% of the national vote (before the MP and the TPP). After the breakdown of the TPP/MP coalition government, the WP at last came to power in a coalition with the TPP. Shortly after, given the resistance of the Turkish Armed Forces, rival political parties, the media and civil society organizations (TÜSIAD), the WP was forced to resign in 1997 and was banned by the Constitutional Court in 1998. This decision restored the usual political connections between politics and business. Still, at the level of local politics, the relations between Islamic SMEs and politicians remained untouched, which was due to the informality and flexibility of these networks to adapt to

¹³⁴ In this dimension of Islamist societal mobilization, the Turkish case clearly represents an exception, especially when compared to Islamist groups in the Arab world. Although the latter can usually profit through their social welfare programs in the context of fiscal crises and increasing social inequality, only in Turkey did Islamists succeed at providing social welfare through state resources while at the same time maintaining a semi-private status; see, e.g. Pioppi (2007) for this dimension of state-society relations.

developments at the level of national politics.¹³⁵ At the national level, the Islamists re-grouped under the new Virtue Party (VP) and entered parliament after the 1999 elections. Again, this party was considered unconstitutional and banned in 2001. The strategy to re-establish two parties in 2001, the JDP and the Felicity Party, reflected the internal split of the Islamist movement. Beyond that, given the massive social discontent with the political class after the crisis of 2001, the JDP could present itself as a viable reform party that has gone through a process of moderation and that unconditionally acknowledges the secularist foundations of the Turkish Republic (Yavuz 2009; Jang 2005; Atasoy 2008; Demiralp 2009; Tugal 2009).

To repeat, the 1990s were characterized by higher degrees of power dispersion. The main channels of rent distribution were public and private banks that had to bear the costs of rapid wealth maximization of politicians and businessmen alike. This fragmentation in power undermined the regulatory capacities of the state, so that the IMF reform program after 1994 which emphasized the importance of banking regulation was not adhered to by the political elites. Therefore, in the 2002 parliamentary elections, all political parties that were perceived to being involved in those corrupt practices, failed to reach the 10 percent threshold to enter parliament, whereas the new JDP came forth victorious, winning 34.3 percent of the votes and 66 percent of the parliamentary seats. These elections present a clear break in the recent politico-economic development in Turkey as, for the first time, the socio-economic counter-elite of the influential oligarchs has been elected to power without being prevented from consolidating its position in the political process.

Countervailing forces in power and religious neoliberalism

Since the coming to power of the moderate Islamist JDP, revolutionary political, economic, and discursive changes have occurred in Turkey. Despite the JDP's enormous electoral success, its position in the political process was more than delicate as its steps were closely monitored by the bearers of economic power (the dominant FBGs who earlier supported the ousting of the WP) and those of political-ideological power (President Sezer and the TAF). Also, party leader Recep Tayyip Erdogan took over the Prime Ministry as late as 2003, thereby ending the initial uncertainty over the leadership issue. Constrained by these groups as well as by the tight economic policy prescriptions of the IFIs, the JDP stuck to its identity

¹³⁵ White labels this type of social mobilization 'vernacular politics' that is characterized by "a value-centered political process rooted in local culture, interpersonal relations, and community networks, yet connected through civic organizations to national party politics." (2003: 27)

shift toward a moderate religious party, portraying itself as the Muslim counterpart to the European conservative parties. It deepened the economic and political reform process to accelerate the rapprochement with the EU, a strategy that turned out successful and was rewarded with the official opening of accession talks in October 2005. For, not only did the EU anchor seem crucial to earn the confidence of foreign investors and rating agencies (Önis & Bakir 2007), but also to gain a certain degree of bargaining powers against the opposition, the President and the TAF who opted for a rigid Kemalist discourse by literally demonizing the Erdogan government. Accordingly, between 2002 and 2005, the ruling party implemented a variety of liberalizing reform, improving civil rights, curbing the formal prerogatives of the TAF in the National Security Council and introducing cultural rights for the Kurdish population.

Even in the field of foreign policy, there occurred a decisive change toward a more cooperative strategy with Middle Eastern neighbors. Turkey's decision not to support the U.S. led invasion into Iraq on 1 March 2003, although not intended by the government, certainly helped legitimize the country's reorientation toward the Muslim world and contributed to Turkey's standing as a new regional power broker based on 'soft power' (Hale 2009). Together with the Turkish acceptance of the Annan Plan to reunify Cyprus in 2004, these developments stand in stark contrast to the 1990s, when Turkish governments and the TAF demonstrated its willingness to rely on 'hard power' as could be seen from the heightened tensions with Greece, the military threats against Syria and the continuous invasion into Northern Iraq to fight the Kurdish rebel organization PKK.

The macroeconomic developments after the financial crisis of 2001 further unmake the image of the 'lost' 1990s. Stable and high growth rates, the decrease of the inflation rate below 10%, fiscal and monetary stability and the rising inflow of FDI underline the effectiveness of the IMF program and the economic policies of the JDP. Even though the reform was implemented before the JDP's coming to power, it nevertheless strictly adhered to its prescriptions, especially in the fields of fiscal austerity and privatization.¹³⁶

The financial sector, above all, turned out to be much stronger than in the past. Even the current power struggle between the JDP and the military cum judiciary did not cause serious

¹³⁶ Although these IMF-oriented policies do not reflect the original economic policy preferences of MÜSIAD (see Bugra 1998 on the economic interests of TÜSIAD and MÜSIAD).

capital outflows similar to 2001. This shows the overall internal and external confidence in the robustness of the Turkish economy for which the new ruling party is credited by the IFIs, the EU and foreign investors. One striking example for the obvious change is the field of banking regulation. Those private banks that were involved in bankruptcy for growth strategies (inter-group lending, back-to-back loans etc.) or had outstanding debts to the state banks or went bankrupt after 1999 (21 banks in sum) were taken over by the newly established Savings Deposit Insurance Fund (SDIF). It even went so far as to confiscate several companies of the respective Holding companies in order to guarantee the debt repayment. The SDIF consolidated the banks' and companies' balance sheets and re-privatized them.

It gained public trust as it could proceed against influential and fast-growing Holding companies of the 1990s. The Uzan family, for example, faced fraud allegations and eventually lost major companies (Telsim, Star TV) and its Imarbank to the regulating authorities so that not much is left of its political and economic power of the 1990s. Further prominent examples of influential figures that were charged and prosecuted include Cavit Caglar, Dinc Bilgin (ATV-Sabah media network) and even Murat Demirel, nephew of former Prime Minister and State President Süleyman Demirel. In the field of banking, these measures led to concentration processes and the entry of major foreign banks. This had the effect that private banks did not serve as willing financiers of political elites any longer. All in all, these developments were taken as a clear sign for the fact that the economy did not function along political criteria no more and that the crucial steps toward a liberal market economy were taken.¹³⁷

Beyond these new external and internal opportunity spaces that shaped these substantive restructuring measures, what further mattered in the last decade were the identity and discursive shifts among Islamist groups that led to an active embrace of liberal market ideologies by the new government. Although such norms has been propagated in the public sphere since the late 1980s and shaped fields like education (Kaplan 2006: Chap. Four) and new forms of urban segregation (Genis 2007), they did not materialize as actual policies before the JDP.

¹³⁷ Another important boost for the post-crisis economic recovery laid in the liberalization of credit card markets; see Altunbas, Kara & Olgu (2009: 84-85).

These ideological reorientations from skepticism toward the free market to a new ‘capitalist spirit’ openly embraced by Islamic businessmen and scholars has drawn a lot of attention by both Turkish and foreign scholars and observers, as it seemed to directly contradict the prevalent orientalist claims that Islam and capitalism (and modernity as a whole) were not compatible.¹³⁸

Since the 1990s, at a time when the opening of the economy to private and foreign capital triggered the painful but successful capture of new export markets by Anatolian business groups¹³⁹, on the one hand, and the pluralization of the media sector, on the other hand, discursive shifts made possible new articulations concerning the role of religion vis-à-vis the state, the west, democracy and capitalism. Originally being tied to WP hardliners, since the late 1990s, the unfolding success and emancipation of Islamic capital has had a ‘taming’ (Jang 2005; Demiralp 2009) effect on these debates, which was realized through new newspapers belonging to new business groups (e.g. *Yeni Safak* of Albayrak Group, *Zaman* of the Gülen community). Tugal (2006) neatly traces these divergences and links them to the ongoing struggles within the Islamist countermovements. In the context of the political opportunity structures of the late 1990s, he differentiates between adherents of a ‘moral capitalism’ according to which Islamic norms are intended to weaken the socially disruptive forces of the market and those propagating an ‘alternative capitalism’ who do not view these effects critically and refer to the moral obligations of profit-making according to Islam. What both groups share, though, is their blaming the tradition of subsidizing western Turkish FBGs as well as the overall implications of an inefficient financial sector that instead should operate on the basis of Islamic banking. They wish to implement new forms of profit-making, favoring a new work and consumption ethic different from rentierism and conspicuous consumption as associated with the established oligarchs (Yavuz 2009: 53).

Thus, with the JDP in power, Turkey seems to have experienced a successful re-embedding, in Polanyian terms, of capitalist social relations into a new moral framework centering on principles of Islamic charity (Bugra & Keyder 2006) while at the same time pursuing its reformist course. Differing from post former parties in power, the JDP is the only political

¹³⁸ One very prominent publication countering this claim on the basis of recent Turkish economic experiences was “*Islamic Calvinists. Change and Conservatism in Central Anatolia*” (2005) by the European Stability Initiative.

¹³⁹ These new markets are located particularly in the Middle East and Central Asia, which, especially in the high oil price era of the 2000s, have given the export profile of Turkey in general an enormous boost; see Kirisci (2009).

force to unanimously follow the tight fiscal and monetary policy recommendations of the IMF, to put an end to rampant cronyism and the overall rentier mentality that supposedly was a by-product of the country's statist tradition.

Indeed, at first sight, these efforts ascribed to the JDP seem to have been effective, given the appreciation of foreign audiences who are amazed at how rapidly an allegedly Islamist party has addressed these issues. Even so, acknowledging such a fundamental break with the historically-grown state-business linkages is only possible as long as we take the self-representations of the ruling party for granted which veils as much as it uncovers. For, the JDP, as all parties in power before in Turkey's modern history, has been engaged in the same discretionary political business strategies aiming to disproportionately benefit its own constituency.

The JDP is as intransparent as its predecessors when it comes to disclosing information on its party finances. Despite several public declarations to reform party finance regulations, nothing has happened in that regard and therefore no legal prosecutions to expect for informally operating political entrepreneurs.¹⁴⁰ In a similar vein, the JDP has not addressed the issue of parliamentary immunity which repeatedly serves as an easy way to evade corruption allegations, as in the case of Minister of Finance Kemal Unakitan and JDP deputy Cemal Kaya.¹⁴¹ Furthermore, the JDP has hitherto not publicly clarified its own involvement in scams of Islamic businesses (*Yimpas*) and Islamic charity organizations (*Deniz Feneri*).¹⁴² The most prominent case of nepotism was the sale of the sequestered ATV-Sabah network to the Calik Group in December 2007. Even though the bidding process displayed several

¹⁴⁰ As one Turkish interviewee, who formerly worked in the State Ministry, explained it: "There is no rule regulating election campaign financing. All political parties are capable of spending huge amounts of money without a system that might hold them accountable for their way of spending these resources. There is no transparency, no cap on how much you can actually spend. And this holds for national as well as local politics. On the other hand, there is a formalized audit of political parties by the constitutional court, but – in the same way that companies have two accounting books (one for the auditors, one unofficial) – similarly, political parties have one official report which is audited by the constitutional court and another unofficial one."

¹⁴¹ <http://report.globalintegrity.org/Turkey/2007/notebook>.

¹⁴² In both cases, moneys collected among the Turkish population in Germany were siphoned off and transferred to Turkey. The first case, in which funds rising up to several billion dollars, involved Dursun Uyar, who in the 1990s was very close to WP circles. Although Uyar was convicted in absence by a German court, the JDP was surprisingly silent in its dealings with him and other *Yimpas* managers, one of which, Besir Atalay, has made it to the Minister of Interior; see <http://www.nzz.ch/2005/08/18/wi/articleD2COF.html>. In the *Deniz Feneri* case, the German branch of an Islamic charity organization collected funds in Germany for helping victims of the 2004 Tsunami in Indonesia. 16 million Euros vanished, for which the responsible figures were charged and sentenced in Frankfurt. However, although these figures were linked to prominent JDP members, especially Zahid Akman, Head of the High Board for Radio and Television, no criminal proceedings were initiated in Turkey.

irregularities, the SDIF approved the sale to Calik for 1.1 bn. USD. Beyond that, the deal was financed by two loans (amounting to 750 million USD) of state banks and the investment of the Qatari *Al Wasaeel media network*.¹⁴³ Also, the public-private divide is continuously blurred by the enactment of legislation that is supposed to collectively favor the JDP's constituency but which in parallel benefits the economic interests of individual government members. This occurred, e.g., in 2003 when the government implemented a tax amnesty to mobilize around 8 billion dollars (Demiralp 2008: 329), a move that substantively helped MÜSIAD members and, beyond that, the Minister of Finance himself.¹⁴⁴

Finally, the government resorts to established arbitrary sanctioning mechanisms against particular economic actors who become either too critical of the JDP or who are perceived as potential threat to its political predominance. An example of the latter case occurred with the JDP's sequestration of the Uzan Holding's companies.¹⁴⁵ Although the trigger for the criminal proceedings was the family's involvement in the multi-billion dollar scam (the mobile phone companies Motorola and Ericsson being the victims), it was Cem Uzan's position as media mogul, politician (as leader of the Youth Party) and vastly expanding entrepreneur that drew the suspicion of the JDP.¹⁴⁶ Concerning the former case, in 2009, the government has fined the Dogan Media Group (belonging to the well-established oligarch Aydin Dogan) to pay 2.5 billion dollars due to irregular tax statements. While the JDP refers to this decision as an example of impartiality and of its determination to end the long tradition of the Dogan family's involvement in rent-seeking (for which it regularly relied on its media power), the main reason behind this step is the group's critical coverage of the JDP's involvement in the *Deniz Feneri* scandal of 2008.

¹⁴³ Interestingly, Ahmet Calik is a long-time friend of PM Erdogan and has been profiting enormously from bidding for state contracts in the last years. Also, Erdogan's son-in-law is general manager in the Calik Group, and it is known that JDP leaders established the necessary contacts to the Qatari media group. In fact, President Gül himself admitted that he personally introduced Calik to the Qatari partners.

¹⁴⁴ See <http://report.globalintegrity.org/Turkey/2007/notebook>: "Erdogan, newly elected as prime minister, appointed Kemal Unakitan, a former Islamic (interest-free) banker, to be finance minister, just as Unakitan was being tried in court for producing fake invoices to tax authorities. At that point, the charges against him were suspended due to his parliamentary immunity. Members of Parliament quickly passed a law that granted amnesty to a number of tax offenses, including those perpetrated by the Finance minister. Unakitan, later found out to be the owner of unlicensed villas on a posh hill in Istanbul, came under pressure in 2003 for alleged tax favors for his son. Substantiated evidence showed that Unakitan's son had imported 4,000 tons of corn shortly after a government decree more than halved the import tax on corn. Only four days after the 4,000 tons of corn had cleared customs, the import tax was raised by 25 percent."

¹⁴⁵ <http://www.nytimes.com/2004/02/16/business/turkey-seizes-219-companies-of-uzan-family.html>.

¹⁴⁶ According to an Ankara-based foreign investor, "well, you have seen what they have done to the Uzan family. Of course, he was implicated in fraudulent activities, but he was only targeted because he was head of the Youth Party, which is the same thing that happened to Chodorkowski in Russia. There are a lot of people involved in the same things, but you only are charged when you're actively engaged in politics." (Ankara, 2 December 2007)

These violations of formally institutionalized principles do not represent exceptions proving the rule, but instead reflect the multidimensionality of the counter elites' hegemonial project to capture the state and its distributional and symbolic capacities. Accordingly, the same local structures that have since 1994 guaranteed the repeated electoral successes of Islamist parties and that tend to be portrayed in terms of new public management, transparency and citizen-orientation, have become the dominant venues of political patronage in which religious businessmen play a crucial role as financial supporters. Since the 1990s, the political-bureaucratic and economic dimensions of these local power constellations cannot be separated, as MÜSIAD members have always been engaged in these networks of privilege, as illustrated by Jang's analysis (2005) of the organic linkages between politicians and businessmen.

Thus, an analysis of the power structures of the last seven years casts a different light on this overall successful marketization period. The main success of the JDP in the consolidation and institutionalization of banking regulation is undeniable. The Central Bank and the new regulatory authorities operate quite autonomously from political interference and have set in motion the reorganization and internationalization of the formerly troubled banking system. How was this institutionalization possible in a context of prevailing rent-seeking structures? Why did it occur after 2001 and not after earlier financial crises? Because after 2001, those authorities started operating in a context that was eventually freed of the fierce political competition structures of the 1990s. Due to the almost revolutionary character of the 2002 parliamentary election, the JDP had sufficient capacities to implement and uphold this autonomy. It also had the will to adhere to these policies as they could be directed against formerly influential politicians and businessmen. The JDP could get rid of those networks according to the rules of political legitimacy as it did not have to rely on those patronage resources.¹⁴⁷

¹⁴⁷ Compare the JDP's capacities to the failures of institutionalization in the 1990s: "The abilities of such an agency to play a constructive regulatory role was severely hampered by the presence of private banking lobbies that resisted any kind of regulation. Bank regulation also faced resistance from politicians and policymakers who conceived of private banks as a major means of government financing and the public banks as a serious source of rent distribution for building up and sustaining electoral support. Whilst the IMF was justified in its emphasis on the need to create strong regulatory institutions in Turkey, it clearly underestimated the political and institutional problems of constructing autonomous and effective regulatory institutions in the Turkish context. In other words, attempting to engineer reforms in a top-down fashion without paying sufficient attention to problems of political legitimacy tends to reduce the likelihood of effective implementation and the overall viability of the IMF-sponsored reform process." (Önis 2003: 14)

Power politics is also the answer when it comes to the issue of privatization. The crucial factor for the success of privatization policies is that the JDP's political power was checked and contained effectively by the military (bureaucratic power) and the business oligarchs (economic power). This equilibrium secured a stable framework for big Holding companies like Koc, Sabanci, Dogan and others who could reorganize their conglomerates by acquiring highly profitable firms in the energy sector and by selling companies in areas with decreasing profit margins (textiles, retail trade). The inflow of FDI also favored these groups who secured their position in the Turkish market through a process of internationalization in order to become more autonomous from political elites whose pernicious impact on business these groups experienced during the 1990s. In return, TÜSIAD and the big media corporations were very favorable toward the JDP and its pro-EU position. The military, on the other side, prevented the JDP from adopting religion-based symbolic policies that could have changed the secularist nature of the Turkish state. This power equilibrium, paradoxically, helped overcome possible commitment problems of the JDP government. The monopolization of political power by the JDP was regarded by TÜSIAD as a stable and trustworthy environment, given its experience with a fragmented political process in the 1990s. What made institutions work (at least those institutions that did not operate effectively in the 1990s) was the change in political power structures. The JDP had the capacities and the interest to make banking regulation work (by directing it against its political enemies). It could furthermore use these same capacities to favor close business groups and Anatolian SMEs (through contracts at the level of municipalities) as long as it provided the big Holding companies with privatization deals at the national level.

In sum, contrary to the assessments of IFIs, political and economic analysts, the changes that occurred in Turkey in the last six years did not entail a systemic change away from the rules of a political capitalist economic order and a non-democratic political regime. The only change that occurred under the JDP was the shift to a phase of political power monopolization. This monopolization was contested, for the first time, with the recent backlashes of the military and the judiciary. Still, the JDP survived the 2008 closure case and stroke back at the TAF by opening the so-called Ergenekon case to target, for the first time, the illicit linkages between members of the TAF, paramilitary forces and organized crime. Also, the renewed foreign political efforts to assume a more Middle Eastern identity, the rapprochement with Armenia and the initiatives to soften, if not end, the Kurdish problem are

highly challenging for the TAF that came to recognize the loss over republican symbols and ideological power.

Where Turkey is headed in the future is depends on the current round of conflictive interactions. It has become sufficiently entrenched in the political power configurations, and it undeniably has undermined the existing oligarchic capitalist framework by opening it up to its own business constituencies which displays the 'hegemonic' (Tugal 2009) dimension of the moderate Islamist project as it confronted the oligarchy in both ideological *and* material terms, supporting the argument that change mainly comes from power struggles. So, the old days of Turkey's *closed oligarchy* have come to an end, but it remains to be seen whether the new regime can really vest power into institutions while at the same time pluralizing the political arena and whether it really aims to do so.

4. Oligarchic regime and oligarchic capitalism in the Philippines

How shall we treat and interpret the Philippines' capitalist trajectory? What is the political context into which it has been embedded until today? How did the interaction between domination and capitalist accumulation blend into the formation of a flexible, but stable oligarchic social order?

The Philippines surely are an interesting case of dynamic interplay between forces of continuity and change, or, in Hedman and Sidel's terms, of 'continuismo' and 'transformismo' (Hedman & Sidel 2000). More than 20 years after President Ferdinand Marcos' authoritarian rule was swept away by the People's Power revolution in 1986, and one decade since the ouster of yet another – and probably not the last – President involved in graft and corruption practices, the forces of 'continuismo' has struck back with a vengeance. The current Arroyo administration, charged with similar allegations as her predecessor, Joseph 'Erap' Estrada, has successfully adopted patronage strategies vis-à-vis her opponents in the business community and in Congress to avoid being impeached on. Beyond that, she survived several – however badly-organized – coup attempts by factions within the Armed Forces of the Philippines (AFP), effectively disorganized potential opposition in the wake of the extraordinarily high oil and food prices in 2008. Whether her presidency, which will end in 2010, will have any long-term disruptive impacts on the political institutional setting will ultimately depend on the success or failure of her attempts to change the Constitution towards a parliamentary republic that would allow her to stay in the political game as Putin, although in a different fashion, did in Russia.

Within the Southeast Asian region, Filipino-style capitalist and political developments represent a special kind of oligarchy given its long exposure to foreign colonial powers the impacts of which are felt even in today's everyday politics. This uniqueness results both from the special type of colonial strategy Spain adopted, i.e. the establishment of a *friarocracy* and the distinctive U.S. colonialism in the aftermath of the U.S.-Spanish War in 1898. Despite its violent occupation during World War II, the Japanese, besides the high levels of physical destructions, did not have a long-term impact on the country's socio-political structures (compared to South Korea). In sum, the Philippines' political economy and its national identities have, more than others in Southeast Asia, been shaped by these exposures to foreign occupation and colonization.

A national identity did eventually emerge and was reproduced which upheld social order across a multi-lingual and multi-religious political community inhabiting a vast archipelago. In spite of this success, the dominant perspective on the Philippines is one of failure. In political terms, the lack of a rational bureaucratic state apparatus, the existence of several centers of political power beyond the state institutions, the danger of military coup d'états, the high degrees of political violence during elections, the obvious gaps between institutional rules and actual practices and the culture of impunity that prevails in the political process have rendered all promises of effective democratic political reform since 1986 unfulfilled. In the economic sphere, the Philippines, despite such promising features as high education levels, the quality of its workforce, vibrant entrepreneurship and foreign trade in the 1950s, utterly failed to keep up with the Asian Tigers that successfully promoted ISI strategies and the transition towards EOI. In social terms, high rates of poverty and social exclusion keep hovering above national politicians as a 'sword of Damocles', severely constraining their choices of policies while at the same time having to expose its industries to regional and international competition.

In light of such negative ascriptions, it seems worthwhile studying how social and political order was and continues to be maintained. The notion of order becomes even more relevant as we look at the profound socio-economic transformations in the course of the 20th century. Viewed from that perspective, it seems rather remarkable that oligarchic power constellations were kept intact (except for the time of Marcos' rule) without undermining the formally democratic institutional framework which has been contested both by elements with the elite groups and peaceful or violent social movements (most prominent, the Sakdalistas in the 1930s, the Huk rebellion in the 1940s and 1950s and the CPP-NPA after 1968). Where does this stability come from? Why have not other power constellations emerged that more effectively and convincingly addressed the fundamental problems of social exclusion? Or, why do the constant transgressions of democratic institutions and principles not lead to the final demise of these same institutions?

In the Philippines, those questions have always led to the predominant characterization of a country in which the haves and the have-nots stand opposed to one another as unchanging blocs. The former rely on their economic resources and political privileges to constantly manipulate and demobilize bottom-up societal demands. In line with the prescriptions by

transnational capitalist classes, they consolidate their position as bridges to national capital and continue tyrannizing the have-nots. The latter usually fall prey to the manipulation efforts of the upper classes. Rather than organizing their own distinctive interests to overcome their ‘false consciousness’, its leaders are coopted by the haves through the distribution of pork barrel and patronage resources. Whenever they have the opportunity to contest the rule of the haves, they sell their votes, preferring (or obliged to prefer) short-term, subsistence-based strategies of survival. Also, despite the dire situation of peasants and rural workers, they would rather live under the helping hand of the haves to whom they develop ties of fictitious kinship according to their own traditional, fatalistic value systems than renounce this sort of paternalism in favor of a full-fledged class struggle that would end the rule of the haves.

Of course, such a depiction is a gross exaggeration and misinterpretation of the role of power and legitimacy in the Philippines. However, there is a grain of truth in it, at least in terms of the predominant role of the Filipino elites whose clientelist practices are highly important for maintaining their power position. The crucial works of McCoy (1993), Hutchcroft (1998) and Sidel (1999), among others, have highlighted the role of informal power structures, the rise of family oligarchies and their long-term entrenchment in politics and business. Recently, though, such works have stirred the criticism among prominent Filipino scholars who charge them with reifying Orientalist arguments and worldviews (Ileto 2001). Ileto’s heavy critique has to be repudiated, though. The addressed authors (mostly, John Sidel) do not ‘orientalize’ Filipino politics and history and do not rely on essentialist ascriptions such as relating every social aspect to Filipino mentalities and culture. On the contrary, most recent scholarship differs, e.g. from Dante Simbulan’s study of the modern *principalia* (1965), by combining political economy and history to identify back the political, economic and social origins of contemporary power constellations. Accordingly, the view that began taking shape in the 1980s (McCoy & de Jesus 1982; Paredes 1988) identified not culture, but the political institutional and economic transformations since the capitalist incorporation of the Philippines in the 19th century and the establishment of the U.S. colonial apparatus as the main factors for shaping 20th century outcomes and the reproduction of the Philippines’ “anarchy of families” (McCoy 1993). Ileto’s accusations are similar to the critique of post-colonial theory against classical theories of and approaches on capitalism (see Chapter 2) without, however, providing an alternative explanatory framework. In that perspective, Qimpo’s (2005, 2008) reflection of the predominance of top-down approaches to Philippine politics is more appropriate. Counter to the top-down perspective, he refers to the importance of societal

struggles and rebellions that have always existed in modern Philippine history, and that have shaped the narrowness of the political arena and its discourses (cf. Sturtevant 1976; Iletto 1979).

What Quimpo labels ‘contested democracy’, however, are *oligarchic regime dynamics* based on a political system open to contestation and participation and high degrees of social exclusion by the hands of the governing elites who rely on a combination of democratic and non-democratic means and practices in order to maintain their power positions. They dispose of these capacities because, until now, they have survived such challenges. We concur with Quimpo that each national political arena (cf. Collier & Collier 1991) is the outcome of certain socio-political struggles, that the resulting power constellations are reproduced through a new or changing institutional framework which again reshapes the strategies and repertoires (Tilly 2006) of opposing societal groups. These struggles continue in the Philippines, but however narrow the public sphere may be, it is dominated by the oligarchic elites who, in the aftermath of EDSA I, have restored their power and transformed it into a new ‘historical bloc’ (Reid 2006) which has since then resisted any attempts of change.

Where does this oligarchy come from? Several answers have been brought forth into the scholarly debate during the last decades. The first one deals with the long-term impact of Spanish colonialism. Compared to its Latin American colonies where the Spanish Empire’s attention hovered around the extraction of abundant mineral resources, especially silver, such opportunities did not exist in the Philippine archipelago. Nor could Spain enter the highly profitable spice trade. Therefore, the immigration from the mother country has always been limited which weakened the capacities to guarantee social control and order. Such control was accomplished indirectly, through the cooperation with Spanish friar orders that began their missionary activities right from the start, monopolizing public education and developing extensive agricultural estates.¹⁴⁸ Under these circumstances, Spain neither had the will nor the capabilities to transform local social structures as it had in other parts of the world. Rather, the original social setting (baranguays ruled by datuships) was easily incorporated and hispanized within the new administrative apparatus. Datus were made cabezas de baranguay and profited from tribute payment exemptions and compulsory labor assignments. Thus, the traditional social order was preserved and further consolidated through the Catholic belief-system as the

¹⁴⁸ “The sense of a religious-cultural mission to Catholicize and hispanize the Philippines and all its inhabitants was a very real part of Spain’s imperial philosophy. Spanish policy thus combined the recognition of present cultural pluralism with the universal propagation of a culturally unifying religious doctrine.” (Wickberg 1965: 8)

moral underpinning of traditional patron-client relations¹⁴⁹, paving the way for the rise of the ‘modern principalia’.¹⁵⁰

A slightly different explanation centers on the failed political modernization projects in the 20th century which did not lead to the establishment of a truly democratic political system. Socioeconomic modernization occurred, leading to the shift from an agrarian and subsistence-based traditional economy to industrialization, urbanization, high literacy rates, mass political participation and the creation of a free public sphere. Even so, such modernization efforts did not lead to the demise of clientelist practices, but merely transformed them into the establishment of patronage parties and machine politics.¹⁵¹ Such political strategies tended to undermine horizontal linkages in the national arena and weaken class solidarities. They also set the terms for the terms of institutionalizing politics in an era of mass participation. As soon as the elite groups felt their interests threatened by the continuously erosive consequences of the rising costs to guarantee political order, the whole system broke down and transformed into Marcos’ authoritarianism (cf. Wurfel 1988).¹⁵²

One view that has always been prominent among both western and Filipino scholars is the neocolonialism approach, according to which the linkages to the world capitalist system and especially to the U.S. market (since the Payne-Aldrich Act 1909) effectively distorted class relations and undermined social change. In that perspective, the national capitalist classes act merely as a *comprador bourgeoisie* that follows its own narrow interests and that of transnational and international capital (cf. Evans 1979). The ‘treachery’ of the bourgeoisie is manifested in its cooperation with authoritarian political forces and in its lacking legitimacy in the eyes of the working classes. In the Philippine context, the opportunism and the rapid defection of landowning *ilustrados* at the beginning of the U.S.-Philippine War (1899-1902)

¹⁴⁹ On the assumed relationship between Catholicism and patron-client relations, see Kenny (1960) and Boissevain (1977).

¹⁵⁰ In Simbulan’s terms, “their virtual monopoly of public offices and higher education, their recognition and treatment by the Spaniards as a privileged group, their common stakes in society, their distinctively different culture and outlook as compared to that of the masses – all these produced an extraordinary homogeneity in the principalia class in spite of its ethnic diversity.” (2005: 28)

¹⁵¹ On party patronage and machine politics in general, see Weingrod (1968) and Scott (1969); for the Philippine context, see Landé (1965) and Novak & Snyder (1974); on the erosion of traditional patron-client relations Scott (1972, 1972b).

¹⁵² These works are heavily influenced by Huntington’s *Political Order in Changing Societies* (1968) in which the assumed modernization processes did not lead to similar degrees of political institutionalization as in western countries. From this perspective, many studies identified the stabilizing functions of patron-client relations. This early functionalist bias, in turn, is the main reason many contemporary scholars, e.g. Sidel (1999) and Quimpo (2005, 2008), openly reject the concept of clientelism.

is regarded as the ultimate cause for the establishment of an oligarchic class that renounced the nationalist liberation goals of the population.

Another argument which has developed since the 1980s combines both elements of external exposure and internal power constellations in a highly distinctive way. It was not only the rise of the *principalia* class in the course of the 19th century, but also the specific timing of the Philippines' annexation by the U.S. and the strategies of "social engineering" (May 1992) that marked the birth of a modern national oligarchic regime. This could be achieved through the imposition of a U.S. institutional and administrative framework which preferred decentral power structures and thus, willingly or unwillingly, promoted the consolidation of local 'bosses'. These new strongmen could draw on new sources of coercive powers and of financial resources in order to entrench their positions in the overall oligarchic framework.¹⁵³ The new state apparatus could easily be captured because political representation and participation were given more attention than bureaucratization. Finally, new agencies could not be shielded from the patronage strategies of local and national politicians.¹⁵⁴ What characterized colonial and post-colonial politics was the simultaneity of bureaucratization and electoral politics which perpetuated clientelist practices and gave birth to patronage parties (Shefter 1977). These years also represent a distinctive kind of primitive accumulation, which Sidel (1999) regards as much more important than the formation of new private property relations in the 19th century and which ultimately formed modern Filipino bossism.

Antecedent Conditions: Capitalist Transformations

Similar to socioeconomic and political developments in other parts of the world, the decisive step towards the creation of a capitalist order, without denying the importance of prior forces of commercialization and proto-industrialization (McCoy 1982b; Reid 1997), was the incorporation of the Philippine archipelago into the unfolding world capitalist system since

¹⁵³ "Thus we see the structural conditions that facilitated the emergence and entrenchment of bosses and bossism in the twentieth-century Philippines. State formation in the Philippines after the precolonial era permitted the survival of private, personal control over the instruments of coercion and taxation. Successive phases of state formation supplanted the charismatic basis of local strongmen authority with new bases of local power – derivative and discretionary enforcement of the law and accumulation of land and capital – and, in the American period, extended private control to include the provincial and national agencies of an emerging state apparatus [...] In the Philippine case, it was the American imposition of 'colonial democracy' from 1901 onward that determined the nature and extent of local strongmen rule in the archipelago." (Sidel 1999: 18-19)

¹⁵⁴ "American colonial rule, in fact, actually reinforced the decentralized nature of the Philippines by concentrating far less on the creation of a central bureaucracy than on the introduction of representative institutions." (Hutchcroft 1998: 25)

the early 19th century.¹⁵⁵ As McCoy writes, “the Philippines did not develop as a unitary colonial economy oriented towards a single satellite entrepôt at Manila. Instead, the archipelago emerged as a series of separate societies that entered the world economic system at different times, under different terms of trade, and with different systems of production.” (1982a: 8) This evolving “patchwork of pattern of diversity” (ibid.), though, does not negate the fact that the capitalist transformation had effectively undermined the existing pre-capitalist social structure controlled by the Spanish colonial regime. The politico-administrative apparatus that Spain imposed in the archipelago was overcome by the historical culmination of several interrelated factors: the rise of Spanish liberalism and its decade-long struggle with conservative powers, the loss of Spain’s Latin American colonies, the growing commercial and military dominance of Britain, the military pacification of Mindanao and, most importantly, the de-facto transformation of agrarian social property relations that had given birth to a new landowning class among the native population that aimed to wrest control and influence from the Spanish king. How did the socio-political stage look like in the Philippines before these transformations? A brief sketch of the pre-colonial and colonial social structures shall suffice before turning to the ‘Great Transformations’ of the 19th century.

Before the Spanish conquest, the Philippine archipelago consisted of a multitude of socio-cultural localities. In general, settlements were usually to be found along rivers and the coasts the latter of which developed trading relations with foreign, Asian and Arab, but mostly Chinese, traders. Within these settlements (*barangays*), the social organization was divided along three separate strata. *Datus* formed a distinctive type of hereditary nobility that had political, military, juridical and economic roles. Distinguished by charisma and traditional animistic practices (through the use of magical items), *datus* attained military capacities and economic wealth through which they could sustain their own power bases that could be measured by the number of dependent households. The common people (*tao*) paid tributes and were linked to them through bonds of servitude (either after committing crimes and being convicted or through economic indebtedness). These forms of servitude, however, were not of

¹⁵⁵ Again, we should not take the notion for granted that there was no economic dynamism before the 19th century and thereby reify Eurocentric arguments. As for the emergent textile industry in Iloilo, McCoy states: “The traditional Asian City was supposed to have been a purely administrative centre, a parasitic adjunct to the totalitarian bureaucracy, lacking an independent bourgeoisie or the autonomous cultural life of Europe’s chartered cities. The dynamic Asian commercial entrepôt did not develop until the mid-19th century when the rapid expansion of European trade required the creation of port cities from Bombay to Shanghai. If we accept the logic of this thesis, then 18th century Iloilo should not have existed, and much of its subsequent economic history should not have evolved as it did.” (1982b: 298)

a strict juridical nature and would not prevent upward mobility, given the specific conditions of mutual interdependence. In-between *datus* and *tao* were the *maharlika* (*timawa* in the Visayan Islands), a kind of warrior nobility that belonged to the *datus*' households and acted as their entourages in war and in public ceremonies. While they usually did not labor and were exempt from paying tribute, in the Tagalog-speaking regions, lower-standing *timawa* performed agricultural labor for the *datus*.¹⁵⁶ In economic terms, subsistence-based agriculture was the rule, given the low degrees of differentiation and the small *barangay* populations. The main fields were the cultivation of rice, coconut, millet as well as fishing and animal husbandry. Furthermore, weaving of cotton and abaca (local hemp), pottery and, particularly, boat-making constituted the primary manufacturing activities in the archipelago (Corpuz 1989, 1997; Legarda 1999).

Due to its geographic proximity to regional powers, and with China being the center of the world system until the 19th century (Hobson 2004), the archipelago has since the end of the first millennium been part of regional trade networks. Local *datus* in control of ports could flourish at the time of Chinese tribute missions before the Ming emperors stalled state-trading. Also, the archipelago was open to various cultural influences that came with long-distance traders (Hinduism, Buddhism, Islam) which had a profound effect on *barangays*' social organizations and which could easily be incorporated, leaving specific forms of localization of diverse cultures and religions (Amoroso & Abinales 2005: 45).¹⁵⁷ Most important was the role of Islam. Brought to the archipelago by Arab, Persian and Chinese Muslim trades and missionaries since the 14th century and institutionalized under the Sultanate of Sulu in the mid-15th century, the realm of Islam expanded to Mindanao and from then on northwards until it met and was repelled by the incoming conquistadores (Corpuz 1989: 49). Although the new religion, as later Christianity, did not automatically change local religious practices, the Sultanate implanted new social institutions based on ideas of community that extended the clan-based *barangay* perspective. Also, it brought along an unseen degree of centralization. Accordingly, Muslim rulers were the first to amass wealth, religious power and to establish a

¹⁵⁶ "For several reasons, *barangay* social stratification escaped rigidity. The delicate web of linkages which bound the community together blurred any tendencies toward caste. Landholding arrangements differed sufficiently to assure a gradual rise and fall of individual fortunes. Complex marital patterns, together with intricate social gradations growing out of them, alleviated the long-term impact of status. Women also occupied elevated positions and constantly influenced their offspring's destination through gentle or shrewish treatment of husbands and male relatives. The system, in brief, functioned in accord with tribal dynamics. Its relatively simple forms bore little or no resemblance to European corporate and contractual configurations." (Sturtevant 1976: 23-24; emphasis in original)

¹⁵⁷ According to Corpuz, however, the impact of foreign religious and cultural influences was minimal, at best. (1997: 11)

bureaucratic apparatus through which to wage wars, an apparatus morally bound by the genealogy of the Sultans (Abinales & Amoroso 2005: 43).

In the 16th century, it was the newly expansive Spanish empire that began its aggressive expansion into the Southeast Asian region (after the Portuguese and the Dutch) in order to enter the highly lucrative spice trade after Portugal had already acquired control of the long distance trade connecting Asia with Continental Europe (Battle of Diú 1509). The Spanish succeeded – after Magellan’s first expedition and his death in 1521 – in 1565 to conquer Cebu and, in 1571, Maynilad (later named Manila) and to impose its control across the whole archipelago. However, this claim was only of a juridical nature, and it took the Spanish empire several centuries to effectively implement its colonial apparatus across the whole territory.¹⁵⁸

What was highly specific about this colonial venture was the mixture of military and missionary activities. While it took Spain several decades to establish its hold over Cebu, Luzon and the Visayas (Mindanao would only come under effective Spanish control in the second half of the 19th century), the lack of Spanish personnel induced the empire to set up local authorities with the help of local chieftains and Catholic friar orders who quite early sent their missionaries into most parts of the archipelago. These friars (Augustinians, Franciscans, Dominicans and – with interruptions – Jesuits) were highly effective in their activities by incorporating local animistic cults (e.g. the replacement of magical items through Catholic icons and symbols), thereby appropriating the role of shamans who before acted as intermediaries towards spiritual sources (Stanley 1974: 17).

Although the reach of the new colonial apparatus was fairly limited, the territories that it claimed since the late 16th century had to undergo a drastic and highly destructive incorporation. Under the so-called *reducción*, whole populations were uprooted as *baranguays* were resettled into bigger towns (*pueblos*) and district capitals. As Manila and Cebu were no attractive destinations for Spaniards (compared to Spanish America), the number of Spanish

¹⁵⁸ Corpuz characterizes these early conquests in a very ironic fashion: “For instance, a Spanish force would burn and defeat a town, as in Manila, or espy an island such as Cibabao; or enter a lush and broad plain stretching into the far mountains somewhere. They would not know what was in the hinterland. But they immediately thanked their God for giving them such a great country. They set up some crosses, here upon a mound, there carved on a tree trunk; and took possession of the land, including villages and places they had never seen, or of whose existence and location they were totally unaware.” (1989: 60)

residents was fairly limited.¹⁵⁹ To increase incentives for Spanish settlers, the empire devised the institution of *encomienda*, i.e. tribute collection rights to accelerate the *reducción* process. Even though many conquests still took very long¹⁶⁰, these guaranteed profitability prospects triggered an era marked by outright theft and unrestrained violence, causing the deaths of many natives.¹⁶¹ Under the new spatial arrangements, the Spanish also designed new rigid social boundaries between Spanish immigrants and officials who resided within the new fortified cities on the one hand and natives (*indios*) and Chinese on the other hand. Furthermore, the Spanish could also instrumentalize the already existing social stratification for their purposes. They depended on the cooperation of *datus* who would help in the *reducción* process in order to uphold their privileged status. They were assigned *cabezas de barangay* or *gobernadorcillos*, collected tributes for the colonial state, while they themselves were exempt from paying. Also, they could dispose of compulsory labor (*polos y servicios*), both for the Spanish and for themselves. This strategy upheld and both transformed the pre-colonial social and political setting, with the former *datus* now forming the *principalia* (Simbulan 2005).¹⁶²

Besides the importance to expand the outreach of Spanish Catholicism (with the long-term aim to catholicize mainland China), several features were responsible for those social-cultural arrangements. Most important, the profit prospects the Spanish hoped for did not materialize. There were no significant exploitable mineral resources as in Latin America (gold, silver) in the archipelago. Moreover, they did not succeed in entering the spice trade which was

¹⁵⁹ Legaspi undertook his expedition with less than 400 men. Due to meager reinforcements and ineffective royal residential regulations, there were not more than 1,200 Spaniards in the archipelago in 1604. (Corpuz 1989: 57)

¹⁶⁰ See Corpuz's description: "The process began with the *entrada*. This was a penetration mission, a military entry into unconquered territory. The Spanish force would usually start from a previously conquered village that was used as a staging area; chiefs and their men from these conquered villages would be used as bearers or auxiliaries. Much of the modern province of Nueva Vizcaya was called the Tuy region. [...] The first expedition to reduce the region was sent out in 1572-1573. It failed. Another force was sent in the mid-1580s. It also accomplished nothing. The first expedition to succeed in penetrating the area was that of 1591. This year a strong force of seventy to eighty Spanish soldiers, with several Pampango chiefs who among them brought 1,400 of their followers as bearers and auxiliary fighters, went north up the Rio Grande de Pampanga and crossed the Carballo mountains until it reached the river valley of Tuy, by the source of the Magat river. Immediately upon arrival, the expedition marked a tree with a cross, and by this act alone took formal possession of the land for Spain. It was 15 July 1591. It was already a full twenty years after the Spaniards had claimed to take possession of the entire island of Luzon." (1989: 62; emphasis in original)

¹⁶¹ The Spanish tried to counter these tendencies, "but of course the Spanish king was too far away to effect reforms, and he could not stop the collection of tributes, for his conquistadors would starve; nor punish the latter, for then he would have no officials at all. In the end, he entrusted the solution to the governor-general, who was always to consult with the bishop. This means that nothing was changed." (Corpuz 1989: 86)

¹⁶² "Preserved in at least some measure of their traditional role, the *principalia* had a strong interest in maintaining the status quo and were in no sense a challenge to the priests. An element of continuity, they mediated between the Spanish and a population too large and diffuse to be governed directly." (Stanley 1974: 14)

dominated by the Dutch who colonized the Moluccas, with no equivalent cultivating areas in the Spanish realm. Although the Philippines did not turn out to be a profitable exploration as other colonies, the Spanish devised other economic aims for themselves. First was the reorganization of the economy in order to collect tributes for the Spanish crown. This was first done through the granting of *encomienderos* to Spanish officials and later by the indigenous *principalia*. Given the social disruptions in the *reducción* process¹⁶³, the Spanish implemented new land-tenure regulations. Officially belonging to the King, parcels were assigned to each household. The religious orders played an important role in overseeing the general prohibition of land flight. Also, friars collected their shares in the tribute system, with charges for religious ceremonies. And, they themselves were proprietors of encompassing landed estates, and leased parcels to *indio* tenants.

The second economic base of the colonial regime was the galleon trade. Positioned between China and Spanish America, Manila early on (from 1572) developed into an important entrepôt for the empire. Once a year, huge galleons – usually built through compulsive labor (40 days a year¹⁶⁴) for which the *principalia* were responsible – carried silver from Mexico to Manila to buy Chinese products, especially silk, which were highly demanded in Spain and Europe. So, profits from this trade that continued until the early 19th century fell into the hands of Chinese and Spanish traders and customs duties mainly to Mexican Viceroy, leaving little surplus for local traders, agricultural producers or artisans.¹⁶⁵

Local economies primarily focused on subsistence agriculture, local and intra-regional trade, artisanship and the Chinese junk trade. These trading activities soon became dominated by Chinese immigrants who easily outnumbered the Spanish populations as early as in the 16th century. It was these Chinese immigrants who provided the Spanish with demanded Chinese products and who – with permission from the colonial administration – served as intermediaries between the sedentary *indio* rural population and the economic centers along the coast. However, the position of the Chinese was less than secure. Pejoratively labeled as

¹⁶³ According to Corpuz, in the first century after the Legaspi expeditions the tributary population decreased from around 586,600 to circa 433,098 in 1655, and that despite the expansion of Spanish territory.” (1989: 103)

¹⁶⁴ “The forty-day limit was frequently ignored for *cortes* duty, causing agricultural disruption back home and threatening the ability to pay the following year’s tribute. Men worked for rations under inhumane conditions; there were frequent deaths and uprisings.” (Abinales & Amoroso 2005: 62)

¹⁶⁵ Concerning state regulations of the trade, as well as the illegal enrichment opportunities linked to the galleons, see Legarda (1999: 37-42).

*sangley*¹⁶⁶, Chinese were forced to live within an arranged quarter in Manila, the Parián. Only with their conversion to Catholicism, travel regulations were eased, and they started to intermarry with the local population, giving birth to a new social group (as devised by the Spanish), the *mestizos*.

The Philippines' Great Transformation

For several centuries under Spanish rule, the Philippine archipelago was serving mainly as entrepôt in the famous galleon trade and as a source for tribute payments to the Spanish crown. The institutional framework that secured these economic activities strengthened the role of the Spanish friars who controlled non-expansive commercial agriculture oriented toward local markets. In the 18th century, the position of the Chinese immigrants remained insecure after new riots and expulsions (the last one occurring 1776). The offspring of those Chinese that converted to Catholicism, however, could get hold of the former privileged position in trading and distribution. Even more important, these mestizos, who were better-off in terms of taxation than ethnic Chinese, increasingly entered commercial agriculture as *inquilinos* by leasing parcels and renting them to *indio* tenants. They resorted to semi-institutionalized, more often than not illegal, practices of land grabbing and could thus bring a dynamic moment into the Spanish-devised social setting according to which land only belonged to the king. The institutional nature of Spanish rule, therefore, created new socio-economic groups out of which new, politically and economically powerful groups emerged during the 19th century. At the beginning of the 20th century, actors from these strata contested political power from the Spanish authorities after having fabricated a new, Filipino consciousness and identity that could not be controlled by the Spanish any longer. We will see what kind of 'Great Transformation' (Polanyi 1944) occurred during this century that spawned such new social realities.

Two related factors set the shift in motion toward a capitalist, export-oriented economic order, the first one being the official plan of Governor-General Basco y Vargas (1778-1787), and the second one being the influence of western, i.e. British and U.S. capital that – combined with the ongoing internal dynamics of the rise of indio and mestizo landowning classes – created a

¹⁶⁶ The Chinese were marked as naturally inclined to trading activities, a fact that caused suspicion both among Spanish and indios; see Wickberg (1965).

new, unified peripheral economy based on export cash crop agriculture and the opening of the archipelago into the world economic system.

Basco's General Economic Plan comprised a variety of both market-creating and market-liberalizing measures. Market creation consisted of the promotion of new cash crops and technology assistance for Spanish, foreign and mestizo farmers, the founding of *La Sociedad* (1781), the development of cultivation plans and large planting projects, the erection of the tobacco monopoly in Northern Luzon (1782), the creation of the *Real Compania de Filipinas* (1785) and the allocation of financial incentives for those new cultivation plans. Liberalizing policies were the revocation of the Chinese ban, the opening of intra-provincial trade, the opening of the Manila port (1785, and again in 1789) and the reform of immigration policies that were now oriented towards promoting, not restricting, Chinese immigration (Corpuz 1997; Legarda 1999).

All in all, it must be born in mind that these policies reflect the vital shift within the Spanish colonial regime that became aware of the enormous inefficiencies of the galleon trade which for a long time resulted in the outflow of Spanish American silver. Also, the losses of the Philippines had to be compensated through direct transfers from Mexico. Governor-General Basco therefore clearly stated his intent to create a new economic framework that would turn out profitable for the Philippine and, thus, also for the mother country, by reaping the profitable expectations of agricultural exports in the new world economic system. This ideological shift can be traced back to the emergent liberal ideology in Spain. With both the Spanish Conservatives and the friar orders as opponents, the liberal economic (and political) ideas, reforms would not unfold immediately. But the new political dynamism would achieve institutional changes that revolutionized the politico-economic landscape in the archipelago. Thus, the General Economic Plan stood for an endogenous project of deepened commercialization. The global context of international trade patterns only accelerated these processes, they did not initiate them. Even so, this initial transformation was also related to new power constellations at the international level. In the Seven Years War Great Britain managed to beat the Spanish forces and occupied Manila from 1762 to 1764, where it started to unfold its interest in entering the trade with China through creating its own commercial networks in Southeast Asia.

During the first half of the 19th century, Philippine agricultural exports rose continuously to levels unseen before. With the independence of Spain's Latin American territories, the already unprofitable galleon trade came to an end (between 1815 and 1821). The forces that spurred these new economic developments were British and U.S. trading and financial houses who directed investments into cash crop agriculture. Increasingly, lands and forests were cleared for new plantations, so that export crops (sugar, abaca, indigo, coconut, coffee) became the most profitable products to cultivate. Rice, as the traditionally main product in the subsistence economy and for tribute payments in kind (in 1830, only three provinces left for tribute in kind), had to give way in the course of the monetarization of the economy. Also, individual British, U.S., French and Spanish entrepreneurs came to the Philippines as commercial agents and invested in these areas, most prominently in the sugar industry (Larkin 1993; Billig 2003)

The development of modern commercial agriculture in the Philippines is inextricably linked (besides abaca, coconut, tobacco, coffee) to the rise of the sugar industry. With the increased demand for foreign sugar in the course of the industrial revolution, Philippine sugarcane (later, refined sugar) replaced rice and other subsistence crops as the main cultivated and export product. Originally, the main cultivating areas developed in Pampanga, but beginning in the 1830s, Western Negros became the most dynamic site of investment, cultivation and export. Spurred by western entrepreneurs (e.g. Nicolas Loney, Yves Leopold Germain Gaston), new infrastructural projects (roads, bridges), the cease of Moro raids and the opening of ports in Cebu and Iloilo, the sugar sector experienced a dramatic rise until the 1880s and gave birth – at the expense of the Iloilo and Ilocos Norte textile industries, see McCoy (1982b) and Legarda (1999: 176), respectively¹⁶⁷ – to the first generation of large hacienda-owning ‘sugar barons’ (among others, *Lopez, Benedicto, Montelibano, de la Rama, Yulo*) who would, until the U.S. colonial period, through legal and illegal measures dominate political, economic and social affairs in these areas.¹⁶⁸

¹⁶⁷ Since the early 1880s, the Spanish adopted new tariff policies to secure the archipelago from British textile imports to a certain extent. However, they did not do so to reinvigorate local industries, but to secure the market for textiles produced in the mother country; see Legarda (1999: 155-156).

¹⁶⁸ “The planter group and their friends, relatives, and employees held almost all municipal and provincial offices as well as judicial positions, and they had little difficulty turning such a monopoly to their own use. Finally, in unnumbered cases beyond the sight of witnesses, employees of the hacenderos forced peasants from their land. From the occasional evidence that does appear, a sense emerges that the taming of the Negros frontier was fraught with unrecorded violence.” (Larkin 1993: 69)

Even though the international price for sugar was decreasing continuously until World War I due to the new sugar beet cultivations in Europe and the U.S., the Philippine sugar industry formed the politico-economic bloc that would dominate power relations until the post-colonial era. Also, in this sector, we see a highly differentiated division of labor between western financial houses and entrepreneurs, mestizo landowners and Chinese middlemen. The latter, since the latest immigration waves, were initially thought to contribute to the promotion of the industry as rural workers. Instead, they regained their privileged positions as commercial agents, retailers, provisioners of the urban centers and as tax collectors, pushing the mestizos into landholding and commercial agriculture¹⁶⁹, while western financial houses were mainly focusing on exporting the crops to Britain, the U.S., and, to a minor extent, to Spain (Legarda 1999; Wickberg 1965).

In the field of agrarian social relations, these changes had drastic consequences for local and regional social structures. With the monetarization of the economy, the enormous profit opportunities that arose from the new agrarian ventures, land tenure patterns were revolutionized as land ownership became most important as indicator of status and power (while, before, it was the product of the land). By law belonging to the Spanish crown, these new de-facto ownership modes accelerated and consolidated practices of dispossession and commodification that has always existed since the days of the Spanish conquests. But now, *indio* and *mestizo* principalia were the first to resort to land-grabbing methods through fraudulent land surveys, excessive rent demands as *inquilinos* of friar lands, debt peonage and open usury.¹⁷⁰

Those practices transgressed the official boundaries of appropriate economic behavior and met the criticism of both the friar orders (who were well experienced in similar land-grabbing practices) and Spanish officials, but the latter had “neither the will nor the personnel to alter

¹⁶⁹ “For the most part it was the Chinese who facilitated the commodification of agriculture, but it was the *mestizos* who capitalized on the increasing value of land and thus became a landed elite holding key offices in rural Luzon.” (Wilson 2004: 51; emphasis in original)

¹⁷⁰ It was obvious that the higher social standing of the new landholders directly challenged the prerogatives of the friar orders. “In some places [...] contention between the new elite and the friars was intensified by specifically economic disputes over land policy. It was in the Tagalog regions around Manila that hatred of the friars was most intense and most widely spread. There, in the provinces longest exposed to foreign commerce, the landholdings of the friars were concentrated. Typically, the lands were leased to *inquilinos*, usually mestizo members of the new elite, who worked them with the labor of *kasama*, or share-crop tenants. By the end of the nineteenth century, members of these groups were alienated from the friars, the *inquilinos* because they coveted control of the lands which were the economic basis of their prominence and for which already they were charged with much of the responsibility, and the *kasama* because they had been forced by the *inquilinos* to absorb the rent increases of the nineteenth century and were reacting to the friars as the source of the problem.” (Stanley 1974: 45; emphasis in original)

the situation” (Larkin 1993: 32). So, a new social group of landowning elites came into existence which was tied to British and U.S. financial agents in Manila (and later, in the Visayans where ports were opened to international trade in the 1850s) who exploited the profitable export ventures.

Such were the ruptures of the colonial institutional order which gave birth to an new economic power group that had its own distinctive, Spanish-influenced and Catholic mestizo identity which would soon lead to the demise of the Spanish colony, claiming its appropriate political and cultural place in colonial society.

On the other side of those ruptures were the newly impoverished rural masses that had to find their own place in this dynamic economic order. Formerly bound to landlords and friars through paternalist relations that could be claimed on the basis of traditional solidarities, the fluidity of the baranguay-like social stratification pattern had abruptly come to an end with the economic and symbolic powers attached to land ownership. Social antagonisms, rebellions and urban and rural crimes were occurring more often during the second half of the 19th century (Bankoff 1999).

Furthermore, with the commercialization and monetarization of the economy came renewed efforts to strengthen the outreach and the capacities of the colonial bureaucracy into hitherto unreached areas that could serve as safe havens of those fleeing their lands. While land flight had always been a viable answer to avoid exploitation by friars or mestizo landowners, the growing capacities as symbolized by new police forces (*Guardia Civil* 1868) and the military ‘pacification’ of Mindanao put an end to such retreatment strategies. In fact, the territorial incorporation of Mindanao was used to stifle rebellions and disorder. On the one hand, the colonial regime adhered to steer Christian migration into the South. On the other hand, the island turned into the main destination for deporting political dissidents.¹⁷¹ Despite these measures, social rebellions did not decrease. In the Philippine context, they had a distinctively sectarian and millenarian outlook and tended to manifest in the language of the *pasyon* (Sturtevant 1976; Iletto 1979), which has since served as one possible blueprint for politically and culturally contesting the legitimacy of the rulers in the decades to come.

¹⁷¹ A fate that was shared by many ‘filibusteros’ before the Katipunan uprising; see Corpuz (2006: 155-162).

Thus, the capitalist transformations, as in other regions and at other times, stressed and broke down traditional bonds of community and solidarity. While in Europe, the most prominent social boundaries emerged between capitalists and the working classes, in the Philippines, it was between landowners and the dispossessed rural classes who were freed and commodified in the new economic order. So, different notions and visions of independence and legitimacy emerged that would have its impact on the revolutionary struggle, on the political manifestation of these economic ruptures starting with the 1880s.

Political Ramifications – National identities and the struggle for independence

So far, we have only dealt with the usual features of capitalist transformations that broke with the social, political and cultural fabrics of colonial society. Similar to Europe and other regions, a capitalist and landowning class emerged through practices of dispossession and the commodification of labor. While bonds of reciprocity tied landowners to tenants and rural laborers, under the new economic order, money turned into the overarching source of social status. With the increased monetarization of the economy, peasants kept falling into debt traps and decreased in their social position. The money nexus set up more rigid hierarchies and boundaries, leaving to them the choice between fleeing the land or rebelling or accepting their fate while being open to efforts of rural mobilization.

Now, to come back to one of main arguments in Chapter Two, what counts for the future trajectory is whether or not these new capitalist classes are capable of transforming their new economic powers into a stable position in the political institutional framework through which to uphold its hegemonic status in economic terms. In short, it is relevant if and how their new financial capacities will translate into political power. In the Philippines, it became obvious during this era that even the liberalizing Spanish Empire would not allow for opening up the relevant political and bureaucratic channels for the new agrarian capitalists. While the new elites could exert power at local and regional levels, they would still have no say compared to Spanish officials and friar orders. But political changes did occur, as can be seen from the heightened conflicts between them and conservative forces within the Spanish regime who saw their positions undermined by both new Filipino (of Spanish, *indio* or *mestizo* origin) elites and Spanish liberals.

After the Spanish defeat in the Seven-Year War and the occupation of Manila by Britain, Spanish politicians became aware of their disadvantaged position in Southeast Asia. In the Philippines, new colonial authorities implemented programs of administrative reorganization and centralization to render its rule more effective and to curb the generally perceived abusive and corrupt practices of Spanish officials and friars. In line with the “Ordinances of Good Government” (1786), governor-general de Aguilar (1801-06) started implementing such measures. As with the economic reforms under Basco y Vargas, reform outcomes were highly determined by the political struggle between conservatives and liberals.¹⁷² The primary aims of reform-minded actors were securing and increasing tribute payments and curbing corrupt practices. Also, reformers tried to tackle the position of the friar orders, especially in the fields of judiciary and education, which eventually remained unsuccessful.

New efforts were made to pacify Mindanao from where raids had been plaguing coastal populations, through new military technologies, most important the superior steam boats in the 1850s. Subsequently, centralization efforts from the 1860s for the first time created higher degrees of bureaucratic control and signify the effort the Spanish put into re-strengthening their rule in the archipelago.¹⁷³ This provided new employment possibilities for colonial officials and led to “bloating the bureaucratic apparatus” (Abinales & Amoroso 2005: 86).¹⁷⁴ All in all, however, given both the authoritative character of the reform implementations and the lacking capacities to effectively curb corruption (despite new educational criteria for administrative posts since the 1850s), the degrees of infrastructural power remained fairly limited. Also, there remained a clear discrepancy in the area of taxation which was still conducted in an indirect manner, through tax farming and the auctioning of tax monopolies to commercial agents, most prominently, Chinese traders who already had a certain expertise in such activities in mainland China (Wilson 2004; Wickberg 1965). Spanish Philippines

¹⁷² The fierceness of which can be observed by the high turnover rates of governors. Between 1800 and 1860, 24 different governors were assigned to the colony; see Abinales & Amoroso (2005: 85).

¹⁷³ The newly established agencies, such as the General Inspection of Public Works, the Boards of Civil Administration and the Council of Administration, reflect the importance attached to bureaucratic centralization by the Spanish and to counter the hitherto pernicious effects of ruling only indirectly through the friar orders.

¹⁷⁴ “The loss of Spain’s colonies in the Western hemisphere brought to the Philippines many opportunists, adventurers, and politicians whose predecessors in balmier days would have scorned so distant and impoverished a possession. Beginning as a trickle in the 1820’s and 1830’s, this migration grew considerably after the opening of the Suez Canal and the inauguration of direct steamer service to the Peninsula. Some of the newcomers entered commerce; others entered one of the professions, took up journalism, or acquired land. But given Spain’s declining role in the island’s economy, a very large number were forced into dependence upon government jobs, for which they competed with Spaniards already resident in the Philippines. Even at mid-century the government could employ less than half the applicants. And although as the century progressed the bureaucracy was rapidly and arbitrarily expanded, raising taxes and increasing inefficiency, the gap between the number of positions available and the number of Spaniards seeking them was never closed.” (Stanley 1974: 34-35)

remained a weak state, with several centers of power in which the new landowning classes would strive for more and deepened political representation relative to their socio-economic positions.

We have seen that those new capitalist classes comprised mostly of indios and mestizos who, due to the administrative reforms, could strengthen their hold on local politics (especially with the end of trading privileges of the Spanish *alcaldes mayores* in 1844, and the introduction of formal elections for local and provincial posts). It was within this group that ideological reorientations took place during the 19th century, reflecting the rise of liberal reformism in the Spanish mother country. As ideas of political freedoms and civil rights did not translate into institutional changes in the colony, members of these classes increasingly sought for “other avenues of social advancement” (Abinales & Amoroso 2005: 92), where secular education proved to be one such avenue.

Reforms in the field of education¹⁷⁵ and the growing influence of native secular priests created new spaces for the new elite. Beyond the growing literacy rates, one outcome of this education push was the expression of political goals, in line with the claims of Spanish liberals. These cultural changes were also reflected in the rise of new urban centers (Manila, Cebu, Iloilo), which resembled their European counterparts (cultural activities, theatres, fashion etc.), and a further differentiated population and workforce (new professions, doctors, lawyers, clerks etc.). Beyond these geographically rather distant consequences of Western liberalism, a more direct impetus occurred through groups of Philippine scholars (mostly of this urban background) who studied at European, mainly Spanish, universities. Faced with the obvious superiority and prosperity of other European powers compared to Spain, these actors devised new ideas of “imagined communities” (Anderson 1991) which were distinctively ‘Filipino’. These new identities would spread back at home, contribute to new conflict dynamics, contest the Spanish claim for authority and ultimately lead to the demise of the Spanish Empire.

It is notable that the sources of Filipino nationalism and the conflicts that led to its radicalization were quite multifaceted. In religious terms, since the beginning of the 19th century, the clergy was slowly being opened (given the conflicts between the Catholic Church

¹⁷⁵ Changes came with the introduction of universal primary schooling in 1836, the adoption of new curricula for universities based on secular topics, the proliferation of secondary schools and the differentiation of educational facilities (trade, art, commerce schools).

authorities and the Spanish friar orders) for natives so that elite descendants could directly attack the friar orders for their repressive stand (Corpuz 2006: Chap. 11). Eventually, after a mutiny broke out in a naval base in Cavite in 1972, the Spanish retaliated against members of the reformist, secular clergy and created the first national ‘martyrs’ in the three priests Jose Burgos, Mariano Gomez and Fray Jacinto Zamora who were falsely accused and later executed.¹⁷⁶

Who were the propagators of the Filipino nation, and what claims were made? Urban elites and professionals, western-educated intellectuals and agrarian exporters yearned for reform. They actively participated in debates with their liberal allies at home and in Spain, writing books and pamphlets. The first organized group called itself *La Solidaridad* in 1889 and was active in Spain. At the beginning, claims hovered mainly around issues of equality and changing the Philippine status from colony into a Spanish province. For a long time, the ‘propagandists’ (Schumacher 1991) did not desire independence from Spain, but rather called for an end of friar power in the archipelago. It was only later, with the escalation of political struggles in the mid-1890s that national independence developed into a tangible concept worth fighting for as it became clearer every year that the reformist path would not bear any tangible fruits. The fact that reforms, and not revolution, was the desired goal may also reflect the *ilustrado* backgrounds of the propagandists. Most of these actors belonged to the new upper classes, with backgrounds in commercial agriculture, urban professions.¹⁷⁷ These groups called for the establishment of political institutions in which they would exert privileged positions as the arbitrators between the Spanish and the Filipino nation, through rebuilding the solidarity linkages between the mother country and the new nation which the Crown and the friars have for too long disrupted.¹⁷⁸

Still, the struggles for national appreciation remained unsuccessful as the main vehicle of change was the internal Spanish conflict between conservatives and liberals. In its very distinctive way, the Philippines’ case is reflective of the contradictions of 19th century imperialist liberalism that shapes the burgeoning national identities in peripheral societies.

¹⁷⁶ Schumacher argues that “the propaganda movement would be the heir of the movement of the Philippine clergy, and would carry the ideas of national identity stimulated by Burgos to their next step and logical conclusion.” (1991: 28)

¹⁷⁷ For a more detailed background of Filipino exiles and agitators in Spain since the early 1880s, see Corpuz (2006: 177-197).

¹⁷⁸ Julian Go (2008) nicely traces the cultural orientations of the new Filipino elite, its self-characterization as the legitimate bearer of reasonable leadership (*razón*) which the Spanish had forfeited.

With the reformist path blocked, other interpretations of the position and role of the nation emerged that called for a more radical break with the oppressors of the nation, in this case the Spanish empire. Also, new types of claims were made not only by ilustrados, but also by other social groups that appealed to broader parts of the population and could therefore endanger not only the position of the Spanish colonialists but also that of elite groups opting for reformism only. The decisive step for such a radicalization move occurred in the Philippines with the writings and activities of José Rizal, the 'First Filipino' (Anderson 1998) and the formation of the *Katipunan* that chose the violent avenue toward independence.

José Rizal, born in 1861, was to become the ideological father of the revolutionary uprisings of the Filipinos in 1896 against Spain and in 1899 against the USA. During his studies at various universities in Europe, he gained fame and popularity back at home by his two novels, *Noli Me Tangere* (1887) and *El Filibusterismo* (1891)¹⁷⁹ which captured the sufferings of the Filipino at the hands of colonial authorities and friar orders while at the same time constructing the ethnic Chinese as alien to the Filipino nation (Hau 2000: 142). In Europe, he worked together with other Propagandists (especially Marcelo del Pilar) in lobbying for political reforms, equality and assimilation of the Philippines into the Spanish Empire. However, he would break with del Pilar's assimilationist stand and upon his return to the Philippines create his own organization, *La Liga Filipina*, through which to promote reform back at home.

While he was exiled to Mindanao shortly after, other nationalist actors created the *Katipunan*, a secret society that was planning armed uprisings against the Spaniards. Rizal himself cautioned against violent actions, deeming such attempt to be preliminary. Even so, his stand and treatment by the colonial authorities provided mobilizational resources for the *Katipuneros* under Andrés Bonifacio. As the Spanish were on the verge of preemptively striking against the organization, Bonifacio proclaimed the uprising on 24 August 1896.

¹⁷⁹ Much has been written about the life of Rizal and the impact of his books on the revolution and the nature of Filipino nationalism; see Anderson (2005) for the transnational context in which the books emerged, Anderson (1998) and Hau (2000) on the long-term implications of Rizal's writings in the post-colonial era and Iletto (1974) on Rizal's assumed role in the *pasyon* tradition.

Critical Juncture: Institutionalizing the agrarian oligarchy

Until now, we have seen how a native landowning capitalist class emerged in the Spanish colonial context through market-oriented state policies and the incorporation of the Philippines into the new Eurocentric capitalist world system. This transformation resulted in new national identities and conflict constellations between the capitalist class and the colonial empire. The political context in which these agrarian entrepreneurs operated was marked by low degrees of infrastructural powers. Even though the empire's capacities to penetrate and transform colonial societies increased to a certain extent because of new administrative reforms and the military pacification of Mindanao, the legitimacy deficiencies and the concentration of ideological and symbolic powers in the hands of the new nationalist mobilizing groups limited the scope and effect of that increase. Also, the Spanish response of repression and despotic power highlighted its lack of responsiveness through which it could have an impact. In that context, landed elites could draw on violent and illegal methods of further enrichment and therefore dominate both economic and political affairs at local levels. How the new, national economy was to be embedded politically in the 20th century was then determined by the outcome of these new struggles for legitimacy and domination.

The conflict structures that crystallized towards the end of the 19th century were relatively clear, but many paths would have been possible, e.g. the breakdown of nationalist resistance and perpetuation of Spanish rule, liberal political concessions by Spain toward representation and equality to curb the influence of agitators, an early victory by landed-elites dominated rebels, victory after prolonged struggle in which the radicalization of nationalist discourse and legitimation patterns would have led to broader societal mobilization by new elite actors due to their military capacities or the engagement of rival colonial powers. With respect to the variety of outcomes, new, national states would have emerged differing in terms of state autonomy, infrastructural capacities, regime type and bureaucratic rationality, according to the relationship between the ideology of the nation and its respective political manifestation, as each nation strives for its proper state (Gellner 1983).

Eventually, the outcome of this critical and highly contingent period was the transition toward a new colonial order under the newly formed U.S. empire, the ultimate defeat of armed resistance and the institutional empowerment of landed elites through strategies of cooptation and social control. The U.S. established a new colonial bureaucracy and highly restrictive

representative institutions that were easily captured by the agrarian oligarchy which, willingly or opportunistically, made the best of its situation as the military victory of the U.S. army became all too obvious. Herein lies the origin of the fragmented state of modern Philippines. As the agrarian elites and new political entrepreneurs could instrumentalize the colonial apparatus as a primary source of primitive accumulation, the Filipino version of political capitalism was born. Boundaries between the public and private spheres were blurred to such an extent from the beginning because the U.S., aiming for ‘benevolent assimilation’ (Miller 1982) and democratic tutelage, preferred political representation to bureaucratic rationality and impartiality. Whenever these ideals conflicted, the goal of social control through cooperation with the new political elites prevailed. At the same time, given the “unfinished” nature of the Filipino nationalist project (Ileto 1998; Hau 2000), radical claims could still mobilize broad societal support as abusive practices towards tenants and rural laborers were not prevented by social reforms. The new Filipino politicians acted as intermediaries, shielding the U.S. from radical nationalist claims and integrating themselves into U.S. patronage channels on the one hand and trying to portray themselves as the sole legitimate perpetrators of the nationalist cause at home. This resulted in the Filipinization of politics, the bureaucracy and the economy. This phase ends at the end of the 1900s with the inauguration of the Philippine Assembly in 1907 in which the national oligarchy found its first effective institutional manifestation and the passing of the Payne-Aldrich Act in 1909 that deepened the linkage between the U.S. and the Filipino markets and further strengthened the economic hold of the agrarian exporters, mainly the sugar barons.

Wars of Independence

Despite some promising outlooks in terms of the broadness of societal engagement, the uprising against the Spanish forces was not successful at all. Due to the preemptive nature of the rebellion, the Katipuneros had to face challenges of military equipment, as only a small number of fighters had fire-weapons, and lacking internal cohesion, for, among the landed elites many were still siding with Spain. Even Rizal did not express his support for the armed fight, at least not at that time (Schumacher 1997: ix). However, as he was, unknowingly, named President of the Katipunan, the Spanish arrested him while he was on his way to Cuba to offer medical help there. Charged with treason and convicted to death, Rizal was executed by a firing squad on December 30, 1896. Even though his execution spurred the rebellion cause, in 1897, the Katipunan experienced several heavy losses with incited factional

struggles for leadership and military strategy (May 2007). From these rivalries, General Emilio Aguinaldo came forth as the new leader as he could underline his military professionalism after victories over Spanish forces under his command in Cavite. Aguinaldo organized enough support to have Bonifacio arrested and executed in May 1897. Still, toward the end of the year, the rebellion seemed to have come to an end. Aguinaldo negotiated with Spain and agreed to go into exile to Hong Kong from where he remained active in organizing further maneuvers while the Spanish reasserted the loyalty of prominent ilustrados (Stanley 1974: 52).

In 1898, the revolutionary cause took an unexpected turn with the breakout of the U.S.-Spanish War on April 24. While the primary reason for the war was linked to the rebellion in the Cuban colony and the opportunity of the U.S. to get rid of the Spanish in their newly defined domains, the U.S. sent naval troops to the Philippines. After an easy and decisive victory in Manila bay on 1 May under Admiral Dewey, Filipino forces tried to use the occasion and, with more or less coordination with U.S. troops, further liberalized several cities and provinces. Yet, the U.S. entry also stirred much unrest and uncertainty among the Katipuneros as to the actual goals of the U.S. in Southeast Asia. Due to the strong anti-imperialist positions in Congress and his own negotiations with the General Consulate in Singapore, Aguinaldo was quite confident that the Philippines would not be made another colony of another empire. Still, he would not succeed in being recognized formally (declaration of independence, June 12) by the U.S. who rather started their peace negotiations with Spain under the condition that the Katipunan would not be legitimized. With more and more U.S. troops in the country (and Manila in August 1898), frictions were becoming increasingly unavoidable (cf. Miller 1982: Chap. Three).

The treaty of Paris in December 1898 finally outlined the goals of the new empire. According to the treaty, Spain lost all its remaining colonies. While Cuba would be granted formal independence, Puerto Rico and the Philippines would fall under the authority of the USA. Still reckoning that the anti-imperialist positions in Congress would prevent the ratification of the treaty, Aguinaldo started to implement his own state-building visions and on January 23, 1899, proclaimed the Republic of Malolos. In the framework of this first Asian republic, the power of landed elites and urban ilustrados was to be institutionalized elites through controlled political participation (Abinales & Amoroso 2005: 113). Simultaneously, the U.S. sent the first Philippine Commission under Cornell University president Jacob Gould

Schurman to assess the necessities and possibilities of U.S. rule. In midst of these preparations on both sides, open fights erupted between U.S. troops and Filipinos in Manila in early February, paving the way for the second war of independence on 4 February 1899 (Miller 1982: 63).

If the Katipuneros faced enormous challenges against the already disintegrating Spanish empire, they had to cope with insurmountable ones against the rising American empire. Filipinos fought for their desired goal, national independence, but from the beginning, U.S. victory seemed obvious. Ultimately, the war ended in the breakdown of resistance, the deaths of around 250,000 Filipinos from combats, dislocations, hunger and diseases (Corpuz 1997: 205-206). During the first year of the war, the Filipino forces were centrally organized under the command of General Aguinaldo and engaged in open battles with the U.S. army. Yet, that strategy was revised after bitter defeats, and toward the end of the year, Aguinaldo shifted to decentral guerilla warfare. Initially, that new mode presented a new challenge for the U.S. troops who were convinced that resistance was broken and that they only had to deal with bandit groups and religious fanatics. Several minor successes of this ‘amigo warfare’ (Ileto 2002) led the U.S. to adapt and to apply brutal measures of concentration (just as the Spanish had done so in Cuba) which caused enormous dislocations in urban and rural areas and aggravated the growth of hunger and the spread of diseases, especially cholera. The agrarian economy was critically affected, due to droughts and the breakout of the rinderpest that killed most of the country’s carabaos (water buffalos). Militarily, the Katipunan forces had to cede continuously. Not only were its members forced to take oaths of allegiance toward the U.S. after capture, but defections from within the agrarian elites severely weakened its cause. In March 1901, Aguinaldo himself was captured, took the oath of allegiance and publicly called for the laying down of arms. Fights went on; they would not stop until 1906 and in Mindanao even until 1911, but officially, the war ended in 1902 after General Malvas was captured in Batangas (May 1979).

U.S. colonial state building – from representation to capture

Beyond these military successes, the central mechanism through which political authority was acquired and consolidated was the cooptation of landed and urban ilustrados elites into the new institutional architecture. One year after the first Philippine Commission (PC) identified the problems of Spanish colonialism and devised ways of state-building, the second PC, under

later Secretary of War (1904 – 1909) and President (1909-1913) William Howard Taft, began implementing the newly defined imperial goals. To guarantee a smooth transition in this early period and to win the hearts and minds of the Filipino elite, the PC adopted several measures to rebuild the shattered agrarian economy (rice and carabao imports; opening of ports; 3 million U.S.\$ in food aid). Most importantly, it included several ilustrados politicians who defected early from their positions in the Malolos Republic and founded the *Partido Federal* (PF) that accepted the annexation of the Philippines, hoping to end the war. As a reward, they were assigned positions in the new administration, as judges, provincial attorneys, governors and provincial secretaries and members of advisory boards. Most prominent members of the FP were Pardo de Tavera, Benito Legarda, Gregorio Araneta and José Luzuriaga, all of whom had backgrounds in commercial agriculture (Cullinane 1989; May 1980; Paredes 1988b; Go 2008).

The U.S. strategy of erecting the colonial state from the bottom up began with the first municipal elections in 1901. As they were highly restricted (qualifications based on gender, age, wealth, previous holding of office), these elections were mostly an inner-elite affair and did not give rise to societal mobilization.¹⁸⁰ The *Federalistas* could thus grasp these early opportunities of ties to the PC and provincial civil officials who set up their own patronage channels and would continue striving for deepened Filipino participation. Accordingly, it came that, even though native politicians did not have decision-making powers, appointments to the new bureaucracy became of utter importance in terms of social status and visibility. While the PF controlled most of the available positions at the beginning of the decade, they eventually had to give way to a new generation of political entrepreneurs which more effectively maneuvered between U.S. and local politics, claims for nationalist representation and social conservatism (Cullinane 2009).

As formulated by the Provincial Government Act in February 1901 and the Organic Act in July 1902, political inclusion and representation was to be extended to the provincial levels starting in 1902 and to the national level with the establishment of the Philippine Assembly (PA). The first elections for provincial governments remained primarily an affair of the *Federalistas* and U.S. citizens, who, as provincial governors were to be elected by municipal officials. After that, however, new and younger actors, many of whom were sons or relatives

¹⁸⁰ “Such qualifications had the effect of limiting the franchise to a small percentage of the residents – in fact, to essentially the same elite that had dominated municipal government during the last days of Spanish rule.” (May 1980: 45)

of local politicians, entered the field of electoral competition and brought a dynamic moment into it. Although many challengers themselves were *Federalistas*, the opportunities for patronage resources made new mobilization strategies highly viable. More radical discourses were adopted, which attacked the unconditional pro-American positions within the PC, on the one hand, and person-based factionalism emerged within the provinces that ultimately broke the countrywide dominance of the Manila-based PF. Until the provincial elections in 1906, political competition, still highly restricted, took on a new direction (Cullinane 1988, 1989).

Why did the *Federalistas* not succeed in maintaining a hegemonial position after the 1902 elections? First, despite the fact that it was the first political organization to act nationwide through the *Comité des Intereses*, it was still predominantly based in Manila where it tried to maintain its personal linkages to the PC. Yet, given the fact that local power structures were essential to promote provincial governors, they made the mistake of organizationally neglecting those spaces which were then filled by new political entrepreneurs who were aware of the political and economic opportunities. Second, the *Federalistas* had become highly vulnerable for its conservative nationalist positions and the overall perceived *americanista* viewpoints. Although rival politicians themselves were anxious not to cause social unrest and radical protest movements, they at least adopted a more radical tone in their discourse that was very visible in the flourishing media circles. They did so for electoral purposes without neglecting appeasing U.S. members of the PC to signal their capacities to more effectively include and control overly nationalist demands.

The 1907 elections for the PA further completed this process and led to the overwhelming victory of the newly-founded *Partido Nacionalista*. Even though their rivals tried to cast off the *americanista* image of its first years, they did not manage to prevent their defeat and were even more weakened by many defections to the *Nacionalistas*. In the years leading to the elections, growing resentment of Filipino elites and the manifestation of organized dissent led to the demise of the PF. What were the causes for this resentment? On the one hand, despite open cooperation with the Philippine Commission, new elites felt that their position was not properly acknowledged and feared that they would have no say in determining where the path of tutelary democracy would end or how the nation would look like. One example of such frustration with the new empire was the St. Louis exposition in 1904¹⁸¹, the other one were the policies and the aloofness of Governor-General Luke Wright. In 1906, the effectiveness of

¹⁸¹ See Kramer (2006: Chap. Four).

new patronage channels was proven, for it were new politicians riding the openly nationalist wave and establishing close relations to Secretary of War Taft, Commissioner Cameron Forbes and director of the constabulary, Col. Harry Bandholtz who could claim that they made Taft remove Wright from office (Cullinane 1988). On the other hand, new forms of resistance from below, as for example the *pasyon* of Felipe Salvador, showed that the *pasyon* type of collective action was still a viable way of challenging the colonial order as none of the new political actors tried to implement social reforms in the countryside which remained Filipino politicians' Achilles' heel. Even the *nacionalista* claims could not prevent social rebellions which erupted at several stages during the following decades.

How did this form of political institutionalization and representation relate to the other pillar of social engineering, the administrative capacities of the colonial bureaucracy? Frankly, it directly opposed it. The main executive agencies the Americans set up were the Executive Bureau, the Bureau of Audits, the Department of Interior, the Department of Commerce and Police, the Department of Finance and Justice, the Department of Public Instruction and the Bureau of Agriculture, all of which were headed by U.S. citizens and appointed by the Governor-General. At the provincial level, provincial boards were supposed to oversee public spending by the municipal councils and to curb corruption and abusive practices through the appointment of municipal treasurers. The Executive Bureau, as laid out in the Civil Service Act in 1901, was designed to centralize the investigative and monitoring capacities of the boards, thereby marking the locus of bureaucratic rationality of the new administration. In fact, the Bureau adhered to these goals and made use of its capacities to curb abusive behavior, both by American (1902-03, 17 charged and sent to prison) as well as by Filipino officials (1903-1913, 2300 cases leading to 1500 penalties).

Even so, it became relatively obvious from the start that these administrative powers were undermined by the political ruses of patronage and power, to which American politicians of the high era of U.S. machine politics were well-accustomed.¹⁸² Taft and the PC were confronted with a dilemma of having to choose between bureaucratic rationality and impartiality and political control through cooperation with local elites. They chose the latter to “reinforce the power of the indigenous elites rather than to sow the seeds of popular

¹⁸² See Abinales (2003) on the similarity of discourses and problems between machine politics and progressivism in the U.S. and the Philippines; also May (1980) on the social conservative background of the members of the PC, Paredes (1988b) on Taft's strategy of shifting patronage resources from the *Federalistas* to the Quezon and Osmeña factions. The best account of these early patronage structures is Cullinane (1989) who outlines in detail the decline of the Federalistas in terms of patronage capacities.

government” (May 1980: 42).¹⁸³ Even though the Americans criticized and open attacked forms of ‘caciquismo’ as remnants of the Spanish era, their own mode of state-building in terms of bureaucratic rationality became a “monumental failure” (Hutchcroft 2000: 288). For, U.S. officials themselves played along patronage rules to uphold authority. Similar to the Spanish before them, the U.S. lacked the will of the capacities, given these contradictory goals, to counter corrupt practices and the hegemony of the national oligarchy which rested upon local bossism. With the inauguration of the PA, the *Nacionalistas* were effective in deepening, despite last-minute measures of the PC to control such capacities, the Filipinization of bureaucracy and politics. One such measure was the reform of the Civil Service Act in 1908 according to which municipal treasurers were to be appointed by the municipal councils, an act that “removed one of the most important local posts from civil service protection and transformed it into an explicitly political post.” (Hutchcroft 2000: 291)

Institutionalizing economic dependency

Besides political tutelage and public education, the third pillar of empire building in the Philippines laid in the promotion of the agricultural export economy. For that aim, the PC adopted measures in the fields of infrastructural development, tax and tariff policy and land distribution.

The PC had the least problems – in terms of elite opposition – in expanding the transportation networks (roads, railroads, port facilities) which were in a dire state after the wars. Despite a shortage of funds, the PC was able to invest at least two million pesos annually for road-building projects, which resulted in the two to four-fold increase of mileage after 1906, when the Road Law was implemented and supervised under the Bureau of Public Works. Railroad expansion, in contrast, depended on private U.S. investments. With the enactment of the Cooper Bill in Congress in 1905, the U.S. government issued guarantees for private investors. But outcome was not as effective as in road-building, due to the uncertainties investors faced

¹⁸³ “From the outset the interaction between these aspiring political elites and the Americans was one of give and take: Americans sought peace and order and acquiescence to their major political and economic policies for the colony; Filipino elites sought security for their social and economic positions in the indigenous society and a greater share in running the colony. In the exchange, Filipinos succeeded very early in obtaining considerable control over local politics and government. What they gave up in national sovereignty and long-term economic and cultural subordination, they gained in local autonomy and, by 1907, the ability to ensconce themselves in key national-level positions (seats in the national legislative assembly and high bureaucratic offices). By this time they had both consolidated their positions in the colonial government and established political mechanisms and relationships that permitted them in most cases to avoid colonial scrutiny.” (Cullinane 2009: 69)

and the low degrees of profitability. Only after the export economy grew rapidly in the following years did railroads turn out profitable (Corpuz 1997: 236).

Concerning landholding and agrarian property rights, the first step of the PC was the acquisition and resale of the friar estates. After having agreed to pay US\$ 6.9 million for 170,916 hectares (for which the U.S. government issued bonds backed by revenues from the colony), the PC gave occupants and tenants the opportunity to purchase the land. For this, it decided to develop a new land titling system to secure property rights. However, as the PC was not willing to share the administrative costs of that step, average prices for land were too high for tenants to afford. Also, land registration under the new system took a long time and was eventually abolished in 1917 by the Philippine Assembly (cf. Iyer & Maurer 2009).

Furthermore, the U.S. installed the Philippines Homestead Act in 1902 to equally distribute land plots to small farmers, who had to apply for such plots. The ceiling was arranged at 16 hectares which was the equivalent to the restriction on land ownership by foreign corporations. With this policy, the PC intended to assure Filipino elites that U.S. capital would not dominate in the archipelago. Related to the issue of agrarian property was the U.S. tariff policy toward its new colony. For seven years of bargaining in Congress, the PC was lobbying hard for the preferential treatment of Philippine agrarian exports into the U.S. market without which development would have been a futile affair. Resistance came from U.S. cultivators who mobilized fear against competitive Filipino sugar and coconut oil products and from U.S. banks and corporations active in agrarian ventures in Cuba.¹⁸⁴ After several attempts to push through tariff reductions, eventually, in 1909 when Taft was already U.S. President, the Payne-Aldrich Act was implemented according to which quotas were assigned to Filipino export crops (which were altogether lifted in 1913).

Excursus: Perpetuating the 'Moro problem'

Conflicts between new Filipino elites and the colonial regime and the resulting lock-in effect that bound nationalist visions and power constellations extended to another critical issue of the 1900s, i.e. the status of the Muslim territories in Mindanao and Sulu. As the Spanish had to regularly consolidate its official hold over the islands until well into the latest decades of

¹⁸⁴ On the debates in Congress concerning the position of Filipino export agriculture, see Golay (1998: Chap. Four).

the 19th century (Corpuz 2006: 597-598), the U.S. inherited and perpetuated the so-called ‘Moro problem’ in a particular fashion. As in the rest of the archipelago, the new colonial power gained authority through a combination of military campaigns, infrastructural projects to make viable an agricultural export economy (which in Mindanao focused in abaca), relatively unspecified promises of autonomy¹⁸⁵, and, most importantly, divide-and-rule tactics through the cooptation of local Muslim *datus*.

While the first years after the stationing of U.S. troops were marked by relative indifference, tensions increased in Mindanao as they decreased in Luzon and the Visayans, and the erupting armed struggle lasted, *de facto*, until 1913. What made this decade have a lasting impact on future issues of ethno-national and religious identities was the fact that between 1903 and 1913, these regions (officially called the ‘Moro provinces’) did not fall under the authority of the Philippine Commission (and later the Philippine Assembly), but were directly governed by the U.S. army.¹⁸⁶ The military administration represented a “regime-within-a-regime, which operated under different policy assumptions and had the capacity to raise its own revenues” (Abinales 2000: 23-24). Relying on racist representations of the Muslims, the army itself was about to engage in ‘civilizing’ the Moros, which was thought of as a long-lasting project that should not be conducted by the Filipino elites (Abinales 2000: 22). Also, this institutional arrangement was tentatively respected by Muslim *datus* in order to thwart the expansionist goals of the Nacionalistas. The latter confronted it, despite the fact that they shared the same racist opinions of Muslims, and would not retreat from their own “nationalist colonialist” claims (Kramer 2006: 338) according to which the extension of their authority to Mindanao was vital to demonstrate their capacities of self-government. To emphasize that claim, Nacionalistas altered their discourses to embrace the commonalities with the Muslim population and to actively have them represented in the future political process (Abinales 2000: 30-31). Therefore, when the U.S. decided to lift the ‘Special Zones’ regime in 1913, Filipino nationalists had their way and incorporated Muslim *datus* into their patronage channels, turning the latter into powerful agents of transforming the population into ‘Muslim

¹⁸⁵ Such as the Kiram-Bates agreement of 20 August 1899; see Corpuz (2006: 603).

¹⁸⁶ Amoroso (2003) compares this type of governing with the indirect rule of the British in Malay and comes to the conclusion that due to the aims and predominant conceptions of the U.S. of the ‘Moros’, the position of the Sultan of Sulu and the role of local religious governance was rendered insignificant, favoring instead the selective collaboration of Muslim *datus*. Accordingly, Amoroso states that “although political integration with the Philippines did take place, Moros continued to be seen as a religious and cultural minority by Americans, by Filipinos, and by themselves. The long-term result was marginality, dissatisfaction, and ultimately, among many, rejection of the Philippine nation-state. (2003: 143)

Filipinos' (cf. Abinales 2000: Chap. Three) and setting the stage for new forms of contention and identity formations in Mindanao.¹⁸⁷

Structural persistence: oligarchic domination and capitalism, 1909-1965

With new political institutions structuring political competition, the continuing fight against and exclusion of social groups opposing the imperial order and the tight linkage of the Filipino economy to the U.S. market for agricultural exports, the ground was prepared for an oligarchic socio-economic and political framework. This pattern would eventually persist until its breakdown under President Marcos who would effectively grasp new strategies of political and social mobilization to counter the power of agrarian and industrial oligarchs, if only selectively. Until then, however, agrarian elites, especially the so-called sugar barons, and new political entrepreneurs (Quezon, Osmeña) dominated the political arena until World War II and the Japanese occupation of the Philippines. After the war, the political field was highly contested and new leaders fought for the legacy of Quezon.

At the same time, these political power configurations left their imprint on the distributional outlook of the economy. During these years, the continuous undermining of state institutions, the predominance of local power-holders (bosses) and their alliances with national political actors formed the specifically oligarchic nature of Filipino political capitalism. Property rights and free labor were institutionalized, but the impartiality of bureaucratic agencies did not materialize as expected by the U.S. authorities. Even more, through policies of Filipinization, the submission of bureaucratic rationality to the rules of political survival and patronage would only enlarge this dilemma. Because of the superiority of order as a desirable goal, state institutions were easily captured by a burgeoning elite cartel between nationally oriented political entrepreneurs, on the one hand, and local bosses and agrarian elites, on the other hand. Until World War II and the Japanese occupation of the Philippines, this colonial state-agrarian capital pattern persisted as a stable formation, and opposing forces were continually repressed.

¹⁸⁷ According to Abinales (2000), Filipino rule in the Muslim regions relied enormously upon this accommodation of interests between national elites and local strongmen. Only when this delicate balance would be disturbed, as it did under the centralization efforts of President Marcos, would new opportunity spaces emerge to be filled by more radical groups, as the Moro National Liberation Front in the 1970s.

Institutional changes occurred only after full independence was finally granted in 1946. A new generation of politicians entered the field and competed for the potential patronage resources which Commonwealth President Quezon has effectively monopolized. Multi-party politics broadened the scope of factionalism, even more so with the implementation of import substitution policies after 1949. These policies were regarded as a possible solution to the chronic capital shortage problem, which to a great extent resulted from the plunder-like overburdening of the financial system. The new allocative capacities could have endowed the state with infrastructural powers similar to neighboring developmental states. However, under the existing power constellations, the agrarian elites were the primary beneficiaries of state-sponsored industrialization. Rather than creating a new industrial entrepreneurial class with cohesive orientations and policy preferences, the dominant families easily used their political influence to diversify into the manufacturing sector, transforming into a tight group of agrarian-cum-industrial capitalists. Because of the high degree of dependence of political actors for financial resources, the slightly more capable state was still being captured; political and economic power was still located within the same oligarchic families, with several new ones entering these domains.

Still, within these structures laid the roots of their own breakdown and the establishment of the patrimonial-authoritarian regime under President Ferdinand Marcos who broke competitive patronage rules by resorting to new forms of political mobilization of new urban middle classes. Thus, he could legitimately claim to work for the creation of a 'New Society' which would undo the crippling effects of oligarchy.

Filipinization, sugar power and Nacionalista leadership

The political process until the Japanese occupation of the archipelago in 1942 was marked by the aim of the PN to further monopolize patronage capacities and the spoils system. For this, Nacionalistas (with Osmeña as Speaker of the PA and Manuel Quezon as resident commissioner in Washington D.C.) aimed for further filipinizing political and economic affairs while at the same time not giving in to societal demands of economic nationalism. They walked this thin line by continuously making public claims for full independence, lobbying in the U.S. for the continuation of preferential treatment of Filipino exports into the U.S. market, repression anti-colonial social movements and implementing policies to control foreign investments.

The controlled struggle for independence was determined not only by Filipino matters, but mainly by internal U.S. dynamics. After the Filipino elite was somewhat disappointed with the Taft administration due to its strategies to curb the influence of the PA, new opportunities arose with the victory of the Democratic Party and the election of President Woodrow Wilson in 1912. Wilson, though originally a staunch imperialist, publicly announced that the new administration would support Philippine independence “as soon as a stable government can be established” (Wilson, cited in Brands 1992: 104). Although he did not address the matter as proclaimed, the replacement of Governor-General Cameron Forbes with Francis Burt Harrison (which Quezon lobbied hard for in Washington D.C.) created new opportunities to reach that goal. Harrison was willing, from the beginning, to cooperate actively with the *Nacionalista* elites and hand over insular matters to their authority. He started replacing top U.S. officials from key agencies (which Filipinos had been targeting for a while), curtailed their executive powers and supervisory functions, incorporated the Moro provinces fully into the new institutional framework (under the Filipino controlled Department of Mindanao and Sulu), extended the capabilities of the PA in matters of budgetary allocations and, most importantly, gave the *Nacionalistas* free hand in appointments at the local and provincial levels. The impact was enormous: while in 1913, 2623 American citizens held positions in the colonial bureaucracy, with 147 in the higher administration, until 1919 these numbers declined to 758 and 58, respectively. Also, to make work in the Philippines less attractive, U.S. citizens, and members of the U.S. army, were discouraged from entering business enterprises (Golay 1998: 175-76).

Before the Democrats lost power in the 1920 elections, the Jones Act (or, Philippine Autonomy Act) was enacted in 1916 which for the first time stated that the transition to Philippine independence was an official goal of U.S. rule. It also transferred more institutional prerogatives to Philippine politicians. The PC was ultimately abolished, a bicameral legislature installed, and the executive bureaus were to be headed by Filipino citizens. Thus, the Americans finally acknowledged the legitimate claim of the *Nacionalistas*, an act that also bound the following Republican administrations under Presidents Harding, Coolidge and Hoover, despite their intentions to prolong U.S. domination. Eventually, such efforts were in vain after the 1928 stock crash and the resulting economic depression. Ironically, the U.S. Congress then unilaterally decided to release the Philippines from U.S. rule. That step was neither altruistic nor was it lobbied for by Filipinos (although Osmeña and Roxas could claim

it to be the result of their mission). Growing unemployment and social dislocations and popular outrages against the Asian immigration of the last decades had marked the Filipinos as easy targets for protectionists and racial politics against the “third Asiatic invasion of our pacific coasts” (Kramer 2006: 416). Out of these currents emerged the Hare-Hawes-Cutting Act in 1932 that foresaw a ten-year transition period before full independence was to be granted to the Philippine islands, cuts in the Philippine import quotas, and provisions guaranteeing military bases. President Hoover vetoed against the bill, but was overturned.

Although it provided everything Filipino nationalists had been striving for since the beginning of U.S. colonial rule, the bill was taken up with reservations and defeated in Senate. For, at that time, cracks among the Nacionalistas had become all too obvious in Filipino politics. The main cause for this crack was the rivalry between Osmeña, Senator and before long-time Speaker of the Lower House, and Quezon, President of the Senate since the passing of the Jones Law. The relatively harmonious division of labor between the two most prominent politicians began to diminish as Quezon, leader of the PN and more focused on internal U.S. affairs (since his days as resident commissioner), could more effectively mobilize support with and through the ruling party.¹⁸⁸ Osmeña retreated from the PN and, together with Manuel Roxas, openly engaged in leadership struggles in the legislature which he lost, as Quezon tightly controlled the PN even as his health was deteriorating. After Quezon had the bill repealed, he initiated his own independence mission in the U.S. which led to the Tydings-McDuffie Act in 1934 that was unanimously approved in the Philippine legislature. Shortly after, the legislative elections, for which Osmeña and Roxas retreated from the PN and ran under the *Partido Pro-Independencia Nacionalista*, affirmed Quezon’s ultimate victory over Osmeña, with clear majorities in the Lower House and in the Senate and strengthening his claim to become the first President of the Philippine Commonwealth (Abinales & Amoroso 2005: ...).

As President controlling the majority in the temporary unicameral legislature and the PN, Quezon did not hesitate to unfold patrimonial-like patterns of ruling by demobilizing the opposition whenever he had to, claiming to head a “partyless democracy” as many other populist leaders of the 1930 did, disposing of an enormous and uncontested patronage machine that was linked to most levels in the now fully filipinized administration (McCoy

¹⁸⁸ The first friction between the two occurred during the early 1920, when Osmeña founded the *Partido Nacionalista Collectivista* in 1922, only to merge again with Quezon to confront Governor-General Leonard Wood more effectively under the label *Partido Nacionalista Consolidado*.

1988; Brownlee 2007). Quezon *may* have been able to institutionalize a stable patrimonial framework through coopting the next generation of national politicians, had it not been for the outbreak of World War II and the occupation of the Philippines by the Japanese.

How did these political processes translate into the spheres of the Philippine economy? First, the politicization of the bureaucracy as an essential source for spoils and for justifying the claim of self-rule entrenched the rules of patronage within business. In general, this pattern created contexts of high uncertainty for potential economic actors in terms of what to expect from the political class. However, during that early period, such politically-induced uncertainty did not pose that big a problem as it was overcome by the establishment of personal relations and networks and because the political elites emerged directly from urban *ilustrados* and landed elites. In short, political and economic actors shared similar, if not the same, social identities and backgrounds. Second, Filipinization was also prevalent in the economic field and strengthened the organic ties between power and money. With the unrestricted access of Filipino agrarian exports into the U.S. market, agribusiness flourished and grew rapidly. Hence the overwhelming power concentration in the hands of the sugar barons (Larkin 1993; Billig 2003).

In the aftermath of the Payne-Aldrich Act, foreign investors, landed elites, bankers, U.S. Congress and American agrarian cultivators shaped the role of the insular economy and its special relations to the empire. At the time the act passed Congress, Filipino exports into the U.S. were not perceived as exerting any competitive pressures for U.S. farmers, nor was the colony regarded as profitable for U.S. investors as the Cuban sugar industry. Given the low quality of Filipino sugar (which was at that time mainly muscovado, not centrifugal sugar), it was pretty obvious that new investments and technologies were needed. As the preferential treatment was extended in 1913, such transformations would finally take place which made possible the enormous increases of sugar cultivation and exports in the 1920s and 1930s (Larkin 1993).

The main trigger for this push was, besides extending road and railroad networks, the importation of tractors in 1919 and the outbreak of World War I, the establishment of new centrifugal mills, mostly financed with foreign private and Filipino public funds. Before, profit expectations and investment incentives had to be guaranteed through the institutionalization of secure property rights for owners of the new mills concerning their

share of the crop. The ‘fixed milling district’ according to which planters were to be assigned to specified mills with monopsonistic status (Billig 2003: 47). After these institutional and technological solutions, the sugar industry experienced dramatic growth rates.

Nacionalistas and landed elites strove to filipinize these business ventures as well. This was accomplished, first, through the founding of new public banks, and second, through direct political measures to discourage foreign investors from outcompeting local entrepreneurs. The Philippine banking system during the early colonial era was dominated by several British and U.S. financial houses which, due to the division of labor in the agricultural sector at the end of the 19th century, operated in the export business without extending loans to planters and tenants (cf. Hutchcroft 1998: Chap. Three). After a first attempt to establish a publicly-financed bank to allocate investments into cultivation more effectively (Agricultural Bank, 1907) did not have a lasting impact due to problems of tenants’ property rights (cf. Iyer & Maurer 2009) and lack of funds. In 1916, the Philippine National Bank (PNB) replaced the AB as a highly symbolic transmission belt linking politics and business. The issue of financing these new investments became one of utter importance for the self-representation of businessmen and the “great awakening of Filipino capitalists” (Aguilar 1998: 201).

Through these state banks, the colonial authorities for the first time had to fund sugar cultivation directly, which also created new ways of personal enrichment and from time to time overburdened the under-capitalized financial houses. The AB’s biggest loans went to established planters-cum-politicians, e.g. Juan Araneta (Aguilar 1998: 196). In these years, no limitations were implemented to counter excessive loans, a feature that in 1921 led to the insolvency of the PNB. Criticism from independent, American auditors did not have any impact and could not hinder the oligarchic plunder of state resources.

Due to the restriction for foreign land-ownership (that in 1916 were extended to former friar lands) and the outbreak of World War I, foreign, especially U.S. capital was very slow to rush into the country, forcing the colonial state “to assume the role of industrializer in addition to its money-lending function” (Aguilar 1998: 199). Whereas the first new centrals were built by foreign corporations (1914 San Carlos, Negros; Laguna, Luzon), with PNB loans (headed by Venacio Concepcion, an Osmeña client) six bank centrals were created which spurred the growth of the sugar industry. Yet, this policy also resulted in the plunder of the bank, as loans were seldomly repaid and extended without proper risk assessments, rather reflecting the goal

of rapid Filipinization, a policy backed by Governor-General Harrison. In Hutchcroft's terms, "the newly reorganized colonial state was plundered by the national oligarchy it had spawned" (1998: 68).¹⁸⁹ In the aftermath, efforts to prevent similar excesses of graft and corruption failed. The bank was bailed out with public U.S. money until its reopening in 1924, other than Concepcion nobody was jailed, management stayed in the hands of Filipinos (contrary to initial plans to install U.S. managers), and the bank continued to operate along the interests of the national oligarchy.

This pattern remained fairly stable, even after the U.S. restricted Philippine imports in 1934. The only change that would shape future developments was the institutionalized competition for shares between planters and millers through their respective business associations. With quotas fixed and profit expectations secured, neither planters nor millers would invest resources for increasing efficiency or introducing new technologies. They rather focused on political favoritism for outcompeting rivals in the sector. These contradictions were eased to some extent as the milling sector underwent a process of consolidation after the opening of the Manila Stock Exchange in 1927, when planters bought up shares of the mills. At the end of that highly contested process, seven prominent families controlled around two-thirds of all centrals (among others, the Lopezes and Aranetas) who then started diversifying into other industries, especially mining and who extended their grip into private banking (Billig 2003; Hutchcroft 1998).

Dispossession, disempowerment, futile uprisings

While landowning planters for the first time experienced a relative decline in the power hierarchy, the most discontented groups of agrarian expansion under the American empire were tenants and rural laborers who neither profited from plans for land redistribution nor from the opportunities of political contestation in which they only had a say after the Nacionalistas under Quezon had already consolidated their grip over politics and the bureaucracy (Franco 2001: 49-50).

As in other countries and regions where capitalist social relations were institutionalized in the countryside, Filipino peasants had to face processes of dispossession and the erosion of

¹⁸⁹ For a rival explanation referring to the bust phase after the end of World War I, see Ybiernas (2007) and Corpuz (1997: 248-249).

traditional authority relations through which they were linked to their landlords. In the American era, such processes contributed to even worse living conditions than before, when public anger was still directed against the friar orders. Three factors increased their plight. First, the Philippine Homestead Act of 1902 and the resale of friar lands did not cause a more equitable land distribution. Only a slight minority of applications for land titles (which were essential for applying for PNB loans) was accepted, and many of these did not make it through the bureaucratic maze. Instead, influential hacenderos manipulated both public officials and peasants who were forced to hand in dummy applications for them. So, the originally beneficial idea of land redistribution was perverted into yet another instrument of land-grabbing. Being tightly linked to both the PN and local bosses, landlords did not face serious resistance (Iyer & Maurer 2009).

Second, the introduction of mechanized agriculture (tractors, mills) further worsened tenancy agreements (45 to 50 percent of the harvest went to tenants) which could be violated by landlords who had become more autonomous from rural support. Absentee landlordism increased and worsened conditions for peasants who could not count on extra-legal services any longer. Many could not escape the vicious cycle of debt peonage and were evicted from their lands or downgraded to rural workers. Peasants and workers were in dire need of loans for which they continued addressing their landlords many of whom did not feel bound to these claims any longer. Even though these calls for loans and higher shares and wages were not revolutionary, no policy changes were implemented by the government (cf. Kerkvliet 1977: Chap. 54-60).

One answer to these dislocations (besides land flight) was open resistance, and Filipino peasants did resist, especially in the 1930s.¹⁹⁰ Besides the usual repertoires of the “weapons of the weak” (Scott 1976; Kerkvliet 1990)¹⁹¹, peasant organizations were established (e.g. The General Workers’ Union, AMT, and the Philippine National Society of Peasants and

¹⁹⁰ While the rebellions in the *pasyon* tradition in the 1910s and 1920s, especially the Colorum uprising in Mindanao in 1924 and the rebellion of the self-proclaimed emperor Flor de Entrencherado in 1926, could be overlooked and referred to as the acts of fanatics, secular resistance movements successfully hit and uncovered the conservative nationalism of the rulers and forced them to openly acknowledge the socio-economic nature of rural rebellions.

¹⁹¹ “Among other actions, peasants burned crops to protest against landlords who hired strikebreakers, refused to harvest until landlords had agreed to their terms regarding expenses and loans, raided the granaries of landlords to take what they believed belonged to them, held large and colorful parades in provincial capitals to demonstrate for new tenancy laws and government assistance, and defended themselves in court against the landlords’ accusation of stealing or the government’s charges of subversion and being communists.” (Kerkvliet 1977: 37)

Workers, KPMP) to counter landlord power. Revolts both in rural and in urban settings were increasing as socialist and communist parties were expanding their links into the countryside. These new types of political activism and rural resistance movements in the 1930s culminated in the *Sakdalista* uprising in 1935. The *Sakdal* movement of Benigno Ramos had already won seats in the legislature and posts in provincial and municipal offices after the 1934 elections. Open repression by the regime caused the outbreak of armed fights with the constabulary in May 1935 in which the *Sakdalistas* were rapidly defeated (Kerkvliet 1977; Sturtevant 1976; Boudreau 2004). While they might have had an impact due to the extension of suffrage for the Commonwealth elections, Manuel Quezon got rid of yet another possible danger to his position. Although he publicly committed himself to improve rural conditions through his “Social Justice Program”, his own economic interests (as owner of several haciendas and estates) and his patronage to landlords and their associations (Kerkvliet 1977: 55) prevented him from policy changes. Where these contentions may have led to is impossible to say¹⁹², as World War II and the Japanese invasion posed new dangers, both for the oligarchs and for the rural population.

Enter and exit the Japanese

At the outbreak of World War II in Europe, most Filipinos assumed they would be spared by the ravages of war. Although the Japanese invasion in China, Formosa and Korea stirred unrest among the ethnic Chinese population, only few would have expected a Japanese attack and the possible retreat of U.S. troops. However, within hours of the attacks on Pearl Harbor on December 8, 1941, the Japanese destroyed U.S. bombers and shortly after landed in the Philippines. After a few weeks of fighting, the U.S. gave up its colony in January 1942. While Quezon and other members of the Commonwealth government went into exile in the U.S., in 1943, the Japanese with the cooperation of most Filipino elites installed the Second Republic under President Jose Laurel in January 1943 (Abinales & Amoroso 2005: 160).

Until the ultimate defeat of Japan in 1945, Filipino politicians followed a rather pragmatic approach between open collaboration and passive cooperation (Satoshi 1999). While one

¹⁹² “After at least a decade of public discontent, the results for the peasantry in Central Luzon were inconclusive. Peasants had made some gains, but overall they were no better off than before. IN terms of gains, more tenants by 1940 than in 1930 got 50 and 55 percent of the palay harvests. They also had laws on the books that theoretically required landlords to give loans at reasonable interest rates. They also knew more about using the courts and government agencies. And peasants had become more organized and stronger as a class than they had even been before.” (Kerkvliet 1977: 59)

group of actors tried to soften the impact of Japanese military rule on the population (Laurel, Roxas, Sison, Recto), another group used Japanese Pan-Asian slogans to fulfill the unfinished Filipino revolution in their own way. Very prominent were old-time Katipuneros like Artemio Ricarte and former Sakdal leader Benigno Ramos. Although their strategies for independence seemed legitimate in light of their suppression under U.S. and *Nacionalista* rule (Motoe 1999), the brutal nature of Japanese colonization and the fact that independence would have been granted in 1946 anyway rendered their claims less capable to mobilize support.

Shocked by the brutality of the Japanese army and the arbitrariness of their oppressive tactics, resistance groups emerged across the archipelago. While many of these worked together with the USAFFE (United States Armed Forces in the Far East), the most effective and socially embedded organization was the *Hukbalahap*. Personally and ideologically linked to the PKP and peasant organizations of the 1930s, these fighters organized guerilla warfare operations against the Japanese and executed police and judicial functions in liberated areas (Kerkvliet 1977). With its membership having risen to about 10,000, it became increasingly effective against the short-lived colonial regime. With the tides turning against the Japanese and their retreat, the U.S. army realized that the *Hukbalahap* was a legitimate and powerful force to reckon with. Yet, resistance fighters were disenchanted by the outcome of the combined victory, as the U.S. refused to cooperate with them and instead invested its strengths to rebuild the Republic together with collaborating elites who later had to face their most dangerous “crisis of authority” (Hedman 2006), the Huk rebellion.

Postwar politics

Despite the similarity of the political institutional framework of the new independent Philippine Republic in 1946 and the continuity of political personnel (as almost none of the collaborators with Japan were charged), new structural features shaped the rules of patronage and business. First, the hegemonial status of the PN disintegrated in the course of World War II and the Liberal Party (LP), although not distinguishable from the PN concerning socio-economic background and policy orientation, emerged as a rival political machine. Second, the Huk rebellion in the late 1940s was a major social force as it had gained had gained countrywide social control during the war and was capable to lead, at least in Luzon, a near civil war as it was barred from the political stage in 1946. Third, and most important, in 1949 the regime would for the first time enact policy changes toward import substitution

industrialization that strengthened the potential autonomy of the state. However, these instruments merely served to centralize patronage resources in the hands of the President who could arbitrarily direct resources to economic actors. No push towards decoupling politics and business occurred. In this context, the consolidation of factionalism and oligarchic power came to its height which in the 1960s was to be overcome by the Marcos family in midst of growing social mobilization beyond the institutional framework.

After the decisive steps for institutional and economic reconstruction were passed in 1946, the political game resumed where it had been interrupted by the war. However, Roxas' candidacy under the new Liberal Party (LP) label and his victory over Osmeña (with the financial support of General McArthur) signaled one important shift, the transition to multi-party politics, the further decentralization of political power structures; in short, the end of quasi-patrimonial rule. It turned out, though, that the extension of political contestation did not lead to the realization of democratic practices and public accountability. Both the PN and the LP remained mere patronage machines and were not distinguishable in terms of ideology and social background (Landé 1964; Franco 2001; Thompson 1995). Turncoatism was a standard practice depending on personal rivalries, and elections became a highly expensive way of guaranteeing control, as patronage allocation, not ideological disputes, decided over victory or failure. Accordingly, the elections of 1949, in which Quirino (who assumed office after Roxas' fatal heart attack in 1948) rigged the electoral outcome, as of 1957, with Carlos Garcia maintaining the presidency, almost brought the country to the verge of bankruptcy. Furthermore, there were no mechanisms guaranteeing that candidates even tried to make the outcome look like a clean affair. So, while pre-war elections were similarly certain in outcome because of the patronage hegemony of the PN, the heightened and fierce competition after the war opened political institutions for newcomers as financial contributions were essential resources, no matter from whom. Factionalism was blossoming, even if it financially overburdened the treasury.¹⁹³

Oligarchic domination faced resistance. The first and most dangerous challenge to it was the Huk rebellion. As Huk fighters were not accepted as a legitimate resistance group and were disarmed by the Americans after the war, most of them returned to till their fields. But new struggles with returning landlords erupted over basically the same issues as before. Their

¹⁹³ See Kang (2002: 127) and Thompson (1995: 35) for the direct link between years of elections and the overburdening of the budget. See also Sidel (1999: 64-65, 89) for the link between national contestation and local boss structures in Cavite and Cebu, respectively.

efforts to enact changes within the institutional framework were thwarted as elected representatives of the Democratic Alliance were blocked from attending the inauguration of the new Congress. Full-fledged rural rebellions erupted across Central Luzon that lasted until the early 1950s (and officially ended with Luis Taruc's surrender in 1954). Filipino elites and U.S. officials were astonished, especially after the Communist victory over General Kai-Shek's troops in mainland China, by the legitimacy the Huks enjoyed and their capacity to exert de-facto rule in several areas. At the end, with both new military and financial support by the U.S. and social counterinsurgency measures (promises for amnesty, new loan facilities, resettlement programs), Secretary of National Defense Ramon Magsaysay broke the power of the Huks and in 1953 ran for President after defecting from the Liberals to the PN. Relying on the business class, the Catholic Church and Veteran organizations, moral appeals against the obviously corrupt Quirino administration and classical spoils allocation, Magsaysay won overwhelmingly and achieved to re-establish oligarchic predominance (cf. Hedman 2006: Chap. Three).

Even so, the Magsaysay's death by a plane crash in 1957 quickly restored normal politics as a game of factionalism and patronage, void of ideological polarization and charismatic figures. Only with the rise of President Marcos in 1965 would a challenge from above disrupt oligarchic power and claim the creation of a "New Society".

Industrialization, banking and the expanding oligarchy

The second shift in the post-colonial era occurred in the economic realm. With the deepening of economic dependency on the U.S. market with the acceptance of the Bell Trade Act in 1946, import levels stood at a peak, mainly because of war-related destructions and the return of elite consumerism. Balance of payments problems turned into an outright financial crisis given the vast expenditures related to Quirino's rigging the 1949 elections. The solution to these structurally low capital shortages was the introduction of import controls in 1949, which in the course of the 1950s materialized as concrete instruments for import-substituting and state-promoted industrialization, with the backing from the U.S. and the international financial institutions (Maxfield & Nolt 1990). These measures greatly changed the picture of the Philippine economic structure and accelerated social change processes. Given the entrenchment of agrarian oligarchs in politics and business and the dependence of political actors on financial resources to survive in the political cutthroat-like competition, the

predominant families used these channels to diversify into manufacturing sectors, rendering the state's new infrastructural powers ineffective in shielding key agencies from political and financial influence (Rivera 1994).

The various instruments for import substitution (import controls, foreign exchange allocations, import tariffs, tax exemptions, currency appreciation, state bank loans) were centralized under the newly established Central Bank (under Governor Miguel Cuaderno) which was formally autonomous from the Secretary of Finance and therefore shielded from political processes in terms of policy orientation (Hutchcroft 1998: 72). During the 1950s, the structure of the economy underwent enormous changes. Growth rates of manufacturing were around 10% annually, and the share of manufacturing relative to the country's GDP rose to 18 percent in 1960, while agriculture declined from 38 to 31 percent, respectively. Until 1970, 11 percent of the national workforce was employed in new industrial facilities (6.6 in 1948), in absolute terms a rise from 151,000 to 500,000 (Doronila 1992).

The pivotal instrument of state industrialization was the import license regime which made possible windfall profits for those who acquired them for importing raw materials and capital goods to produce for a protected market. Due to the crucial nature of import licenses, the Central Bank could not withstand the rules of patronage around it. Despite its formally instituted autonomy and Cuaderno's success to uphold his conservative monetary policy against opponents, in operational terms, the Central Bank could not be shielded at all. Licenses, through which entrepreneurs were granted foreign exchange and preferential loans by the PNB, turned into an asset fiercely-competed for by entrepreneurs and were "an effective means of rewarding campaign supporters and assisting political favorites." (Hutchcroft 1998: 73) Also, increased state capacities in the economy allowed rulers, again, to engage in Filipinization efforts in midst of debates over the role of national identities, U.S. military bases and economic nationalism. Through a series of laws, e.g. the General Banking Act of 1948 (which made mandatory 60 percent of Filipino ownership in new businesses, extended in 1957 to 100 percent), the Retail Trade Nationalization Act of 1954, which was directed against the ethnic Chinese and forced them to leave these business areas, and the so-

called 'Filipino First' policy according to which Filipino enterprises were to be favored in license and foreign exchange allocation, the entrance of FDI was, again, restricted.¹⁹⁴

However, after the first half of the 1950s, the easy phase of import substitution based on creating a national consumer goods industry was nearing its end. Decreasing growth rates and continuing urban unemployment (due to low levels of labor absorption in the capital-intensive industries) reflected the biggest issues of import substitution, i.e. the unbroken dependence on imported materials and its proneness to balance-of-payments problems. The negotiations with the U.S. and the IMF initiated the end of the import control era in 1962. The peso was devalued, and from then on, a mix of import restriction (through the tariff structure only) and export promotion was in place. These contradictory policy sets are better understood if we take a look at who was actually involved in these new manufacturing and banking ventures.

In essence, the Philippine case of import substitution created new opportunities for enrichment, most importantly for the existing agrarian oligarchy which followed a strategy of rapid diversification. Temario Rivera (1994) highlights the high degrees of continuity in this process. For, those families that had been dominant in the pre-World War II era in sugar planting and milling were successful in capturing many import licenses and foreign exchange allocation. For 1953, Rivera identifies those dominant manufacturing families that directly came from the sugar bloc (Aboitiz, Araneta, Ayala, Cojuangco, De Leon, Elizalde, Escaler, Jalanduni, Locsin, Lopez, Luzuriaga, Montelibano, Montinola, Soriano, Yulo, and Zobel)¹⁹⁵. Massive corruption was involved in the competition for state resources which were easily translated into political business assets and into oligopolistic market structures. And, as landowning elites saw the tide turning against agrarian exports, they followed a double-faced strategy of ongoing opposition against the import control regime (which was unsuccessful at the time of Cuaderno's governorship due to his backing from the U.S.) and of entrenchment in the rising industry to bridge the discontinuity of policy choices.

During the 1960s, the lifting of import controls, which was tied to a 300 million dollar loan by the IMF, furthered the diversification drive of landed elites. In search for new profitable ventures, one of which was the revitalization of the export business, they found in the private

¹⁹⁴ U.S. entrepreneurs were not targeted, given the parity amendment of the Bell Trade Act, and found business ventures in the protected market highly profitable. However, their concerns grew over the potential extension of those provisions.

¹⁹⁵ Dante Simbulan comes to a similar result, concluding that only 12 percent of these main economic elites in 1963 did not have social backgrounds in commercial agriculture.

financial sector an effective source for outcompeting rivals. The replacement of Cuaderno by Andres Castillo as Central Bank president (1961-1967) initiated the 'bank rush' during which, within four years, the number of private-owned banks rose from 13 to 33 (Hutchcroft 1998: 81). Agrarian-cum-industrial oligarchs tapped, and basically looted, new financial resources of the state, through government deposits, rediscounting by the Central Bank and preferential access to subsidized foreign exchange in a context of fairly low minimum capital requirements. These resources were then redirected within the diversified family business groups and, of course, back into the election campaigns of political actors. The ballooning of debt positions put heavy burdens on the financial sector as a whole, so that individual bank failures (e.g. Republic Bank in 1964, Overseas Bank of Manila in 1968) affected the trustworthiness and vulnerability of the whole system. For, as Hutchcroft highlights for these two banks, the value of political connections determined which banks were to be rescued by bailouts and which ones would not, or, would rather be used as new patronage source (Hutchcroft 1998: 90-102).

Due to the decentralized nature of political power structures, entering the politicized manufacturing sector was not limited to the established agrarian oligarchs. On the one hand, non-landed elites with backgrounds in banking, business administration or engineering found their way into the incentive regime. On the other hand, ethnic Chinese capitalists who were forced to abandon trading activities could also establish themselves, mostly in the tobacco, textiles and rubber sectors. Even though their political position as a whole remained highly uncertain given the renewed mobilization of Filipino nationalism, many contemporary *taipans* (e.g. John Gokongwei) can trace their roots back to this shift in business activities. All in all, Filipino-style industrialization was marked by fairly open avenues for oligarchic plunder and self-enrichment through combining economic with political entrepreneurship in midst of fluid and highly-contested political battles for spoils and personal favors.

In light of these developments, one important question arises concerning the degree of the post-colonial state's autonomy and its infrastructural powers. On the one hand, it could be argued, as proposed by Doronila (1992), that the new financial capacities of state institutions as the Central Bank since 1949 increased the state's outreach into the socio-economic sphere compared to the pre-ISI era. On the other hand, in line with Rivera's analysis (1994), the agrarian oligarch's outreach into the manufacturing and banking sectors prevented such a systemic shift to really take place. Ironically, both views seem to be correct if we take into

consideration not only factors of state power, but also the prevalent oligarchic regime dynamics and the ways state powers are effectively used, and by whom. During this state of the Filipino capitalist trajectory, public institutions, no matter whether they could deliver more than before, were tightly linked to the political rules of patronage and spoils. They were not detached from politics through the rise of a distinct political class that could have relied on the state in a different way than the agrarian oligarchs had done before. Thus, we have the interesting case of indeed increasing infrastructural powers, but of unaltered low degrees of state autonomy, as political and economic actors rapidly adapted to the pork barrel system under multi-party politics.

The economic order that had structurally persisted during these decades was an oligarchic capitalist order in which capitalists are organically linked to the political regime without which they cannot make, or safeguard, their profits. Their practices of political business undermine institutional trust. With no bureaucratic agencies to operate impartially and to provide for effective public goods, both political actors and entrepreneurs have to be engaged in this politicized game. However, due to the high degrees of social and political exclusion associated with this order, oligarchic capitalism can only remain stable if outsiders are continually barred from disrupting the predominant mechanisms of creating wealth through the state apparatus. Herein lies the dynamic element, for it is possible for the regime not to be able to contain these socially discontented classes as new types of political mobilization emerge. While the regime was effective in breaking the Huk rebellion in the 1950s, another type of reactive moment laid in the rise of Marcos who for the first time disrupted oligarchic domination and established an authoritarian regime.

Reactive Sequence – oligarchic decay and Marcos’ temporary patrimonial regime

In the aftermath of Ferdinand Marcos’ election to President in 1965, the Filipino oligarchy underwent substantive transformations, both in politics and the economy. Faced with the predominance of traditional families in Congress, on the one hand, and mounting social pressures for change, Communist and Mindanao separatists, on the other hand, Marcos successfully resorted to new forms of mobilization and patronage that disrupted the institutional setting. With his new prerogatives as authoritarian ruler after 1972, Marcos relied on the Church, the military, technocrats and new middle classes to whom he promised an end of the decaying features of the country’s backward-oriented oligarchy. By abolishing political

competition, Marcos could indeed vest more powers into the state apparatus to an extent unseen in Filipino history.

However, such new capacities did not overcome the lack of institutional trust. Marcos, and his wife Imelda, continued to rely on the principles of political business and patrimonial plunder. In spite of the fact that they brought order and certainty into the political arena, their strategies of monopolizing patronage resources in a highly arbitrary manner simultaneously undermined this certainty. Through divide-and-rule tactics, he punished rivaling families, promoted established and created new family riches. Eventually, as it turned out, these monopolization efforts were only of short duration. The backlash of the oligarchy came sooner than expected. As political mobilization strategies were failing, splits within and defection from his support base grew. Straining both the patience of internal and external supports with the assassination of Benigno “Ninoy” Aquino, Jr. in 1983 and his attempts to rig the 1986 snap elections, this short-term patrimonial regime came to an end and paved the way for the reconstruction of oligarchic politics.

Breakdown of oligarchy

Marcos’ first presidential election victory displayed the usual features of Philippine political contestation. Formerly being member of the incumbent LP, Marcos defected to run for presidency under the *Nacionalista* banner to render his commitment to change more credible and to distance himself from the widely-perceived corruption of the Garcia (1957-61) and Macapagal (1961-1965) years. His successful re-election, though, indicated that something bigger was going on in the political process. Winning clearly against Sergio Osmeña Jr. and gaining overwhelming majorities in Congress, Marcos seems to have been among the first Filipino politicians to realize those changing opportunities.

The broader range of political opportunities emerged due to the social and ideological transformations after almost twenty years of import substituting industrialization. Theoretically, the executive disposed of selective allocation capacities to counter established political families. Also, the President enjoyed relatively higher degrees of autonomy from business actors given the emerging rivalries between different factions of capital (industrial vs. agrarian) and the decreasing cohesiveness of the sugar bloc, even though the

diversification patterns eased those tensions to a certain extent and safeguarded the families against new political intrusions.¹⁹⁶

What explains the lower importance of traditional agrarian elites? As the sugar industry was in shambles after World War II, a whole series of new centrals was built which at that time was mainly financed by foreign capital and which were more geographically dispersed (Hawes 1987: 93). Most important, however, higher degrees of urbanization transferred the essential sources for political survival, i.e. votes, into the cities, marking a process that called for new types of patronage allocation. Before, rural local bosses tied to the landowning elites, through force and favors, operated effectively for the respective party machine. Now, political parties had to focus on the urban social landscape. Doing this, new spaces for societal and political mobilization emerged because of the persistent high degrees of social inequality, urban unemployment and middle-class disappointment with the unbroken corrupt practices of officials and politicians. A process of radicalization began, with new political groups on the stage who radically tried to alter the political rules of the game.

In these urban milieus, especially in Manila, parallel to leftist movements around the world, the main groups opting for radical change were students (Nationalist Youth), middle-class intellectuals, former Huks, Social Democrats and members of the PKP. Opposing the quasi-feudal nature of Filipino capitalism and the neo-colonial state of the country (as one of the most important regional supporters of the U.S. Vietnam war), they partly acted in continuity to earlier protest movements. They uncovered the long-lasting legitimacy gaps of the national elites and openly broke with the reformist path of the PKP and other parties working through the institutional framework. Thus, in 1969, José Maria Sison split from the PKP and founded the Communist Party of the Philippines (CPP), which adhered to Maoist tactics and established its own military wing (New People's Army, NPA) to stir rural rebellion which has lasted until today (Kessler 1989; Weekley 2001; Quimpo 2008).

Still, similar claims were also made by Marcos himself who tried to distinguish himself from traditional forms of oligarchic plunder and decay. In line with the political philosophy of the Katipunero revolutionary Apolinario Mabini (Steinberg 2000: 122), Marcos articulated the

¹⁹⁶ "There is one other reason for diversification [...]: in an economy in which wealth depends to such a large degree on access to the state machinery, diversification helps to guard against the uncertainties of change in political leadership. A family cannot depend exclusively on investments assisted by *current* friends in the Palace, for example, because in the *next* administration those investments may be jeopardized by a lack of necessary connections in key government offices." (Hutchcroft 1991: 427; emphasis in original)

necessity of a strong and cohesive state through which to counter agrarian oligarchs and to promote industrial development autonomously from neo-imperialist capital. For the time being, Marcos had nothing to fear from the new CPP-NPA group because it was organizationally undermanned and had only few linkages to urban working classes and professionals (Weekley 2001). But, beginning in 1970, shortly after his re-election and inauguration in which he “outgunned, outgained, and outgolded” his rivals, radical student groups intensified their anti-Marcos demonstrations in Manila. Marcos turned to open repression in what was called the First Quarter Storm, for which Marcos blamed trapos cooperating with the CPP-NPA (Thompson 1995: 40).

Early afterwards, activities spread to urban labor groups as well, mostly due to the increasing inflationary pressures, which resulted from an IMF agreement for further devaluating the peso after new balance-of-payment problems. Strikes were increasing in numbers in these years, but even these protests could be contained by the regime. The ultimate justification for the suspension of civil rights (e.g. the habeas corpus writ in 1971) and the declaration of martial law arose from the wave of terrorist bomb attacks in 1971 and 1972. On August 21, 1971, a bomb attack on a LP rally for the midterm senatorial and municipal elections left 9 people dead and close to 100 wounded (Thompson 1995: 44). With no sufficient proof, LP members, student activists and media companies belonging to traditional politicians openly held Marcos responsible for the attack. LP victories in the elections, ongoing urban terror, the intensification of the insurgency in Mindanao by the recently-formed Moro National Liberation Front (MNLF)¹⁹⁷, and the failure of the president to alter the constitution (through the Constitutional Convention in 1971) that would have allowed him to run for a third term under a parliamentary regime, served as background factors for the declaration of martial law in 1972. The final trigger for this step was the staged assassination attempt on Secretary of Defense, Juan Ponce Enrile (Thompson 1995: 46).

Thus, the oligarchic regime eventually broke down, not by, as many elite members has feared, communist uprisings, but by a president riding on the fears of anarchic breakdown and unwilling to abide to the rules of political turnover. Why do we refer to this process as reactive sequence? We do so because oligarchic power had to face severe legitimacy gaps which were interpreted both by anti-systemic movements and by Marcos as problems inherent

¹⁹⁷ Here, too, Marcos’ repressive tactics themselves radicalized the conflict, especially after the Jabidah massacre in 1968; see Abinales (2000: 166).

to the concept of ‘oligarchy’.¹⁹⁸ There is an internal dynamism in oligarchies power constellations that arise from high degrees of political and economic power concentration *and* high degrees of social inequality and political exclusion. On the one hand, rulers are thus tempted to extend their capacities vis-à-vis traditional politicians through mobilizing the discontented. On the other hand, elite actors favor an authoritarian ruler guaranteeing their elite status to a deepening of political liberalization. Urbanization and political radicalization provided such opportunities.

Authoritarian powers, patrimonial capitalism

One other important mechanism through which Marcos effected political centralization was his own use of patronage channels. In the highly competitive post-war regime, pork barrel was allocated to representatives and through them trickled down to their constituencies for projects in rural development, public infrastructure, schools, hospitals and housing.¹⁹⁹ Marcos re-election was accompanied by excessive patronage measures relative to the usual amount of public resources spent. The 1969 elections thus turned into the most expansive election campaign in Filipino history, amounting to 250 million dollars which contributed (as did Quirino’s victory in 1949) to the IMF agreement which forced him to devalue the peso.

Also, Marcos began politicizing the Armed Forces of the Philippines (AFP). He enlarged the AFP to fight the NPA and the MNLF through increasing their budget (1972: 880 million pesos, 1976: 4 billion pesos) and growing military aid from the U.S. (rising from 18 million to

¹⁹⁸ “Masking his power grab in the language of reform, Marcos claimed that he declared martial law to save Philippine society from the extreme left and extreme right elements he portrayed to be threatening the political order. He declared himself to be leading a ‘democratic revolution’ where the political center would meet the threats from the left and the right. He promised to establish a ‘New Society’. The ‘democratic revolution’ of the ‘New Society’ would also consist in breaking the privileges of the traditional oligarchy and would initiate what he termed to be the ‘democratization of wealth.’” (Manapat 1991: 84)

¹⁹⁹ Also, as national leaders before and after him, Marcos relied on brute force, on the one hand, and on targeting regional power brokers, bosses, who supported his rivals. One prominent example of the implications of political centralization on the provincial level was the downfall of Justiniano Montano, Sr., who has ‘ruled’ the Cavite region since the 1930s, being engaged in landholding and commercial agriculture, real estate, smuggling, money-laundering and, principally, providing votes. Because of Montano’s support for Macapagal in 1965, Marcos did not hesitate to undermine his position and support the rival Cavite faction. Sidel depicts this strategy in the following manner: “Constabulary campaigns against smuggling, Commission on Elections crackdowns on election anomalies, and congressional intrigues to undermine Montano’s influence and resources considerably weakened Montano’s hold on Cavite. In 1966, for example, Marcos’s allies in the House of Representatives launched an exposé on smuggling in Cavite, naming Lino Bocalan and the Montanos as the leaders of a major syndicate in the province. A carrot-and-stick courtship of Bocalan proceeded, with Malacañang first threatening, then rewarding, the notorious smuggling lord through court cases and disruption of his operations. Thus Marcos demonstrated to Bocalan that business as usual required direct relations with Malacañang, rendering Montano’s protection and brokerage services redundant.” (1999: 69)

43 million dollars between 1970 and 1975) and increased its prerogatives through transferring police forces under its authority.²⁰⁰ He more actively engaged in questions of recruitment and promotion as he appointed his relatives and friends to important positions, especially his cousin and former bodyguard, Fabian Ver, to the position of chief of staff. Also, he granted his clients economic powers through the redistribution of confiscated assets. Through these measures, “the armed forces were no longer the servant of the state under martial law, but the bastion of a particular regime. Backed by his generals, Marcos wiped out warlord armies, closed Congress, and confiscated corporations. The president included the military in every aspect of authoritarian rule – censorship, repression, and governance. Officers became corporate managers, civil servants, local officials, and judges.” (McCoy 1999: 192)

Marcos, together with his wife Imelda, reproduced his hold on power by further demobilizing the opposition which during the 1970s consisted of traditional politicians, armed insurgents and the radicalized left. For a while, though, his rule was secure. After a first major wave of repression, media censorship and the installation of a new façade parliament, the presidential couple coopted elite segments through promotions in the vastly expanding bureaucracy. Further, broad parts of the population adopted a wait-and-see approach, as they were exhausted by the deadlock between President and Congress, the unstoppable corruption and open clashes between students and police forces. The new middle classes and professional felt particularly relieved as Marcos claimed to professionalize public service. Technocratic governance seemed to tackle the ravages of factionalism and the old cacique order.²⁰¹

The responses of former elite members and social groups varied profoundly during the following years. Traditional politicians had basically been crushed by the dismantling of political institutions which functioned as their sole avenues for power and patronage. Powerful factions were weakened from above through selective arrests and prosecutions (e.g. Benigno Aquino Jr., Senators Ramon Mitra and Francisco Rodrigo). The toughest treatment,

²⁰⁰ Beyond these reorganization measures, Marcos also promoted paramilitary troops, especially in Mindanao; see Kessler (1989: 120). In whole, Kessler concludes that “Marcos played to the military’s inherent factional weakness under the guise of strengthening it. The periodic claims of reform, reorganization, and personnel reassignments were meant not to improve the military but to lessen American pressure for change and to enhance his control of the military. Marcos feared that a strong, professional military might ultimately overthrow him, and at times he even promoted the idea that the military might take over in order to discourage opponents. Ironically, he was right.” (1989: 122)

²⁰¹ “Technocratic influence increased under Marcos, in part as a result of technocrats’ links with international financial institutions. [...] The technocrats, however, remained highly dependent on Marcos, and his political concerns limited the extent to which he delegated policymaking authority. In the end, the technocrats served Marcos by helping to hoodwink international lenders.” (Bowie & Unger 1997: 118).

though, was felt by the Lopez family.²⁰² Fernando Lopez, Vice-President and close ally of Marcos, and his brother Eugenio, had to watch how they were stripped of their corporations, assets and media networks, as Marcos was holding Eugenio Lopez Jr. as ransom. In light of these harsh treatments that symbolized the will and the capacity of the ruler to break with the past, many *trapos* chose to give up resistance and entered the *Kilusang Bagong Lipunan* (New Society movement, KBL), the quasi-ruling party Marcos had established in 1978, in order to get at least some access to patronage resources and financial benefits.²⁰³ With patronage channels secure, the support of the AFP, the Catholic Church, and traditional politicians, the first national elections under martial law in 1978 prevented the opposition forces, who were still highly visible in political discourses, even from exile or from jail (Aquino, Tanada, Diokno, among others), from uniting, split over the question whether their participation in the elections would legitimize the Marcoses, who would have rigged the elections anyway (cf. Thompson 1995: Chap. Four).

These political transformations had direct implications for the Philippine economy which rapidly developed into a patrimonial order. Marcos adopted measures of rent allocation, predation and favoritism on a purely personal basis, which he could only accomplish given his aloofness from political competition. Despite his new state capacities, the Marcos regime degenerated into yet another Third World symbol of kleptocracy. The arbitrariness involved in his dealing with businessmen created a context in which even wealthy entrepreneurs and families could not count on the efficacy of their own personal networks and thereby extended high degrees of uncertainty towards those that had hitherto been able to protect their ventures. The sole source of capital accumulation, of creating and destroying wealth laid in the hands of the presidential family. Two facets of economic processes will be dealt with here; first, the macroeconomic and institutional changes towards export-oriented industrialization (EOI), and second, the concrete mechanisms of centralized corruption.

The tentative shift from import substitution to EOI, which occurred in most late developing countries at that time, was the consequence of ideological transformations within the international financial institutions (IFIs) and in western donor countries, the breakdown of the Bretton Woods international monetary regime and the first oil price revolution of 1973/74 which put enormous pressures on import-dependent developing countries. These institutional

²⁰² For a detailed account of the rise of the Lopez family, see McCoy (1993).

²⁰³ On the role of ruling parties in authoritarian contexts and the difference between the Philippine and the Malaysian experience, see Brownlee (2007, 2008).

changes began with the devaluation of the peso in 1970, the same year that the Export Incentive Act was passed that foresaw FDI promotion measures mainly through subsidizing export manufacturers (tax rebates, tariff exemptions). Industrial relations were altered, disfavoring the working classes. Wage reductions, a ban on strikes, the founding of compulsory trade unions and constraints on independent ones²⁰⁴, countrywide exceptions to applying the minimum wage as well as open repression under the martial law provisions systematically undermined the bargaining powers of labor.²⁰⁵ And, the main channels to attract FDI were the Export Processing Zones, the first of which was established in 1972 in Bataan. Firms investing in these zones, which had almost no backward linkages to local economies and therefore cannot be regarded as competing with local manufacturing capitalists, were granted favorable tax exemptions, foreign exchange allocation for imports without having to face any restrictions concerning repatriation or labor standards (Bello, Kinley & Ellinson 1982).

Yet, steps toward agrarian and manufacture export promotion did not solve the biggest problem of the Philippines, which was the deteriorating foreign debt which increased from 20 to 26 billion dollars between 1981 and 1986 (Bello 1999). Therefore, to secure access to international capital markets, in 1980, the Philippines was one of the first countries worldwide (among others, Turkey) which experienced stricter conditionality criteria by the IFIs through Structural Adjustment Programs (SAPs) and Structural Adjustment Loans (SALs). From then on, the country was forced to institutionalize its reform measures by actively enacting import liberalization through tariff reductions and the lifting of import restrictions (Bowie & Unger 1997: 116).

The reform wave of the early 1980s led to serious problems of manufacturers who had until then only produced for the protected national market. Yet, the costs were mainly born by small and medium capitalists who did not have extensive ties to the political center which was, again, a critical resource to acquire export incentives and to arrange joint ventures with foreign partners, mainly MNCs. So, while local manufacturers, rural and urban workers felt these transformative pressures that ruined many of them (and pushing impoverished workers into the ranks of the NPA), big manufacturers profited disproportionately, as did agrarian

²⁰⁴ 5640 of 7000 registered trade unions were formally not acknowledged; see Bello, Kinley & Ellinson (1982: 142).

²⁰⁵ Also, in the 1970s, Marcos actively promoted exporting labor through the Overseas Employment Development Board (OEDB) to profit from the oil price revolutions via remittances and decreasing unemployment (Tyner 2009: 53).

exporters, except for the sugar industry which experienced a drastic decline in importance and political influence.

After the reconstruction of the sugar industry and the expansion of milling capacities until the 1970s, the sugar bloc's influence reached its peak in 1973 and 1974 (gaining 766 million dollars in export revenues). Its decline was rapid and long-lasting, though. In 1974, the expiration of the Laurel-Langley Act and the non-extension of the Sugar Act by U.S. Congress ended the preferential treatment for Filipino sugar in the U.S. market and for the first time forced it to compete on the international commodity markets, causing export revenues to decline to 200 million dollars within the next years. The biggest hit to the sugar barons, though, came from Marcos' reorganization measures of the industry. Via several presidential decrees, the Philippine Exchange Commission (PHILEX) was granted monopoly control over sugar trading and exporting (by unilaterally setting the price at which it bought sugar from planters and millers). And, in 1977, PHILEX was transferred from the PNB to the newly-created Philippine Sugar Commission (PHILSUCOM) headed by Roberto Benedicto. So, through fiat, Marcos monopolized the central domain of the former landed elites and transferred the sector's surplus into the hands of his long-term friend and close ally who began "milking the sugar industry at each opportunity" (Manapat 1991: 106). Benedicto belonged to the inner circle of Marcos's new cronies, he was appointed to head the PNB from 1966 to 1970, was ambassador in Japan (1972 to 1977) where he used his influence to arrange deals for himself and for Marcos. Benedicto rapidly diversified into banking (acquiring the Republic Planters Bank from the Ayala group), shipping, the media industry, proving to Imelda Marcos that he was indeed "smarter than others" (Manapat 1991; cf. Hawes 1987: Chap. Three).

In the coconut oil industry, Marcos applied similar tactics. Contrary to the declining sugar sector, the coconut industry had been on the rise and developed into the main export cash crop until the 1970s, which was due to more favorable world market prices. Starting in 1974, through a wave of laws and decrees, the administration enforced a coconut levy which was administered by COCOFED, an association of coconut farmers and landowners to promote the development of the industry. The levy, however, estimated between 475 million and 575 million dollars between 1974 and 1982, landed in the hands of the Secretary of Defense, Juan Ponce Enrile, and Eduardo 'Danding' Cojuangco. The increase of the levy and the sale of the United Coconut Planters Bank (UCPB) to the Coconut Consumers Stabilization Fund gave

these two cronies enormous powers over the sector. They bought up milling capacities (close to 80% of the sector) and outmaneuvered traditional politicians, for example, by forcing the Ayala Group to sell its coconut corporations *Legaspi Oil* and *Cagayan de Oro Oil* to the UCPB (cf. Manapat 1991; Hawes 1987: Chap. Two; Aquino 1987: 39-43).

So, with the helping hand of the president, whole industries were transformed into de-facto monopolies and used for private gain and self-enrichment in return for being part of Marcos' social support base. Examples of centralized cronyism are abundant, as figures, among many others, like Enrile²⁰⁶, Cojuangco²⁰⁷, Silverio²⁰⁸ and Disini²⁰⁹ entrenched themselves in all relevant economic spheres. The most successful profiteers, however, were the Marcoses themselves. Through a wide network of private and public funds, foundations and dummy businessmen, the Marcos family reaped as much as between five and ten billion dollars from the two decades they ruled the country, thereby easily overshadowing their cronies and

²⁰⁶ Juan Ponce Enrile, Jr. was one of Marcos' very early associates. Starting his business career as corporate lawyer after having obtained his degree at Harvard Law School, he became Commissioner of Customs after Marcos' 1965 electoral victory, a position that allowed him to profit from abundant bribery opportunities. After a short period as Secretary of Justice, he was appointed Secretary of Defense and continued to secure his business interests and those of his clients and other Marcos cronies. While the coconut industry reorganization was certainly his biggest coup, Enrile presided over an economic empire ranging from agriculture, logging, banking and shipping (Manapat 1991: 163-205).

²⁰⁷ Eduardo 'Danding' Cojuangco, who is the cousin of later President Corazon Aquino, belongs to a well-established family of hacenderos, millers and bankers. His brother Ramon also came to enormous riches in the Marcos years, mainly through gaining the monopoly of the Philippine Long Distance Telephone Co. (PLDT) through close links to the government and other dominant families (e.g. Yuchengco). He made excessive profits by enforcing high costs for low-quality services. According to Manapat, Danding "was one of Marcos' closes and most loyal cronies" (1991: 217), especially as Representative of Tarlac in the 1960s. With his control over the coconut industry, via the UCPB, Danding quickly diversified into food processing, sugar, chemicals and, to secure these ventures, maintained his own private army. His most valued asset, though, was the acquisition of San Miguel Corporation, for a long time the most profitable company of the country, by buying out the two dominant families, the Zobels and the Sorianos (Manapat 1991: 206-253).

²⁰⁸ Ricardo Silverio is one of the only new cronies without any connection to old money. He mainly came to wealth through political business only, finding his way into the business elite after Marcos came to power. He did so through cheap government loans (e.g. for his Delta Motors Corporation), lack of regulatory oversight and discriminatory treatment of his rivals. Through his financial house Philfinance, Silverio was deeply involved in fraudulent banking activities, which led to the bank's bankruptcy (with 70 million dollars in outstanding debt). Yet, the bank was bailed out and Silverio's access to commercial loans was secured by the state, all the while he extracted funds from his companies and banks and transferred them to his real estate projects in California (Manapat 1991: 267-273).

²⁰⁹ Herminio Disini similarly profited from his connections to the Marcoses, as he was married to Imelda's cousin. Before he fled the country to Austria in 1982, he led more than 50 companies in tobacco, logging, petrochemicals, textiles, real estate, airlines and financial services. His important early success came with his Philippine Tobacco Filters Corporation that profited from government regulation disfavoring his competitors. A similar elimination took place in the field of logging in the Ilocos region. He was involved in many activities of graft, by getting access to investment funds from or through the government, the most notorious project being the nuclear power plant of Bataan, which has not been operative since. "Disini would first acquire firms with loans from foreign, government, and local private sources. He would then milk these firms and dissipate its assets. After bleeding the firms to the point of bankruptcy, he would turn these firms over to the government, which was then left holding an empty bag (Manapat 1991: 337). The massive and uncontrolled lending of his Interbank to Dewey Dee contributed enormously to the financial crises, at which he lost the goodwill of the President (Manapat 1991: 316-343).

relatives (Manapat 1991: Aquino 1987). Thus, Marcos had no problems combining the needs of export promotion with satisfying his cronies' and his own financial needs. Tariff liberalization did not pose a danger to his strategy of debt-driven growth. As Hutchcroft outlines, "the IMF-sponsored tariff reduction program [...] was undermined in part because specific corporations were exempted through presidential decree; similarly, efforts to increase the country's tax effort were hindered in part by tax incentives granted to Marcos' associates" (Hutchcroft 1991: 433).

Yet, Marcos' patrimonial regime faced serious problems of order, which arose from the contradictions of debt-driven growth and the mobilization capacities of his opponents. Current account deficits and the huge public debt after the second oil price revolution curtailed the plunder did not directly curtail the plundering capacities of Marcos and his cronies, but they did so indirectly because more and more non-crony businessmen had to bear the overall costs of the growing macroeconomic imbalances. For instance, when the ethnic Chinese entrepreneur Dewey Dee fled the country in January 1981, leaving behind close to US\$ 85 million in outstanding debt in a multitude of banks and investment houses, the whole banking system was in danger as banking regulation and supervision had been superseded by political connections and influence, which linked Dee to the core of Marcos' cronies. To curb the damage Dee had done, state resources were needed to bail out banks, and here again, "the biggest beneficiaries of the bailout had been crony-owned firms" (Hutchcroft 1998: 153).

Marcos was increasingly estranging parts of the business community (who formed the Makati Business Club in 1981 to voice criticism over economic affairs), the technocrats who had less to say as "Marcos sat back and let the cronies run things" (Hutchcroft 1998: 167), the middle classes whose earnings were disappearing with rising inflation rates, groups within the AFP who were not content with the continuing fight against the NPA and their own politicization, and many traditional politicians who were excluded from patronage resources that Marcos allocated directly to *barangays*. Yet, Marcos was still controlling political affairs and censoring media coverage. In 1981, he declared the end to martial law and prepared the 1984 presidential elections which did not seem to pose a risk after the United Front of communists and *trapos* fell apart at the beginning of the 1980s (cf. Thompson 1995: 102-109).

However, Marcos himself, or Imelda who was thought to be responsible, made a big mistake in his dealing with his main rival, Benigno Aquino. After his prison term and his exile in the

U.S. from where he could not directly influence the tactics of the several opposition groups, Aquino decided to return to the Philippines to run for President in 1984. Upon his return to on August 21, 1983, he was taken into custody and assassinated on the area of the Manila International Airport. This step caused country-wide outrage against the brutality of the Marcos regime and transformed Aquino into a martyr whose life story and death could be interpreted in the *pasyon* tradition. The regime for the first time faced mass demonstrations the biggest of which was Aquino's funeral procession which was attended by circa two million demonstrators (Thompson 1995: 116). The assassination weakened patrimonial order as societal resistance came from a broad range of groups, the Catholic Church, more members of the business community, the RAM movement within the AFP and the U.S. State Department which developed further ties toward opposition figures. Yet, four months of demonstrations did not convince Marcos or receding from or sharing power. As expected, he won the 1984 elections through excessive fraud and coercion (348 people killed, 107 injured), but oppositionists were able to win 60 seats (of 183) in the legislature, especially in urban centers where Marcos could not influence the ballot as in the countryside. Opposition factions used the next year to agree on a single figure to run for President in the following elections, and chose Corazon 'Cory' Aquino – at the expense of Salvador Laurel.

In November 1985, Marcos announced on U.S. television the holding of snap elections in the Philippines on February 7, 1986. Basing his electoral strategy on money, terror and fraud, Marcos was not willing to experience another partial defeat as in 1984. As usual, Marcos assumed that the declaration of the formal results would bring him some relief and would further weaken the opposition. That was his final mistake. With the help of the civil society based NAMFREL and the Catholic Church, the opposition did not accept COMELEC and rather declared Cory's moral victory over Marcos. When RAM officers staged a coup d'état on February 22, which was precipitated by the AFP who intended to arrest the RAM officers under Juan Ponce Enrile (who was at that day joined by Fidel Ramos), Cardinal Sin organized mass demonstrations on the *Epifanio de los Santos* boulevard (EDSA) which lasted for four days. Marcos finally resigned, after his last supporter, U.S. President Ronald Reagan²¹⁰, asked him to do so, and went into exile to Hawaii, while the masses of the peaceful EDSA revolution endorsed Cory Aquino.

²¹⁰ On the deteriorating relationship between the Marcoses and the U.S., mainly by reorientations within the State Department after the Aquino assassination, see Bonner (1987: Chap. 15) and Thompson (1995: 153).

Outcome – the re-formation of oligarchic order

Marcos' attempt to establish and maintain patrimonial order in the Philippines was countered, eventually, by the revolutionary uprisings labeled People's Power in 1986. The assassination of Benigno "Ninoy" Aquino triggered a chain of events during which his support bases crumbled utterly, beginning with the Church and traditional politicians and ending with the Armed Forces and President Ronald Reagan. However, the outcome of the anti-Marcos alliance between defecting army officers (RAM), Cory Aquino and *trapos* was load with contingency, both concerning the institutional design and political leadership in the post-Marcos era. What finally emerged were basically the same oligarchic features as before Marcos usurped power. Since then, high degrees of factionalism and competition for pork barrel resources, low degrees of party institutionalization and deadlocks between president and Congress keep reflecting the 'anarchic' nature of family politics.

With the implementation of neoliberal reforms (privatization, deregulation, trade liberalization) since the late 1980s, several fundamental changes crystallized, most important the demise of agrarian-based elites and the predominance of capitalists active in manufacturing and services. Landholding finally ceased to become the main source and avenue to political power, and the days of the powerful sugar barons came to an end.²¹¹ New and old businessmen came to dominate the economic arena, many of whom were Marcos cronies and expanded their activities in the reformed oligarchic context. But, even though the traditional agrarian economic elite lost its relevance, neoliberal reforms and financialization did not result in the disentanglement of politics and business. Entrepreneurs kept relying on informal and corrupt practices for securing their shares in the new markets.

Political 'democratization' did not bring about effective and trustworthy institutions. Higher political competitive structures instead made them more dependent on financial resources and pork barrel. And, as earlier, by leaving social issues unresolved after the transition, new forms of mobilization had the potential to curb the power of newly-entrenched political elites. In the aftermath of the Asian financial crisis, the population elected Joseph 'Erap' Estrada, former movie star enjoying mass popularity and appealing to the lower strata. Erap's position as an outsider to the elite setting became obvious with his ouster in early 2001 through so-called

²¹¹ Billig (2003: Chap. Five) demonstrates this with special reference to the debates over trade liberalization in the sugar sector in the early 1990s, out of which the food processing industry came forth victoriously.

EDSA II, marking the return to normal oligarchic politics under the Macapagal-Arroyo administration.

Old wine, old bottles, new struggles

As Marcos went into exile, the outcome of the transition was not clear at all. On the one hand, Cory Aquino gained enough social support based on her charismatic legitimacy and did not have to include the Communists who committed a historic mistake in boycotting the 1986 elections (Weekley 2001). On the other hand, she had to deal with RAM officers and Salvador Laurel, who competed with her for the institutional outlook of the post-Marcos regime and the political leadership in that regime. She tried to control them by including them in the interim government, but coup d'état attempts in 1986 and early 1987 after the replacement of Enrile and Laurel showed that Cory was facing enormous challenges. Only as she appointed Fidel Ramos chief of staff were the links between the opposing RAM factions and Marcos loyalists organizationally weakened.

The constitutional convention she assembled decided to reinstate the pre-Marcos political institutions and rules, with the only exception that presidents may serve for one term only. Although such amendments were intended to counter any further examples of political monopolization, the acceptance of the constitution and the first elections for Congress and municipal governors in 1987 soon led to the same constellations of influence as before Marcos. Accordingly, traditional political families, many of whom did not have access to political decision-making under the martial law regime, could re-establish their countrywide hold over Congress. Gutierrez' analysis of the 1987 electoral outcome illustrates this new and old phenomenon. In many instances, "the clan rather than the party is the more dominant form of political organization in the country" (1992: 161).

How did the recapturing of the political sphere by traditional families take place? First, Cory Aquino herself came from the Cojuangco family and displayed rather social conservative positions. Second, even though she gained enough popular legitimacy as the symbol of the People Power uprising, the precarious cooperation with the RAM officers forced her to look for allies among many political families to make the transition possible. Only with such consent-building measures among the elite did she survive the coup attempts of Enrile and Laurel. Third, shortly after the revolution, she was willing to negotiate peace agreements with

the CPP-NPA and pave the way for its legal participation in the new regime, but due to the resistance to that attempt by Ramos and agrarian elites, she had to refrain from that strategy. Subsequently, the field was open to “political clans reasserting themselves as the real source of power in the Philippine electoral politics” (Gutierrez 1992: 160; cf. Anderson 1988).

To consolidate her position, Cory publicly committed herself to undo the excessive damages of the martial law regime. Politically, she called for investigation into the human rights abuses of the AFP. However, these efforts were undermined by the RAM officers. Economically, she targeted the riches of the Marcoses and the corporations of their biggest cronies. Even before the 1987 elections, the Philippine Commission on Good Governance (PCGG) was established which in the following sequestered 260 companies and froze Marcos’ foreign bank assets. Thereby, many traditional families regained their assets, such as the Lopez family which re-established control over most of the companies Marcos had redistributed to his followers in the 1970s (especially those Eduardo Cojuangco held through the UCPB). Concerning the issue of land reform, the contradictions of restoring oligarchy by a popular leader came to the surface. Despite numerous demonstrations in Manila and Aquino’s own promises for land redistribution, the policy outcome, the Comprehensive Agrarian Reform Program (CARP), was meager compared to the expectations of the rural population and maintained the highly unequal distribution of land ownership (Putzel 1992; Borras & Franco 2005).

Thus, we conclude that the Aquino administration re-established and consolidated oligarchic rule in the Philippines. Because of the absence of countervailing powers (only two leftist deputies in the House of Representatives), the intensification of armed struggle between the NPA and the AFP, the similarity of social support bases (trapos, AFP, Church), alternative political institutional outcomes did not materialize – and would probably not have been possible in light of the resistance of RAM officers to Aquino. Although Cory managed to arrange a rather peaceful transition (as the last of the seven coup d’état attempts occurred in 1989), the new regime faced the same structural legitimacy problems as the pre-Marcos regime. In the political process, the important features until today have been the lacking institutionalization of political parties, the predominance of pork barrel and vote buying, the non-existence of ideological cleavages, continuous transgressions of institutionalized roles and high degrees of impunity, and political violence at election times.

Only one pattern of politics was different from the post-WW II regime, namely the substantive fragmentation of political power structures. The earlier two-party system was replaced by a plurality of parties tied to prominent figures who use them as patronage machines. Internal rivalries prevented ideological and organizational cohesion, and the high degrees of members switching their allegiance to other parties or creating new ones (turncoatism), tend to weaken the authority of the leaders. For elections, loose patchwork coalitions are set up, not to form ideological blocs, but merely to mobilize patronage resources at the local levels. Thus, Gutierrez argues that “pork barrel [...] can be considered as the single greatest attraction to politicians to seats of power and has been the source of funding for many a politician’s electoral base” (1998: 59).

The constant establishment of new political parties reinforces this volatility and instability. Effective vote mobilizers compete for posts within the administration or the party and themselves create loose networks to strengthen their bargaining powers. After they set up a new party base, however they face the same constraints from within-party challengers. So, although Aquino had a clear majority in Congress, she had to continually secure voting majorities. And, for the 1992 elections in which she endorsed her Vice-President, Fidel Ramos, 71,8 percent of politicians running for re-election switched their party affiliation. Again, after elections, opposition party members tend to turn over to the majority party, as happened after 1992 when around 60 percent of the LDP coalesced with Ramos’ LAKAS-NUCD-UMPD. Similarly, after the 1998 elections, more than half of the LAKAS deputies switched to Estrada’s LaMMP in order to get access to presidential patronage (Case 2002; Croissant 2002).

One classical phenomenon which exposes the non-democratic character of Filipino electoral politics is the paramount importance of vote buying and electoral fraud. The Commission on Elections (COMELEC), assigned with guaranteeing the democratic character of the vote, does not enjoy the necessary autonomy from the interference of presidents, and its heads themselves use their vote-generating capacity to better their position within the elite (the last example being the case of Benjamin Abalos, who presided over COMELEC from 2002 to 2007; see below). Vote buying by candidates, flying votes, the lacking reorganization of voter lists are the usual measures at Election Day. Afterwards, when it comes to counting the votes, the picture becomes even messier, depending on how far the president is willing to go to influence the result (as in the *Hello Garci* affair in 2004). Therefore, civil society association

set up independent vote-counting organizations, especially NAMFREL whose predecessors have been active since the 1953 presidential election and which targeted Marcos' final attempt to rig the snap elections of 1986 (cf. Hedman 2006).

Due to the fragmentation and fierceness of the political arena after Marcos and the lacking capacities of political actors to de-personalize competition, each election is accompanied by excessive violence among candidates and their followers which tend to garner support from private armies and criminal groups. Although the recent death tolls are lower than in the Marcos era, they have been continually rising since 1987 and highlight the stakes attached to politics.²¹²

Under Aquino and Ramos, these patterns of family politics and bureaucratic corruption had severe implications. The obstructive nature of the spoils system on economic policy making became all too obvious during Ramos' rule who implemented neoliberal policies more than any of his predecessors and successors. Although he seemed to have secured stable majorities after the 1992 elections in the House of Representatives, Ramos ironically had to enact institutional changes through increased pork barrel allocations.

The setting in the Philippines comes close to what Barbara Geddes (1994) labeled the 'politician's dilemma' for the Brazilian case. According to this scenario, Presidents who gain power through the usual games of patronage and personal corruption networks are heavily constrained by these same patterns as soon as they enter office. Therefore, Ramos tried (like Marcos) to enact constitutional changes toward a parliamentary system which would have allowed him to run for prime minister after his presidential term would expire. This attempt, though, was restrained, not only because of the outbreak of the Asian financial crisis in 1997/98, but mainly because it would have caused a reshuffling of power positions that traditional and newly risen politicians did not allow. Without a cohesive social support base for implementing reforms, Ramos was forced to extend substantial side payments to many individual deputies and senators. Through these measures of liberalization and privatization, Ramos successfully opened the country to global capital flows and competitive pressures and

²¹² The number of election-related deaths in 2007 stood at 114 (132 injured); 2004: 143 (252), 1998: 87 (167), 1992: 89 (139); see Patiño & Velaso (2006), Croissant (2002: 123) and Bantay Eleksyon (2007), <http://www.iper.org.ph/CER/bantayeleksyon2007/reports/final-report-07-election.html> (accessed on 26 November 2009).

he dismantled several monopolies in the services sector. Still, these measures did not weaken the tight personal linkages between politics and business.

Hailing neoliberalism

After the fall of Marcos, the Philippines went through two stages of neoliberal economic restructuring. The first, under the Aquino administration, focused on emergency measures against the chronic public debt and inflation problems. Under Ramos, structural reforms of privatization, banking regulation, tax reform, trade liberalization and deregulation marked the most effective steps toward profiting from global neoliberalism.

Cory Aquino faced the disastrous state of the economy after prolonged economic and financial instabilities. When she assumed power, total external debt had risen to U.S.\$ 28.3 billion (94 percent of the country's GDP) and debt-service ratio to 34.4 percent. She focused her attention on new debt rescheduling agreements, U.S. aid flows and the sequestration of crony corporations and assets and the re-buying of commercial debts. She managed to ameliorate the financial position of the country and the CB to a certain extent, but the huge public foreign debts constrained each of her plans to promote development. In line with the IMF agreement, she agreed to the liberalization of import tariffs and the deregulation of around 1,200 import items. These measures were accompanied by further devaluations of the peso until the end of the decade. She also pursued the first attempts to privatize state-owned enterprises (which had increased to 300 under Marcos), but *trapo* opposition and nationalist discourse prevented the realization of those aims, except for the sale of crony companies.

In sum, the restoration attempts of President Aquino were only partly successful. Growth was resuming at around 6 percent, and inflation rates decreased, but the financial sector remained instable because of the indebtedness of the CB, arising from its guaranteeing many foreign exchange operations of crony businessmen until the mid-1980s (Hutchcroft 1998). Although FDI inflows increased, they were not sufficient to prevent the current account from deteriorating. Finally, fiscal austerity measures were impeded by low degrees of taxation, extension of pork barrel and increases of the defense budget effected by Secretary Fidel Ramos.

Under Ramos, economic policy reform stood high on the “Philippines 2000” agenda with which the country was supposed to keep up with the neighboring Asian Tigers. The first reforms targeted trade liberalization. In accordance with the Uruguay round of the General Agreement on Trade and Tariffs (GATT) and the Philippine’s membership of the WTO in 1995, Ramos decreased tariff rates systematically and dismantled non-tariff trade barriers (Bello 1999: 244-245). Besides the working classes, the adaptation costs mainly affected agrarian exporters. This step eventually marked the ultimate decline of the sugar bloc which has for so long determined the country’s economic outlook. Planters and millers tried to uphold protectionist policies through their avenues to Congress, but were defeated in the “Great Importation War”, as Billig phrased it, which was fought by sugar exporters and the food processing industry. The latter won and made the country an importer of sugar, while the remaining sugar exporters could focus on the U.S. quota which was merely a fraction of the glorious past (Billig 2003: Chap. Five).

Privatization measures also accelerated in the mid-1990s. Big sales, e.g. of Philippine National Oil Company, PETRON, National Steel Corporation, Philippine Airlines, Manila Waterworks and Sewerage systems, among others, were implemented. But it was the dismantling of monopolies, such as the Cojuangco-owned PLDT (see above), that contributed to Ramos’ popularity and symbolized, more than anything, the possibilities of targeting well-connected cronies if a government is willing to do so.²¹³

As private, and especially foreign, capital was identified as the main engine of growth, the financial sector had to be addressed and reorganized. The main project in this field was the re-creation of the Central Bank after it slid into bankruptcy. In 1993, after two years of struggling with Congress over the question how to deal with the outstanding liabilities of the CB, the new *Bangko Sentral ng Pilipinas* (BSP) was established, with the former debts (U.S.\$ 12 billion) being settled through the issue of government securities. Further, foreign banks were allowed to enter the market which was more effectively regulated by the new monetary board that monitored the higher minimum capital requirements. These measures resulted in a process of business consolidation through M&As that lasted until the 2000s. Moreover, the chronically indebted PNB was transferred into private hands, into those of former Marcos

²¹³ All in all, between 1986 when Aquino came to power until 1999, the number of SOEs (including subsidiaries) decreased from 327 to 167; see Wang (2005: 64). For the years 1994 and 1995 the Privatization Office declared revenues through sales of SOEs and resales of sequestered crony companies of 48.7 and 44.0 billion pesos, respectively, see <http://www.dof.gov.ph/cop/html/revenues1.htm> (accessed on 11 June 2009).

crony Lucio Tan (who until the end of the century acquired the majority of shares). The opening of the Philippine Stock Exchange in 1992 fostered the financialization of the economy which was tied more than ever on global capital flows (cf. Hutchcroft 1998: Chap. Nine).

These combination of increased capital flows and the new opportunities of financial expansion resulted in (for Philippine standards) impressive growth rates (averaging five percent during the first years), and Ramos himself gained national and international reputation for his aggressive stand against crony monopolists in telecommunications and energy, and was hailed by the business community and the IFIs for having restored the country's institutional credibility. FDI rose to unprecedented levels, and the essential steps toward further promoting the export of non-traditional goods seemed to realize the "Philippines 2000" goals. In short, Ramos seemed to have accomplished rationalizing the economy, rendering it responsive to market signals and de-linking it from politics (Pinches 1996, 1999).

But, Ramos' 'credible commitment' to liberalize the economy was accompanied by the usual political business deals. The first problem was the deadlock between President and Congress, despite his initial favorable majority in the lower house. During most reform processes (which he could not enact through executive order), Ramos was in the ironic position that he had to garner support through excessive patronage allocations (cf. Eaton 2002). By establishing the Countrywide Development fund (CDF) and increasing the Congressional Initiative Allocations (CIA), additional pork barrel funds for legislators amounted to an extra U.S.\$ 1 billion in 1997 (Coronel 1998). Moreover, the successful rationalization attempts in the banking sector were mere islands of professionalism. In many other instances, especially when he had to deal with the chronic problems of tax collection and public debt, reforms failed. Congress successfully blocked organizational changes of the corrupt-ridden Bureau of Internal Revenue (BIR), and thereby undermined the state's extractive capacities which were already at a very low level (Hicken 2008: 228). Similarly, efforts to decrease discretionary exemptions of the new VAT and the continuation of investment incentives by the Board of Investments (BOI) displayed the particularistic nature of the incentive regime. As a consequence, the main new source for revenues was the extended VAT, which strengthened the non-progressive Philippine tax system (Eaton 2002).

Beyond Congress opposition, Ramos himself maintained cozy relationships with entrenched political families. For instance, the deregulation of the telecommunications sector which arranged for new entries and lowered costs for customers, PLDT, through Antonio ‘Tony Boy’ Cojuangco, could mobilize political capital to reach last-minute provisions that raised qualification criteria for new entrants and weakened the regulatory capacities of the National Telecommunications Commission (NTC), as Tony Boy was “shrewd enough to gamble that with the right connections and good public relations, he could maintain PLDT’s monopoly” (Coronel 1998: 129). The monopoly was transformed into an oligopoly, as the main new companies in the sector belonged to the Lopez, Delgado, Santiago, Yuchengco, Ayala and Gokongwei families, basically the “very oligarchs that Almonte [Ramos’ economic advisor] had been railing against” (Coronel 1998: 144). Thus, these deregulation policies were “no guarantee that market forces will prevail over politics” (ibid.).

The weak regulatory capacities of the Philippine bureaucracy were further exposed by several high-profile cases of corruption involved in privatization projects. In the Amari scandal over the sale of three islands by the Public Estates Authority (PEA) between 1995 and 1997, close to 3 billion pesos of bribes and commissions were paid via friends of Ramos’ (Tordesillas & Coronel 1998). Further cases include the Ayala and Lopez families who won the bids for Manila’s water facilities²¹⁴, which they accomplished through dive bidding practices and money flows. Also, Lucio Tan’s acquisition of Philippine Airlines was realized by circumventing the official procedures.²¹⁵

Financial crisis, populist backlash

In 1997, Ramos’ dreams for the realization of “Philippines 2000” were shattered with the outbreak of the Asian financial crisis. As in the neighboring economies, the massive inflow of foreign, speculative hot money resulted in serious financial and macroeconomic imbalances (high degrees of corporate debt-equity ratios, currency appreciations, real estate bubbles) which, in combination with weak supervisory capacities, rendered the countries vulnerable to speculative attacks and rapid capital outflows (cf. Bello 1999; Winter 1999).

²¹⁴ See Bello et. al. (2004: 197-206).

²¹⁵ Concerning the case of Philippine Airlines, former Secretary of Finance Jesus Estanislao who presided over the bidding process admitted that “during the whole process, we thought we had kept Lucio Tan out of the game, but by lending the winning party a huge amount of money with the latter not being able to repay that money, he got in there.” (Interview, Manila, 25 June 2008)

Surprisingly, compared to Thailand, South Korea, Indonesia and Malaysia, the Philippines seemed to be in good shape and were not hit that badly. GDP contracted only by two percent (compared, e.g., to 14 percent in Thailand) and in the aftermath continued to grow at an average 4.5 percent from 1999-2005. Although the Philippines shared the same features of ‘crony capitalism’ as the other countries, two factors account for the country’s resilience. On the one hand, due to the restructuring measures of the BSP in 1993, the sector’s financial positions were in a much better shape than before, with lower shares of non-performing loans than others. On the other hand, the Philippines’ relatively minor successes to attract foreign capital as its neighbors limited the possible amount of capital to leave the economy. Furthermore, the stable inflow of overseas Filipino workers’ remittances was an asset the neighboring countries could not rely on.²¹⁶

Even so, the crisis was enough to end Ramos’ hopes for changing the constitution to run again as prime minister candidate in a future parliamentary system. For, even during the high-growth Ramos period, far-reaching anti-poverty measures did not have any lasting effect as many of these were mediated through legislators’ pork barrel channels. Growth and foreign capital alone did not seem to tackle the fundamental legitimacy problem of the Philippines, the lacking effort to address the highly unequal distribution of wealth which rather deepened with market-liberating policies. Thus, neoliberal reforms lost their appeal among political elites as a mobilizational resource and marker of countering graft and corruption. Although post-Ramos political leaders stuck to the IMF and World Bank programs, the economized discourse gave way in midst of heightened political conflict and instability.

Among the variety of presidential candidates in the 1998 elections, the Filipino lower classes found the moral and populist appeals of Joseph ‘Erap’ Estrada, the movie star-turned politician, most trustworthy. Winning by a clear majority, Estrada’s victory displayed a qualitative change in terms of politicians’ support bases. For, there was indeed a class effect in voter turnout which for the first time manifested itself in post-Marcos politics. Thus, Erap’s coming to power, despite his support by several prominent Marcos cronies (Lucio Tan, Eduardo Cojuangco) resembled, at least to a certain extent, some sort of ‘double movement’ to neoliberal policies as occurred in Venezuela and in Thailand (with the elections of Chavez and Thaksin, respectively).

²¹⁶ In 1997 and 1998, OFWs remitted U.S.\$ 5.7 and U.S.\$ 4.9 billion, respectively. See http://www.poea.gov.ph/stats/remittance_1997_2006.html (accessed 6/8/2009).

In terms of effective policy changes, the Estrada interlude was more than disappointing. Erap resorted to the same mechanisms of personal enrichment and wealth creation for his cronies (cf. Chua 2000), most important of which was Lucio Tan, the former Marcos crony, who succeeded to acquire majority shares of the PNB to which he was heavily indebted and to get away with evading more than 26 billion pesos in taxes through his Fortune Tobacco corporation (Coronel 2000c). Not even aiming to cloak his corrupt activities²¹⁷, Erap's policy-making style via his infamous midnight cabinets, in which drinking and gambling went hand in hand with making political decisions, soon met the mistrust of political and business circles who feared the deterioration of the country's image after the successful reform period under Ramos. Yet, what seriously challenged his hold on power was his own interference in the gambling underworld. Different from former elites, who more or less tolerated the operations of the *jueteng* lottery empire, Estrada himself tried to reorganize these illicit businesses by monopolizing the flow of protection moneys (Coronel 2000b). With deteriorating growth rates, he was increasingly perceived as a potential threat by oligarchic families (amongst both the opposition and his former supporters).

Consequently, after only two years in power, opposition groups and defecting politicians within the Lower House decided to impeach on the president. As the Senate was still pondering on how to deal with the issue, the so-called People Power II movement began to hold mass demonstrations on EDSA, calling Estrada to resign from office. With cooperation from civil society organizations and the Catholic Church, the movement presented an enormous danger to Erap, and his days seemed to have been counted. But, in those days, he himself organized a counter movement, later called EDSA III, which – outnumbering its rivals – held pro-Erap demonstrations. In midst of these societal confrontations, the contra-Erap movement took the victory with the help of the AFP. After short and violent clashes, that left seven protestors dead, Erap resigned, and Vice-President Gloria Macapagal-Arroyo, descending from a long-established political family, assumed office.

²¹⁷217 Coronel describes his cynical and pragmatic stand in the following way: “He translates the prerogatives of power into the language of the streets, making them seem acceptable and normal. After all, he challenges everyone, who among the most righteros have not favored their friends? Or for that matter, who among them have not cheated on their wives?” (2000: 3-4)

Back to normalcy

Why was Estrada ousted? Certainly because he miscalculated the boundaries of presidential action and openly transgressed them, thereby making himself an easy target. Governing via the midnight cabinet, displaying a lavish life-style, being deeply involved in graft activities and being linked to clandestine networks Erap did not even intend to distance himself from such depictions but adhered to his lower-class self-portrayal. Beyond that, he openly acknowledged his contacts to Lucio Tan and Danding Cojuangco who regained the majority of San Miguel Corporation (which he initially bought through the coconut levy in the 1970s) the legal status of which was highly uncertain since then. Thus, Gloria Macapagal-Arroyo could easily emphasize her role in promoting a strong state and to put an end to the pervasive cronyism attached to the presidential office. And, as Hedman (2006) highlights, traditional families have in times of authority crises been able to muster civil society movements to reassure oligarchic order in the country as they did so in 1953 and in 1986. Only in 1969 did they fail and could not hinder the transition to autocracy.

However, the return to normal oligarchic politics after Estrada's ouster continued to face the same legitimacy deficiencies as it had to throughout the last six decades, without engineering social change or deepening political reforms beyond the role of the pork barrel. Contrary to her own proclamation for state efficacy, Macapagal-Arroyo and the presidential husband have been involved in similar corrupt practices and in vote rigging.

The president won the 2004 elections against Ferdinand Poe, Jr. by a margin of one million votes. This majority, though, was the result of electoral fraud as committed by the COMELEC commissioner Virgilio Garcillano. In June 2005, recorded tapes circulated in the country according to which the president herself asked Garcillano to secure her victory by essentially that margin. She survived the so-called 'Hello Garci' affair, as her supporters blocked an impeachment move. In recent years, Macapagal-Arroyo has put her effort into changing the constitution, as did Marcos and Ramos and as probably will also do her successors.

A new capitalist spirit?

The capitalist transformations coming with new linkages to the world market since the late 1980s constituted the basis for new growth periods in the 1990s and in the 2000s (until the outbreak of the U.S. financial crisis in September 2008), new forms of consumerism, deepened commodification and persistent social exclusion as experienced in most parts of the world in the neoliberal age. Beyond that, they also brought with them a new stratum of entrepreneurs and of new educated middle classes. According to Michael Pinches (1996, 1999) who is highly critical of the usual characterizations of the Philippine economy as stagnant, cronyist and unchanging, these developments signal a crucial break with the country's past. For, the recent expansions of the bourgeoisie included more and more actors who do not rely on state-oriented protectionism and who do not shun competition on the world market. In sum, the days of political business strategies seemed to have been undermined by the new liberal trade and financial regime. Civil society organizations and business associations like the Makati Business Club and the Asian Institute of Management further promote the goals of rationalizing the economy, through the emancipation of new groups of professional managers oriented to market signals only, not to preferences of corrupt politicians²¹⁸, the overall aim being “the dismantling of cronyism and its replacement by a more predictable and even-handed polity” (Pinches 1996: 126).

The new discursive repertoire of actors in the 1990s displayed a particular Philippine dimension, which came to the surface also in material terms. The majority of new riches and successful capitalists were mainly Filipino-Chinese. Figures like Lucio Tan, Henry Sy, John Gokongwei, Jr., Alfonso Yuchengco, George Ty and Andrew Gotianun do not, with the exception of Yuchengco, have a background in commercial landholding and sugar plantation so characteristic of Filipino-style capitalist development in the 20th century.²¹⁹ Although the rise of these new capitalists has to be understood in the context of the position of ethnic Chinese in Philippine society (i.e. the lack of organizational political resources and

²¹⁸ “The middle class has become increasingly independent and critical of the old landed oligarchy and the means by which it has maintained political economic power. What is certain, though, is that the middle class is becoming increasingly a central arena of political discourse and contention. This has largely been made possible by virtue of the increased social power that capitalist development and the state have concentrated in the hands of formally educated administrators, managers and professionals. The proliferation of non-government organisations over the past decade and the influential position that they now occupy in the context of a decentred state, is a clear measure of the crucial middle-class presence in contemporary Philippine political life.” (Pinches 1996: 123)

²¹⁹ For a background of these entrepreneurs, see Rivera (2003) and Hedman & Sidel (2000: Chap. Four).

dependency on political elites for protection, the forced shift from traditionally Chinese-dominated commercial activities to manufacturing with the Retail Nationalization Law of 1954, and the transition to a liberal naturalization regime in 1975), the miraculous rise of non-elite businessmen has increasingly been illustrated in terms of “Confucian capitalism” and “Asian values” that provide a culturalist explanation of the successes of regional developmental states. Values of frugality, discipline and diligence are regarded as the main avenues to success, and not corrupt political business transactions that lead to fast riches only. Even though such stereo-typical ascriptions to certain constructed identities are fraught with substantive contradictions²²⁰, the new *taipans* seem to have at least replaced the traditionally strong imageries of the old landed Filipino oligarchy.²²¹

However, Pinches’ depiction of this new capitalist spirit and its transformative capacities goes too far. Even more, his analysis itself is tainted as it is part of a broader ‘representation’ of the cultural and political emancipation of the new capitalists, which is uncritically linked to the imageries of neoliberal ideology that targets cronyism à la Marcos and sees in liberal economic policies the only source to rationalize the economy and to free it from the grabbing hands of politicians. According to this conceptualization of cronyism, it is inherent to protectionist policies, which were the main rent generators of new riches until the 1980s. Thus, under Ramos, world market competition and the inflow of foreign capital seem to be enough to solve these cronyist features. Thereby, Pinches remains stuck in the political discourse steered by Ramos and applies the same notions of oligarchy as his objects of analysis do.²²² This uncritical adherence to Ramos’ ‘Philippines 2000’ discourse limits the explanatory value of Pinches’ analyses, as for him, as well as for Ramos and Marcos (see above), the concept of oligarchy is predominantly linked to the old landed elites, not to the existing political power structures institutionalized in the fragmented state.

²²⁰ For critical accounts of the ‘Asian values’ paradigm, see Cha (2003), Pye (2000) and Thompson (2001, 2004).

²²¹ “While much social prestige continues to be attached to an ancestry of landed wealth, aristocratic breeding and old family name, increasing normative weight is being placed on the ideas of industry, achievement and merit, as more new rich join the old as the owners of wealth and prosperity.” (Pinches 1999: 288) For Pinches, these new values have gained cross-societal legitimacy, as “the rhetoric of entrepreneurship, and more widely of meritocracy, represent a shift, not only in terms of national identity and elite or middle-class identity; increasingly they have become part of a totalizing explanation of the Philippine social order.” (1999: 289)

²²² “Our basic concern is to dismantle the structure of protectionism and control, bring down the monopolies and cartels built up by crony capitalism and level the playing field of enterprise.” (Fidel Ramos, cited in Pinches 1996: 117)

In contrast to these representations, Hedman & Sidel (2000) analyze the recent shifts toward Filipino-Chinese capital without reifying culturalist assumptions, but in terms of the historically grounded status of Chinese capital. Focusing on the concept of market corruption in which money pays out more effectively than personal relations only, they trace the early symptoms of erosion of the sugar bloc, as exemplified in Marcos' rise that was made possible with the help of the tobacco industry on northern Luzon as well as by the crucial importance of political power compared to elite status through landholding.²²³ Therefore, the emancipation of Filipino-Chinese capitalists “not as an essentialized ethnic category but rather a form of private capital whose relationship to the state is mediated neither by the social and political power offered by landownership, nor by the personal loyalties and advantages of a ‘crony’” signals “not the end of oligarchy or the triumph of some ethnically-specific form of immigrant entrepreneurialism, but rather a solution of certain tensions long inherent in Philippine capitalism over the past hundred years” (Hedman & Sidel 2000: 81, 83).

Yet, in terms of manifest politico-economic changes, we conclude that these are minimal, at best. On the one hand, most of the *taipans*' successes can be traced back to the Marcos days, especially Lucio Tan's who has made it to the richest citizen of the country and who relied excessively on political manipulation under the Estrada administration to evade charges of tax evasion and to expand his banking operations. On the other hand, what, for Pinches, were effective first steps to de-politicize the economy through privatization and deregulation, have to be critically interpreted. Philippine Airlines landed in the hands of Lucio Tan, and Petron, which was originally sold to a transnational consortium, has in the meantime (since December 2008) come under the control of San Miguel Corporation, i.e. of Danding Cojuangco whose political and business careers was by no means weakened with the 1986 ‘democratic revolution’.

That capitalist development is accompanied by the emergence of *nouveaux riches* is, in our view, an indicator of the rather open and fluid nature of Philippine oligarchic capitalism in which alliance building measures for votes in the context of fragmented power structures pave the way for business outsiders who learn to abide to the politicized rules of the game. Thus, as promising as new debates on meritocracy, entrepreneurship and new professional groups may be, they do not have any capacity to change the oligarchic nature of Philippine capitalism as

²²³ “Thus tobacco trumped sugar, cronies trumped oligarchs, a gangster-politician trumped the plantation owners, and state power trumped that of private capital.” (Hedman & Sidel 2000: 75)

such. For, it lacks a concrete political force, potential contenders who may legitimately claim to defend these new business principles. Nor do they alter the business strategies of capitalists who have to stay involved in political business networks, especially in this fragmented framework that renders impossible impartial and trustworthy institutions.

While a new capitalist spirit may be perceived, it merely is free-floating, without the possibility to materialize as an actual political goal worth struggling for. Hitherto, it was tied to Ramos' neoliberal discourse (not his practices, though) and occupied mainly transnational businessmen and IFIs who have to be convinced of renewed reform drives and the political will behind it. It has not occupied contemporary political elites each of which cannot break out from his own 'politician's dilemma', which is the long-term heritage of U.S. colonial agreements with the first wave of Philippine national political leaders.

To sum up, the post-Marcos era saw the re-establishment of political institutions for the sakes of traditional families that for a long time had lost their access to patronage resources. Yet, the Filipino-style oligarchy has been increasingly opened to new players who dispose of the proper vote mobilization and financial capacities. The fierceness of political competition has, since then, undermined regulatory capacities of the state and continues to display the fragmentation of state power. These new, old institutions are easy to penetrate for political and economic actors, many of which assume 'multiple social identities', so to speak to compete for further resources. The feature of political capitalism, i.e. the necessity to stay in the political game for rendering possible, or at least safeguarding, economic ventures has never been broken during the last decades, especially not under neoliberal restructuring policies that merely lead to a reconfiguration of essential economic assets. Landownership resided, but bank ownership, regional and transnational linkages have become more important markers for elite status. The Philippine economy was open to capitalist transformations that have affected whole sectors since the 1980s, but such transformations have taken place in the context of oligarchic political capitalism and will continue to do so as long as the oligarchy – which has undergone changes in terms of family names and social background, but not as a structural pattern – upholds its hegemonic stand in state and society. So far, democracy, the promise of the 1986 revolution, has not been realized in the Philippines, for “democracy takes on a realistic character only if it is based on significant changes in the *overall* distribution of power” (Rueschemeyer, Stephens & Stephens 1992: 41).

5. Conclusion

The aim of this study was to analyze the relationship between capitalism and domination in contemporary late developing countries. In modern social science scholarship, the linkage between capitalism and democracy in western early industrializing countries has been convincingly elaborated. With reference to late developing countries, the causal mechanism between the institutional foundations of capitalist social relations and the establishment of democratic political systems has been tenuous, at best.

Mid 20th-century modernization theorists took the argument for granted as capitalism would erode most types of traditional inertia and create modern social classes who would engage in formalized and peaceful political struggles without endangering the preconditions for capitalism. In the contemporary world of global neoliberalism, neoclassical economists adhere to a similar worldview. Due to the worldwide competition for investment capital and the obvious socially beneficial results of economies that successfully attract private capital (in contrast to those favoring overall inefficient state-based development programs), countries are forced to emulate the economic systems of developed capitalist democracies. In this process, despotic and arbitrary political practices can be sanctioned by the retreat of mobile capitalists and are therefore gradually replaced by self-constraining institutions, both in political and economic affairs.

To counter the empirical claims of modernization theories, dependency theorists inspired by Marxist debates on imperialism negated this equation for late developing countries. For them, the destructive consequences of rapid commodification, marketization and modernization disrupted forms of gradual social changes as in continental Europe and led to situations in which the most prominent supporters of private capital, multi-national corporations from the capitalist centers and their governments, intervened in the political process to undermine democratic institutions and support authoritarian regimes. As the heydays of classical dependency theories are long over, neo-Gramscian political economy approaches and post-colonial theorists continue emphasizing the depoliticizing and illiberal effects of hegemonial neoliberal ideas which mainly serve to reproduce contexts of social and political exclusion in favor of global capital flows and their agents.

In between these polar positions stand a variety of approaches focusing on the role of internal institutions and structures that shape the distributional struggles inherent to capitalism and which account for the enormous differences of capitalist economies, rendering the explanatory capacities of the former grand theories obsolete. Thus, in analogy to the ‘varieties of capitalism’ in western democracies (Streeck & Hollingsworth 1997; Hall & Soskice 2001; Jackson & Deeg 2006; Whitley 1999), there exist varieties of non-western capitalism with divergent linkages between capitalism and domination which do not fade away under the adaptation pressures of global neoliberalism. In more concrete terms, the study attempted to trace back these national capitalist diversities in order to understand the outcomes of the third wave of democratization and neoliberal economic reforms since the late 1970s when IFIs elaborated structural adjustment programs for late developing countries in crisis. In short, the overarching puzzle is *why these political and economic transformations did not result in western-style capitalist democracies.*

To address this question, it is imperative to identify the main parameters of institutional changes within the existing interrelated political and economic configurations within the capitalist framework. If we want to understand why no institutional changes to capitalist democracies have occurred until now, we have to understand why and how politico-economic changes happened before. This calls for certain ontological decision to be made. Does an economic system adapt according to the needs of global capital? Who are the relevant actors that articulate demands for and implement changes? Elites, capitalists, the working classes or the ‘state’ as a corporate actor? The view adopted in this study refrains from any functionalist explanations based on the requirements of foreign capitalists, of the international financial system, of comprador capitalists or a modernization process. Many groups, actors and even systems have particular requirements for their reproduction or expansion, and most existing institutions fulfill such functions. Nevertheless, that does not tell us anything about the concrete processes of institution building and institutional changes. According to the ontological decision made here, the focuses lies on specific socio-political conflicts over the distribution of political and economic power. The outcomes of such struggles determine institutional changes. They are regarded here as highly contingent events and cannot be traced back to certain functional requirements; hence the eventful historical sociological analysis (Sewell 2005) of capitalism and political rule attempted in this study.

If we take for granted that history matters for contemporary institutional outcomes, then we have to take into consideration the origins of capitalism and its effects on the pre-existing social structure. As in Europe, capitalist relations disrupted the existing socio-political order. New bourgeois groups came forth and prospered through the money nexus and morally-binding community structures eroded, forcefully abrogating the legitimate claims of the dispossessed. Similar to the European examples, with the establishment of capitalists, new political struggles manifested as they called for their appropriate political representation. However, the crucial difference between early and late developing countries lies in the contextual conditions of the emergence of capitalism. In Europe, capitalism originated with the culmination of certain political, economic, socio-cultural and technological conditions. Late developing countries, on the other hand, although capitalist profit-making had already emerged in the course of deepened commercialization in the 18th century, were (more or less forcefully) incorporated into a capitalist system dominated by Western imperial powers. As history matters, later 20th century political and economic dynamics differed structurally from the western trajectories and did not render possible the elective affinity between capitalism and democracy.

Thus, to understand the origins and outcomes of capitalist transformations, it is essential to analyze processes of state formation. Compared to the long-term European transformations from feudal to nation-states in the context of war-making in a mini-state system, different modes of state formation and nation building took place in late developing countries. In these trajectories, the impact of European colonialism and informal empire was decisive, as it determined the internal struggles for identities and the appropriate political order. Beyond that, it disrupted economic development and froze certain class constellations by forcefully subordinating the rest of the world to the geopolitical and commercial interests of the Western powers.

The main historical argument of this study is that ‘imperialist’ capitalist social relations created new socio-political struggles the outcomes of which determine the change dynamics of the 20th century. In other words, these outcomes represent a critical juncture during which those early conflicts are solved. This led to the lock-in of existing political and economic power relations and hegemonial nationalist ideologies that have shaped until today state-society relations, contentious politics and identity struggles. To make sense of the continuities and changes in the aftermath of this lock-in effect, we draw on Mahoney’s reactive sequence

path dependency model. Countervailing forces contest these institutional outcomes that are reproduced by political and economic elites. These struggles make possible new institutional directions, conceptualized as *reactive sequences*. In this stage, change dynamics take on a revolutionary shape and, again, the outcome of new class and political conflicts is a highly contingent affair.

Thus, the explanation based on historical dynamics proposed here strikes a middle path between overly determinist and idiographic and contingent models. On the one side, the critical juncture does not determine the outcome of political and economic developments, it merely paves the way for the new ‘national arena’ (Collier & Collier 1991) in which socio-political conflicts take place. On the other side, history is not a sequence of unrelated events. These occur as actors and groups struggle for goals that make sense according to the already existing institutionalizations of political rule, capitalist principles and societal identities. It is against this background that we have to analyze the impacts of external (world economic crises, the shift from embedded liberalism to global neoliberalism) and internal (industrialization, urbanization, political liberalization) factors that apply for most, if not all late developing countries during the 20th century. This view also contrasts with many works of the ‘developmental state’ paradigm (particularly Evans 1995 and Kohli 2004, also Waldner 1999) who elaborate the institutional and historical foundations of developmentalism without accounting for the change dynamics inherent in successfully industrializing states – as Kang (2002) did in his explanation why South Korea was hit harder by the Asian financial crisis than the inefficiency-ridden Philippines; hence the openness of outcomes as outlined in this study.

In Turkey, the outcome was the third military intervention in 1980, the end of the democratic experiment and the institutionalization of oligarchy. In the Philippines, on the other hand, oligarchy was re-consolidated with the People’s Power revolution of 1986 and the dismantling of Marcos’ patrimonial regime. *It is these political dynamics that then shaped the context for the implementation of neoliberal economic reform policies and which explain why the mere implementation of such reforms does not translate into the establishment of western-like capitalist democracies.* The foundations of political capitalism, in general, and of oligarchic capitalism, in particular, were not touched by economic restructuring measures. These entailed the decrease of state intervention in the fields of foreign trade, fiscal policies and financial regulation in order to enlarge the operational field for private and foreign capital

as the main motors of growth. However, the retreat of the state does not create a liberal market economy. What counts in this transformation period are the prevailing political power constellations and state capacities.

In the Philippines, the latter were seriously undermined as oligarchs re-engaged in the political arena according to the well-established principles of pork barrel and patronage from which they had been excluded during the Marcos years. Corrupt practices of politicians and entrepreneurs, even the new economic elites, reflect the flexible strength of the rather open Filipino oligarchy. Made up of traditional families, Marcos cronies, successful individual newcomers and the ‘Chinese’ taipan, these economic elites continue undermining the infrastructural power of the post-1986 state and perpetuate the crucial importance of personal relations and informal power networks. In effect, although capitalist institutions as such remain untouched, impartial institutions responsible for upholding free and fair competition cannot thrive in this environment.

In Turkey, the establishment of a more liberal economic order was made possible by the intervention of the TAF and the abrogation of democratic institutions. The emergent political regime was, at the beginning, monopolized by the Motherland Party that had disposal over almost unrestrained patronage capacities due to the ban of former political elites. Simultaneously, the post-1980 regime empowered the big family business groups who were involved in corruption and graft practices to get access to export subsidies. As these practices set the rules of the game in the context of the suppression of countervailing social forces, oligarchic capitalism was consolidated. Due to the closed nature of oligarchy in Turkey, the upward mobility of new entrepreneurs posed endangering challenges for the established FBGs. The fragmentation of the political and economic landscape and the excessive forms of patronage, which furthered the degeneration of institutional trust in the 1990s, was only reversed with the coming to power and consolidation of the JDP. However, while abiding to neoliberal policy recommendations of the IFIs, the JDP continues the practices of dominant parties, namely to use the state, which can be infrastructurally powerful in times of political centralization, to nurture its own business constituency through informal practices.

What have we learned from this study?

To repeat the main theoretical arguments and their empirical substantiations, capitalist orders are embedded into political power structures. In consequence, economic action reflects and reproduces these structures. In the context of late developing countries, economies are characterized by high degrees of politically-induced uncertainty that originate in strategies of wealth maximization through the state institutions. The fact that state power is used to create economic elites as a strategy of national development prevents the functional and institutional separation between the political and the economic sphere, between the public and the private. For, this uncertainty is addressed by creating personal trust networks, in the form of corruption and clientelist linkages, that lower the vulnerability of those within these boundaries while maintaining overall low degrees of institutional trust. The predominance of corrupt practices and transgression of institutional boundaries by political and economic elites since the beginning of national capitalist development reflects the enormous continuity of political capitalism.

Beyond the conceptualization of the political embeddedness of economies, we can extract two main findings from the underlying comparative-historical analysis. First, the origin of new state bureaucracies that rank high in infrastructural power lies in the success of nationalist mobilization. Second, early strong states, in relation to capitalist development, are more prone to endogenous institutional changes than are early weak states.

The first finding contributes to the ongoing debates among state theorists as to the causes for the enormous variety of state strength (in terms of state autonomy and/or capacities) in the late developing world. Usually, East Asian developmental states (Japan, South Korea and Taiwan) excel in state strength through which economic nationalism can materialize and through which bureaucratic elites can enforce investment decisions upon economic actors. While Japan's state strength originated in the bureaucratic modernization project of the 19th century, the South Korean and Taiwanese developmental states go back to their exposure to Japanese colonialism in the early 20th century that transformed their bureaucratic apparatuses (cf. Kohli 2004). Further causal mechanisms have been identified in geopolitically-induced systemic vulnerabilities (Migdal 1988; Doner, Ritchie & Slater 2005), low levels of elite conflict in the transition from indirect to direct rule (Waldner 1999), the temporal relationship

between bureaucratization and political liberalization²²⁴ or between state building and primitive capital accumulation (Sidel 1999). Without claiming to have found an alternative explanation that outcompetes those factors, we argue that the successful nationalist struggle leads to the creation of strong states with high infrastructural power after the rise of innovative and radicalized nationalist ideologies undermined the existing political structures by calling for a more appropriate political order to end colonial or informal imperialist institutions. Drawing on Loveman's conceptualization of the "accumulation of symbolic power as a central dynamic in modern state formation" (2005: 1652), only the successful nationalist struggle can lead to the establishment of a state in which the new national identities can be embedded. This allows the state to use its infrastructural power to constitute new political rules of the game, new identities and their boundaries as the "domain of legitimate state practices" (ibid: 1659) which Loveman analyzes in the context of new societal struggles with the extension of new state administrative actions. In the context of Turkey and the Philippines, the end of the 19th century and the beginning of the 20th century marks the decisive opportunities for monopolizing symbolic power.

In Turkey, the Kemalist elites had successfully accumulated symbolic power through which to erect an authoritarian regime and to engage in their project of constituting Turkishness and, in particular, to create a new Muslim-Turkish bourgeoisie. Thus, the infrastructural power of the new state reflects neither the long strong state tradition since the times of the Ottoman Empire, as argued by Heper (1985), nor the long term articulation of the Asian of 'hydraulic' mode of production. The strong state emerged in the course to the cross-class and geographically extensive social mobilization to win the war of liberation against the Armenians and the Greeks. In contrast, in the Philippines, the military defeat of the Katipunan and the empowering of the agrarian oligarchy that adopted a conservative version of nationalism led to the emergence of new colonial rule which was not uncontested and did not enjoy social consent. Instead, countervailing forces could, from the beginning, mobilize anti-systemic movements in accordance to unchanged ethno-nationalist ideas to oppose both U.S. colonialists and the new political elites. The latter acted as brokers between mobilized segments of the population and the colonial empire and was allowed to promote policies of Filipinization in political and economic affairs that countered efforts of bureaucratic rationalization, thus consolidating the Filipino weak state. In sum, although a variety of

²²⁴ This classical argument made by Shefter (1977) to explain the differences of western party systems and the emergence of party patronage has become one of the standard arguments for the lacking degrees of bureaucratic rationality in many developing countries.

factors accounts for the emergence of strong state in late developing countries, *the success of nationalist struggles after the transformative effects of capitalist incorporation can be regarded as the sufficient condition for this outcome.*

The second finding relates to the dynamic of institutional changes after these states were created; more concretely, to address the empirical puzzle *why, in the course of socio-economic transformations and political liberalization, a cohesive counter-elite emerged that was capable of monopolizing political power in Turkey, while such countervailing forces did not find their concrete political expression in the Philippines.*

During the 20th century, most late developing countries underwent such changes with deepened capitalist development. The phase of industrialization did not occur at one, but after political decision-makers decided to alter their countries' economic structures as the promises of economic liberalism proved to be incongruent with national development goals due to the dependency on foreign capital and export markets that merely heightened developing countries' vulnerability in times of international economic crises.

In Turkey, the decisions to implement import substitution policies were made in the early 1930s, and after World War II and the short revival of economic liberalism in 1960. In the Philippines, the main thrust toward state-led industrialization began in 1949 with the import control policies of President Quirino. In both countries, socio-economic changes of industrialization, demographic growth and urbanization altered the rules of political mobilization and led to the creation of extensive patronage machines, while the exclusion of leftist movements prevented the articulation of class-based political cleavages, despite the growing influence of Marxist discourses, the activism of new middle class groups and the continuous social exclusion strategies by political elites. In both countries, the expansion of state capacities in the economy provided the dominant parties (by the DP and JP in Turkey, by the NP and LP in the Philippines) enormous patronage opportunities to control the political landscape.

However, only in Turkey did, at this stage, rivaling social groups, small and medium businesses in central Anatolia, articulate their dissent that arose with the one-sided allocation of financial incentives for industrial development. After his ousting from the TOB presidency, Necmettin Erbakan quit the JP and formed the religious National Order Party, which was

renamed to National Salvation Party after the second military intervention in 1971. The NSP stood out in Turkey's party system as it directly fought for changes in the Republic's symbolic representation by re-strengthening the role of Islam in Turkey's public sphere. These new bearers of political Islam remained active even after the 1980 coup and the ban on Erbakan. With the reopening of the political stage for former parties and elites in 1987, the Welfare Party was founded which continued its struggle against the Republic's 'assertive secularism'.

Beyond that, the Motherland Party under Özal had already begun to mobilize religious votes by increasing the importance of Islam in public. Özal, who did not hide his piety, made the pilgrimage to Mecca in 1988, defended his more liberal stand in the headscarf debate, supported the establishment of Muslim educational institutions and the activities of Sufi brotherhoods and incorporated other pious figures in his cabinets. The resulting flourishing of religious-based social movements was not only related to Özal's symbolic politics, but also to the fact that the TAF adopted a quite contradictory position vis-à-vis Islam. They officially forbade Islamism and strengthened the Kemalist ideology in the educational sphere through the introduction of the Higher Educational Board that oversaw the recruitment of professors (Kaplan 2006; Altınay 2004). At the same time, though, they also made possible the articulation of religion as a strategy to counter leftist movements, thereby rendering effective the so-called Turkish-Islamic synthesis as an internal shift of Kemalist national identity (Kuru 2009: 229). These steps to open the public sphere and the political process to religious social movements and their political parties transformed the WP into a legitimate counter-elite as can be seen in its successes in the 1994 local and the 1995 parliamentary elections in the context of the 1994 financial crisis.

After the ousting of the WP, the same pattern recurred. The financial crises of 2000 and 2001 delegitimized the coalition government. In the 2002 elections, the newly formed JDP was the only political force uninvolved in the corrupt political business cycles of the 1990s. The 2002 victory could be repeated in 2007, in midst of the constitutional crisis over the presidential election, reflecting the cohesive linkages between the JDP, the proliferating social movement landscape, civil society organizations and the 'Anatolian Tigers' which transformed discourses over national and religious identities in the liberalized media sector.

What caused the rise of political Islam in Turkey? If we consider the vast literature on political Islam in the Middle East and North Africa²²⁵, factors as social exclusion, geopolitical interests, the increasing role of ‘Islamic capital’ originating in the Gulf monarchies (Clement & Wilson 2004) surely play an important role in explaining the politicization of religion in Turkey. But, the crucial factor, which differentiates Turkey from most, if not all, Middle Eastern countries, lies in the hegemonial Kemalist ideology and its institutionalization by the early infrastructurally powerful Turkish state. This ideological superiority was maintained even when the states power decreased in the course of oligarchy and competitive politics, as the TAF still incorporates symbolic and political power by setting the boundaries of the legitimate ‘national arena’. However, under the oligarchic power constellations since the 1980s, the dynamics of contention between defenders of Kemalism and Islamists changed as the latter continuously moderated their positions and as the established political elites lost legitimacy in the 1990s. Subsequently, it became ever more problematic for the TAF to directly interfere into political affairs, as can be seen from the rather indirect attempts to influence the political process. Thus, the religious parties, especially the JDP, emerged as legitimate counter-elites with credible political goals of political liberalization, economic opening and poverty reduction.

Therefore, two mechanisms underlie the transformation of Turkish politics. First, as the state effectively reframed the role of religion by subordinating it to the principles of ethno-nationalism, it unintentionally created its own counter-movements that from the beginning experienced the daily interventions of the state in their everyday religious practices. Hence, religion was transformed into a potential ideological and symbolic source of societal mobilization, which explains the RPP strategy in the late 1940s to retract some of the earlier measures to weaken the mobilizational capacities of Adnan Menderes who, although a staunch secularist, furthered this pattern of symbolic politics by re-introducing the Arabic *ezan* and religious curricula. *Thus, the deeper the intrusion of the modern state into the daily lives of its population, the stronger will societal movements backlash against its symbolic and ideological foundations under conditions of competitive politics.*

²²⁵ The role of political Islam has been studied from a variety of perspectives, cultural, structural, geopolitical and theological. See, among many others, Esposito (2002), Al-Azmeh (2009), Ayubi (1991), Faksh (1997), Beinun & Stork (1997). For studies of Turkish political Islam, see Jenkins (2008), Yavuz (2009), Vertigans (2003), Turam (2006), White (2002) and Karpas (2001).

The second mechanism relates to the change capacities of the state as such. From the comparative analysis, it became obvious that the Turkish state experienced several crucial dates that reflected new distributions of political power. First, the revolutionary DP victory that ended RPP authoritarian rule, second, the MP electoral victory in 1983 despite the public recommendations of the TAF and President Evren, and third, the dramatic outcome of the 2002 elections that signaled the political consolidation of the religious-based counter-elite. In contrast, in the Philippines, oligarchic politics has been predominant since World War II, symbolized by its restoration and legitimation with the 1986 People's Power revolution. Hitherto, the main change came with Marcos' patrimonial regime, which was a tenuous version of patrimonialism (when compared, e.g., with current regimes in the Arab world) as it could only temporarily suppress the centrifugal tendencies of anarchic families. Afterwards, opposing movements and figures have been effectively incorporated into the competitive national arena based on spoils and patronage, void of any serious ideological debates to compete for votes. These differences are conditioned by the original strength or weakness of the early modern state.

Even though state infrastructural power slowly eroded in Turkey since the late 1960s, the examples of the MP and the JDP demonstrates that with a cohesive political force in power, state capacities can be effectively reinvigorated. Especially the JDP, with organic linkages to social movements and the business association MÜSIAD, resembles the old DP concerning its capturing the Kemalist state. Thus, the state can be transformed, politically by representing formerly excluded societal groups, and symbolically by new struggles over the public sphere in which the JDP has proven its superiority by surviving the Kemalist rallies of 2007 and the closure case attempted by the judiciary in 2008, both measures to defend the Republic's constitutional pillars from an allegedly radical-Islamist elite. Whereas before, the self-proclaimed Kemalist segments of the TAF, the bureaucracy and the political parties always succeeded in reducing the influence of counter-movements, the continued consolidation of the JDP and its willingness to confront the long-feared illicit networks between army officers, ultranationalists, bureaucrats and paramilitary groups signals the enormous political and ideological power in the hands of the JDP. Furthermore, as all other parties before it, the JDP uses its capacities to directly promote its own business constituency to weaken the hold of established family business groups, thereby perpetuating the role of political power as a source of entrepreneurial success.

In sum, control over the state and its capacities becomes the main goal not only for established political parties, but also for societal counter-movements. The main difference toward the chronically weak state in the Philippines lies in the fact that these groups have at least the opportunity to change the overall distribution of political, economic and ideological power. In contrast, political actors in the Philippines are aware of the institutional limits and existing power structures that constrain the capacities of elites in power, as was demonstrated in the ousting of President Estrada in 2001. These structural conditions also determine the potential for institutional changes. In the Philippines, presidents act within a fixed time frame and have to make enormous side payments to the majority of individual political entrepreneurs.²²⁶ In Turkey, substantive changes, as experienced during the first years of JDP rule, are indeed possible as they are embedded into overarching power struggles dominated by the ruling party; hence the finding that *early strong states go through substantive periods of endogenous institutional changes*.

Overall implications – non-democratic domination and multiple modernities

In light of the historical origins of political regimes and national economies and the dynamics of change that underlie these orders, it is reasonable to conclude that the political and economic changes since the 1980s did not have a democratizing impact in late developing countries, if by democratization we mean the installment and the maintenance of regimes based on unrestrained political freedoms and civil rights. Authoritarian regimes did break down in Latin America and East and Southeast Asia, but in most cases, this did not lead to the establishment of democracies, but rather of oligarchies.

Here, the notion of oligarchic regime is put forward as a contribution to the ongoing post-democratization and regime debates. One major flaw in these debates is its focus on purely political criteria to differentiate between democratic and authoritarian regimes. Researchers have to decide how to conceptualize regime types (taxonomic vs. gradual) and which criteria to rely on to justify labeling countries like South Korea, Malaysia, Indonesia, Argentina, Brazil or the Philippines as democratic or not. If we opt for Dahl's procedural criteria of 'polyarchy' (1971, 1989), any violations of either of these criteria – which exist in all of these countries – should make us refrain from calling them democratic. If, however, we refer to a

²²⁶ This problem has been labeled the 'politician's dilemma' by Geddes (1994) that, although elaborated for the Brazilian case, applies for the Philippines as well. For a detailed analysis of the incentive structure for institutional reforms, see Eaton's (2002) comparative analysis of Argentina and the Philippines.

gradualist conceptualization of political regimes, then the crucial question would be how many violations of the criteria are sufficient to label them authoritarian. Either way, we face serious classification problems when we try to apply our concepts to the ‘world out there’, and until now, no convincing solution has been found on how to deal with the gray zone between democracy and authoritarianism.

Contrary to a one-sided political approach to the regime debate, we refer to oligarchic regimes as politico-economic formations. The aim is to identify the actors and groups that form the core of the elite structures in that regime. We can start with the Aristotelian heuristic that in an oligarchic regime, the number of political elites is higher than in authoritarian but lower than in democratic regimes, no matter who these elite groups are, e.g. armed or paramilitary forces, family clans, caudillo-like regional governors or elite cartels between politicians and businessmen. These groups survive and reproduce themselves in formally free electoral and participatory processes through either institutional or informal mechanisms of control. Civil rights and political freedoms may be violated without the capacities of those affected and the state to prosecute the violators in a trustworthy manner. Or, these obstructions are to some extent institutionalized so as to bar certain groups from the participatory process. In short, the rights and freedoms that formally exist do not add up to a democratic system because of the continuous, legal or illegal, interference of political authorities and influential businessmen into the arena of participation and contestation. In such a context, it is wrong to refer to the existing institutions and rules as ‘lacking enforcement’ and therefore merely being ineffective. On the contrary, these institutions and the weak enforcement of democratic procedures guarantee the political and economic survival of elite groups and hence display a high degree of effectiveness. Furthermore, they are very efficient in those cases in which discourses in civil society organizations and within the political institutions are convinced that they form part and parcel of a democratic regime, thereby legitimizing the institutions and the role of elite cartels. This argument, of course, is heavily contested by liberal theorists of civil society who – unlike Marxist or Gramscian analysts – leave out the economic power structures underlying the discourses of civil society actors and take their civilizing and democratizing functions for granted.

Another difference vis-à-vis democratic regimes is that at the level of the relevant players (parties, parliaments), the degree of “democracy” is much more restricted. Parties are not so much issue or ideology-based organizations in which decisions are carried out through

democratic elections as they are career-enhancing organizations and mechanisms of control. They rather resemble patrimonial institutions in the sense that the party leader has at his disposal the power to decide over promotions and nominations for elections. Parliaments, too, do not seem to fulfill the functions of their counterparts in western countries as they can be reduced to mere debate clubs for elite groups who rather use their political influence to act as gatekeepers of economic rents for businessmen in order to deliver pork barrel funds towards their constituencies. Thus, the formally defined boundaries of constitutional powers are not adhered to and can be altered de-facto (e.g. Carlos Menem in Argentina, Gloria Macapagal-Arroyo in the Philippines). High degrees of party membership volatility account for the necessity of deputies to stay in the political arena, no matter with which party.

There is one crucial element, however, that distinguishes oligarchies from authoritarian regimes. That is, political elites can actually be deprived of their power in the electoral process. It is true that authoritarian regimes, too, introduce elections as an instrument of legitimation (cf. Schedler 2006). Yet, in the latter, the rulers possess and use the capacities to structure the electoral process from above so that, finally, those are “elections without choice” (Hermet, Rose & Rouquié 1978). Voters have the choice over whom to appoint as parliamentary deputies, but it remains clear from the beginning of the election campaigns to the counting of votes that the position of the ruler stays untouched. Elections in the Arab world and in Russia (under Putin) display the capacities of rulers to shape the arenas of contestation without serious constraints (cf. Lust-Okar 2005) whereas in oligarchic regimes, the fragmentation of the political elite denies its players these capacities. Oligarchic elites have to abide to the electoral process and have to ‘democratically’ legitimize their status. This results in a type of political competition that is much fiercer than in democratic regimes. Due to the possibilities of incumbent elites to allocate financial resources, gaining access to political institutions is crucial for the actors in order to entrench themselves as gatekeepers. Outbreaks of political violence during times of elections are only one indicator of the degree of fierceness in these regimes.

The linkage between the political and economic spheres is to be found in the domain of political finance. As can be seen from major party finance scandals in western democracies, weak regulation of political finance is not restricted to late developing countries (cf. Johnston 2005). Even so, in oligarchic regimes, there exist no trustworthy rules and codes of conduct that could regulate party financing. The existing rules and regulations are regularly not abided

to, neither by businessmen nor by politicians, both of which know that there certainly are no actors who would try to tackle these issues and introduce tighter regulations and the necessary monitoring capacities that would cut through the way politics is financed.

This somewhat stylized picture of dominating informal power structures does not imply that corruption scandals do not erupt or that these are not taken seriously in the public sphere. However, despite the massive waves of criticism in the public discourses and possible resignations of corrupt politicians, the role of scandals is directly linked to the dispersion of power. With functioning patronage networks and safeguarding mechanisms (payoffs, threats), entrenched political elites can effectively steer the so-called “scandal industry” to outmaneuver their competitors (Blankenburg, 2002). These capacities are based on the market power of elites in the media industries in which ownership is more concentrated than in western countries. The exception would be, of course, Italy, where Silvio Berlusconi is capable of using his media power similarly recklessly.

However, as elaborated above, oligarchic regimes are no solid, unchanging blocs. On the contrary, the combination of high degrees of social exclusion and effective electoral competition constitute the dynamic element in these regimes. That is, political elites in oligarchic regimes have to find ways to mobilize broad segments of the population and at the same time to prevent the successful organization of the lower strata. Otherwise, this may lead to social ruptures and open the space for the effective inclusion of these segments similar to the long-term processes of social inclusion Marshall (1950) identified in western capitalist countries. Thus, elections *can* become potential turning points at which new forms of political mobilization can unintentionally break the control capacities of elites and institute new forms of contention that may eventually lead to democratic politics as outlined in the socio-political mechanism accounts of democratization (MacAdam, Tarrow & Tilly 2001; Tilly 2006; Tilly & Tarrow 2006).

Still, in oligarchic regimes, such turning points have to display a revolutionary character in order to effectively restructure the state apparatus, to institute an independent judiciary willing and capable of sanctioning the everyday practices of political business and weaken the linkages between politico-economic networks of power. Hitherto, such revolutionary turning points have been rather seldom, and whenever popular uprisings are instigated, oligarchic elites have been important participants vying for maintaining their patronage resources. Also,

democracy is not the only way out of such new struggles. In Latin America, populist authoritarianism à la Hugo Chavez may turn into a feasible option out of oligarchy. Furthermore, as the recent experiences in Thailand and Honduras show, even the return to military authoritarianism seems to be a possibility.

On a more abstract level, we can make the following conclusion. What shapes current non-western societies is not only the emergence of different capitalist orders, but furthermore the crystallization of distinctive modernities. These do not replicate the first, European modernity project that was constituted through particular processes of state formation, intellectual and technological breakthroughs, the assertion of national identities and the secularization of the public sphere. The historical analysis of Turkey and the Philippines demonstrates that although similar ruptures with pre-modern institutions and worldviews occurred, they did not lead to the convergence between their own and European modernities. Even the current intensification of transnational linkages politics, economy and culture than run under the globalization label do not result in such a convergence. The global public sphere, the world society may be filled with liberal concepts of good governance, market freedom, social justice and international cooperation. Accordingly, wherever political revolutions occur or become tangent in non-democratic contexts, they are globally interpreted within liberal-progressive frameworks. Nevertheless, these globalized ideological currents do not directly translate into political changes.

For, the prevalent societal discourses within a given non-western society reflect the structural impact of its own modernity project, in terms of the material realization of power networks and the respective rules of the game and the symbolic dimension. Thus, within symbolically bounded structures of domination, catchwords like freedom, independence, progress, development and justice are translated according to concrete historical legacies. In other words, not only do late developing countries look back to different histories, but they also cultivate their own historiographies which are continuously reinterpreted and made sense of in light of contemporary global developments and discourses. For example, while Europeans may identify themselves with the civilizational and scientific breakthroughs since renaissance and enlightenment, peoples across the globe center on the destructive impacts of colonialism to underline the uncivilized nature of European superiority.²²⁷

²²⁷ “One aspect of nineteenth-century Europe that was a constitutive component of the identification of Europe with modernity was rarely given central place in accounts of this modernity: Europe as a colonial power. The

What determines the structural differences across these “multiple modernities”?²²⁸ The answer proposed by Eisenstadt (2000, 2002) argues from a sociology of religion (in a Weberian tradition) perspective to differentiate between axial cultures which, since then, have undergone long-term transformations of their cultural and institutional spheres. But, as elaborated in this study, we do not have to go that far to identify the crucial period of ruptures that ossified the political and socio-cultural differences between western powers and the developing world. With the capitalist incorporation and the resulting interpretations of the world by relevant social groups within peripheral countries occurred a lock-in of new ideas concerning the appropriateness of the political order, the embedding of capitalist social relations and the role of religious and new national identities that bind the population within the new states’ territories. Most political struggles and societal discourses since then make sense for the observer only if we take into consideration that particular lock-in effect. Only then can social scientists clarify why and how history matters.

history of colonialism sees Europe certainly as its subject and as the master of the world; it thus emphasizes the modernity of Europe. European history as colonial history establishes precisely the relations between ‘modernity’ and ‘tradition’, of rupture in temporality and the ‘denial of co-evalness’. At the same time, it invited the conceptual distinctions between the ‘rational’ and the ‘cultural’, and between universal and particular.” (Wagner 2009: 256)

²²⁸ The multiple modernities research framework has only recently entered the academic debate and originated in Shmuel Eisenstadt’s critiques of classical modernization theory.

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