

Université de Montréal

**State-Controlled Economy: An Obstacle to or a Catalyst for Democracy? A  
Comparative Case Study of Iran and Turkey.**

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## Résumé

Comment le contrôle étatique sur l'économie se répercute-t-elle sur la démocratie au Moyen Orient? Une économie sous l'égide de l'État peut-elle être une entrave ou un catalyseur pour la démocratie? En utilisant la méthode de « *most-similar systems* », cette étude de cas comparative vise à s'enquérir sur les trajectoires démocratiques respectives de l'Iran et de la Turquie, deux pays qui se ressemblent aux plans culturel, historique et social. Se focalisant surtout sur la période d'entre 1980 et 2005, cette étude va chercher à savoir pourquoi l'Iran a pris un recul au plan démocratique après la révolution de 1979 alors que la Turquie a réussi à maintenir sa démocratie malgré ses failles inhérentes. Ce travail dirigé va commencer par exposer les arguments clés sur le retard démocratique au Moyen Orient avec une emphase sur la place qu'occupe l'économie sous le contrôle étatique dans ces débats. Ensuite, par l'entremise des théories existantes sur l'importance de l'État dans la compréhension de la trajectoire démocratique (surtout l'ouvrage de « *Bringing the State Back in* » de Skocpol, Rueschemeyer et Evans), ce travail démontrera que les rentes pétrolières à la disposition de l'État iranien lui ont permis d'acheter la loyauté de certains de ses citoyens en plus d'investir dans un appareil coercitif répressif. Par conséquent, la classe moyenne était incapable de former des contrepouvoirs vis-à-vis de l'État. À contrario, l'absence des rentes pétrolières en Turquie et la dépendance de l'État envers la taxation de ses citoyens ont créé une classe moyenne plus forte, représentée par un secteur privé puissant qui a constitué une forme de contrepouvoirs. C'est cette classe moyenne qui a poussé pour des réformes démocratiques en Turquie en vue d'adhésion à l'Union Européenne.

*Mots-clés* : démocratie, État, économie, Iran, Turquie, Moyen Orient, appareil coercitif, secteur privé, rente pétrolière, État rentier

## **Summary**

What accounts for the democratic deficit of a considerable number of countries in the Middle East? How does state control on the economy affect the chances of democratisation in the Middle East? Is a state-controlled economy a hindrance to or a catalyst for democracy? By means of the most similar systems design, this comparative case study will investigate the respective democratic trajectories of Iran and Turkey, two countries that resemble each other in cultural, social, and historical terms. Focusing on the period between 1980 and 2005, it seeks to demonstrate why Iran's democratic deficit deepened following the revolution of 1979 while Turkey still managed to retain its democratic system despite its inherent flaws. The first chapters will highlight some of the key arguments with regards to the democratic deficit of the region with an emphasis on the role of the state-controlled economy in these debates. Later, using the existing theories on the importance of the state for understanding different phenomena such as democratic transitions (especially that of Skocpol, Rueschemeyer, and Evans, in "Bringing the State back in"), this thesis will show that oil rents at the disposal of the Iranian government have given it the chance to buy the loyalty of some of its citizens while at the same time investing in a repressive coercive apparatus. This situation has kept the middle class organisationally weak, preventing the emergence of countervailing powers to state power. On the contrary, the absence of such oil rents in Turkey and the country's dependence on tax revenues have created a middle class represented by an organisationally strong private sector, forming countervailing powers to state power. This middle class has been very influential in pushing for democratic reforms required for Turkey's European Union membership.

*Key words:* democracy, economy, state, Iran, Turkey, Middle East, coercive apparatus, private sector, oil rent, rentier state.

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## **CHAPTER 1: INTRODUCTION**

Iran and Turkey, two strategically important countries of Middle East, have been amongst the pioneers of socio-political modernisation in the region. Both states have never been colonised and both have enjoyed centuries-old continuous bureaucratic traditions. Following the collapse of the once powerful Ottoman Empire, Kemal Atatürk founded modern Turkey in 1923. Although the democratic republic that he founded faced various threats of instability and coup d'états during the 50s and the end of 70s, the Turkish state with its parliamentary system has survived to this day. In spite of its imperfections, Turkey is one of the stable parliamentary democracies of the Middle East with a burgeoning, non-resource based and productive economy that has empowered the private sector since 1980.

Iran, on the other hand, experienced a more tumultuous era throughout the 20th century characterised by the authoritarianism of Pahlavi dynasty between 1925-79, a major coup d'état against the nationalisation of oil in 1953, a revolution in 1979, further authoritarianism and isolation with the advent of a clerical regime in 1979, and a bloody 8-year war with Iraq. Mohammad Reza Pahlavi, who seized the power in 1925, embarked on modernising reforms, mirroring the ones inaugurated in Turkey while continuing to reign with an iron fist, which was one of the causes of the 1979 revolution (Cleveland et Bunton 2009, 255). Yet, the power grab by the clerics, who established the Islamic Republic based on the Sharia law, only deteriorated Iran's level of authoritarianism (Freedom House 2009). While Iran moved from one form of repression to another, what also did not change substantially was the dependence of its economy on oil. Under the aegis of the Islamic Republic, as the economic dependence on oil continued, the state came to increasingly control the economy. In fact, there are two major obstacles to democracy in Iran's post-revolutionary era: the power of the clergy and the state control on the economy (Gheissary and Nasr 2006). According to Theda Skocpol, these clerics that derive their

legitimacy from religion, have taken control of the economy in order to bolster their power. As Iran's economy has been dependent on oil since the beginning of the 20th century, this commodity is, especially after the revolution, used by the government to arm its coercive apparatus in order to repress dissent against the regime (1982). What kind of role has state control over the economy played on both countries' respective trajectory of democratisation?

### **1.1 Research Question and Hypothesis:**

This thesis will examine the role of state control on the economy in fuelling authoritarianism through a comparative case study of Turkey and Iran. In order to better understand the nexus between our independent variable (state control on the economy) and dependent variable (authoritarianism) of our cases, we will propose with the following research question: *To what extent did the state control of the economy have an impact on both countries' respective trajectory of democratisation between 1980<sup>1</sup> and 2013<sup>2</sup>?*

We will argue that

- 1- *In the case of Turkey, the diminishing control of the state since 1980 in the economy has made the state less autonomous from society, contributing to the stability of Turkish democracy.*
- 2- *In the case of Iran, proliferating state control of the economy since 1980 has made the state more autonomous from society, sustaining (and even worsening) authoritarianism.*

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<sup>1</sup> The year 1980 is a turning point for both countries. While Iran, under the ascendancy of Khomeini, who came to power a year earlier, witnessed a greater role of the state in the economy, undoing the modest privatisation programme undertaken by the shah, Turkey inaugurated an ambitious programme of privatisation under the supervision of IMF's Structural Adjustment Programmes.

<sup>2</sup> 2013 is an important benchmark especially for Turkey. According to Freedom House, it was as of this year that the ruling party, the AKP, which had won consecutive landslide victories, started to abuse its power by not only becoming less tolerant of dissent, but also by increasing pressure on private companies to conform to the AKP's agenda. In the case of Iran, the repressive tactics of the government which had been intensifying since 2009 (the date when Iran was thrust into a turmoil due to the allegations of fraud in the elections) continued unabated and the IRGC (Iranian Revolutionary Guards Corps), which had violently quelled anti-government rallies of 2009, reached the apogee of its power by increasingly taking control of Iran's economy.

### **1.3 Research Methodology**

This research will employ a qualitative research methodology. In attempting to understand the divergent democratic paths taken by Iran and Turkey based on differing levels of state control on the economy, I will rely on the literature that deals with the state as an autonomous entity. Hence, the concept of state autonomy developed by Rueschemeyer, Skocpol, and Evans (1985) will especially be suitable for this project. In their ground-breaking publication called “*Bringing the state back in*”, the authors popularised the idea that the state can act as an independent entity from society. This marked a considerable break from the preceding behaviourist era in political science that deemphasised the role of the state as the independent variable to study such phenomena as authoritarianism or underdevelopment (*Ibid*). While the rentier state paradigm (Mahdavy 1970; Beblawi & Luciani 1987) can explain the autonomy of the state in Iran, accounting for the existing level of authoritarianism, it is far from being applicable to Turkey. Hence, for comparison’s sake, the concept of state autonomy brings both countries on equal footing.

I will consult Eva Bellin ( 2004a, 2004b), Hinnebusch (2006), and many others in the literature relating to authoritarianism in the Middle East especially to deconstruct the arguments that view the Islamic culture, lack of prerequisites, lack of institutions and/or foreign interference as the main explanatory variables for the lack of democracy in the region. These authors’ works highlight the asymmetric role of state control on the economy in underpinning the authoritarian institutional framework of many of the countries in the area.

### **1.4 Case Selection Rationale and Research Objective**

For this comparative case study, I propose to employ John Stuart Mill’s *most similar systems design*. This research design is especially useful in accounting for different democratic



trajectories (dependent variable) given that our cases differ from each other by one independent variable (state control on the economy) while they have the following variables in common (control variables):

- 1- On the cultural map (World Values Survey Cultural Map)<sup>3</sup> designed by Ronald Inglehart and Christian Welzel (2010), both countries have very similar scores.
- 2- Both countries have never been colonised<sup>4</sup>. Hence, on an institutional level, they have retained deep bureaucratic and administrative traditions.
- 3- Both Iran and Turkey embarked on their journey of democratisation at the beginning of the 20<sup>th</sup> century. While Turkey's (under the Ottoman rule) started in 1908<sup>5</sup> with *Meşrutiyet*<sup>6</sup>, that of Iran (known as Persia at the time) started in 1906 with the constitutional revolution<sup>7</sup>.
- 4- Both countries have similar levels of urbanisation and education<sup>8</sup>. According to the CIA World Factbook, Iran's level of urbanisation, adult literacy are 71% and 77%, respectively, while for Turkey, it is, 70% and 87%, respectively (2012).

My objective through this research is twofold. While this research aims to problematize the state control on the economy, it also strives to discount other arguments such as the lack of prerequisites (Issawi 1956), foreign interference (Khalidi 2004), culture (Keddouri 1992), or lack

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<sup>3</sup> World Values Survey Cultural map constitutes the only empirical source of cultural attitudes in the world. The inclusion of this variable is important to discount the "culture" argument as the basis of authoritarianism, which will be covered in the second chapter.

<sup>4</sup> While both countries have been invaded during the 20<sup>th</sup> century and Iran has been subjected to a major coup d'état in 1953, in neither case can one talk about enduring foreign interference in the form of colonies or mandates; this variable is controlled for to discount the "foreign interference" argument, which will be seen in chapter two.

<sup>5</sup> The Ottoman Empire in fact devised its first constitution in 1876, during a reform period named *Tanzimat*, which started in 1839. These reforms aimed at closing the wide gap between Europe and the Ottoman Empire on socio-economic modernisation. However, the first constitution, which had envisaged the restriction of the Sultan's power, was shortly afterwards declared invalid by the sultan himself and the reformists' struggle finally reached fruition 1908 for a new constitution.

<sup>6</sup> *Meşrutiyet* refers to the attempts at establishing a constitutional monarchy in the Ottoman Empire by intellectual Turks.

<sup>7</sup> This commonality between both countries is used to discount the institutions-based argument (which will be treated at length in chapter 2) as attempts at establishing democratic institutions were made in both countries at the turn of the 20<sup>th</sup> century.

<sup>8</sup> These variables are controlled for in order to discount the "prerequisites" argument deployed by the proponents of the modernisation theory. This argument will be presented at length in chapter 2.

of institutions (Carothers 2000) as being solely responsible for Middle East's democratic deficit. As such, this research will highlight the asymmetric role of economic factors in sustaining authoritarianism in the Middle East.

### **1.5 Outline of the thesis**

The rest of this thesis will be organised along the following lines. The second chapter will delve into some of the prevailing debates on the link between the economy and democracy with a particular focus on investigating the extent to which debates reflect the reality in the Middle East. Chapter three will develop a theoretical framework premised on state autonomy. As part of this framework, two theoretical models of state autonomy will be used: rentier-state model and productive economy model. In chapter four, I will provide a background on the state of democracy in Iran and I will analyse the Iranian case from the vantage point of rentier-state model. Chapter five will discuss the Turkish case with from the point of view of the productive-economy model. Finally, I will conclude with findings and suggestions for further research.

## **CHAPTER 2: LITERATURE REVIEW**

This chapter is divided into two sections. In the first section I review the major theoretical debates on the links between economy and democracy. Following these theoretical debates, in the second section I explore the state of democracy in the Middle East; I also analyse to what extent the situation in the Middle East is (or is not) reflective of the existing theoretical debates in the literature.

### **2.1 An inconclusive debate**

The relationship between the economy and democracy is not unanimously accepted. While there have been numerous publications on the subject, disagreements persist to this day. These disagreements will be presented through a synopsis of the arguments inspired from the liberal and Marxist schools of thought, the modernisation school, as well as those of the post-behaviourism era.

#### **2.1.1 Arguments inspired from liberal and Marxist schools of thought**

The advocates of the liberal school of thought considered economic freedom as one of the indispensable elements of democracy. Their sources of inspiration were 17<sup>th</sup> century liberal thinkers such as John Locke, David Hume, Adam Smith, and David Ricardo. Frederic Hayek, one of the most vociferous critiques of state control over the economy stated, “economic control is not merely control of a sector of human life which can be separated from the rest; it is the control of the means for all our ends” (1944, p 95).

In his seminal work entitled *Capitalism and Freedom*, Milton Friedman followed a similar line of thinking. In addition to Hayek’s arguments on economic control exercised by the state, Friedman considered economic freedom to be a necessary condition for political freedom. Free market economy constituted a serious threat to centralised repressive authorities as it created

a countervailing power to state power. Hence, doing away with centralised economy, according to Friedman, would pave the way for the separation of economic power from political power, creating a counterbalance to the state's repressive power (1962, 8-22). Both authors staunchly argued that humans are autonomous and individualist<sup>9</sup> by nature and in order for human beings to live in freedom, state's respect for economic freedoms was crucial. Consequently, democracy and capitalism are the only political and economic systems that can enable human beings to realise their full potential and the role of the state in the economy should be constrained for freedom to take root.

This heavy emphasis placed on economic freedom, particularly the autonomous and individual nature of human beings, is heavily criticised by Karl Marx and Marxist-inspired thinkers. This school of thought espouses the collective nature of human beings and shuns individualism. Lenin considered liberal democracy as "Democracy for an insignificant minority, democracy for the rich", making reference to the invincible power of the bourgeoisie that enriched itself under the aegis of liberal democracy while the rights of the proletariat were being trampled upon (Lenin 1917, Chapter 5). According to Lenin, the relationship between capitalist economy and democracy was a hollow one since capitalist economy, rather than creating democracy, gave rise to the dictatorship of bourgeoisie<sup>10</sup>. Hence, a collectively-oriented economic system, where the proletariat is granted the control, is more representative of the majority (Ibid).

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<sup>9</sup> Nevertheless, the extent to which the intervention of the state could go did not necessarily make unanimity amongst liberal thinkers. In fact, in contrast to the foregoing thinkers such as Hayek and Friedman, Isaiah Berlin, ascribed economic deprivation of some not being able to chart the waters of capitalism to what he called "negative freedom". As such, he stated " *Freedom for the wolves has often meant death to the sheep. The blood-stained story of economic individualism and unrestrained capitalist competition does not ... today need stressing*" (Berlin, 1969).

<sup>10</sup> It has to be stressed that while Marx and Lenin considered capitalist democracy to be the dictatorship of the bourgeoisie, they referred to the system that they envisaged for an ideal society as "the dictatorship of the proletariat", representing the will of the majority of the people (Marx-Engels Reader 1978, p. 730-33).

### **2.1.2 Modernisation theory-inspired arguments**

The end of the Second World War and the independence of several of the erstwhile colonies in Africa and Asia ushered in a debate about the conditions amenable to democracy. The theory of modernisation, modelled after the Western experience of democratisation, made its entry into the political literature of the period. Through a set of socio-economic criteria known as “*prerequisites*” such as high levels of wealth, urbanisation, education and industrialisation, the theory of modernisation set out to account for the lack of democratisation in the developing world. Popularised by Lipset, the idea of prerequisites stated the following: increasing levels of urbanisation, education, economic wealth, and industrialisation intervene to create socio-economic development. This socio-economic development paves the way for the formation of a rich middle class. The creation of an urbanised, educated, and wealthier middle class gives rise to democratic transition as the middle class pushes for a more accountable and representative government, as it happened in the West (1959).

The idea was to take the developmental trajectory of the West as a model and to attempt to account for the developing world’s lag in democracy on the basis of this model. Whilst the idea of *prerequisites* had already been brought up by a Middle Eastern economic historian Charles Issawi (1956), it is Lipset (1959) who can be credited for the popularisation of the theme<sup>11</sup>.

Later, Barrington Moore built on Lipset’s arguments. According to Moore, following the outbreak of a revolution, the path a given country follows (i.e., whether to lead to democracy, fascism, or communism) is determined by the relative configuration of five factors: (1) the power

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<sup>11</sup> There certainly existed differences between the approaches of Charles Issawi and Seymour Lipset. Whereas both authors agreed on the necessity of socio-economic factors for democracy to take hold, the former also argued in favour of a strong state apparatus. Lipset, on the other hand, being one of the pioneers of the behavioural revolution in social sciences, was amongst those authors who deemphasised the role of the state in politics.

distribution amongst the elites, (2) the economic status of the agrarian upper-class, (3) the class constellation, (4) the distribution of power between classes, (5) the states' autonomy as opposed to the dominant class. More importantly, however — and evoking Lipset— Moore stressed the centrality of the middle class as a necessary condition, as evidenced by his famous adage: “*No bourgeoisie, no democracy*”. However, Moore’s analysis also disagreed with Lipset’s. According to Moore, socio-economic development, particularly industrialisation, does not necessarily pave the way for a large middle class, the intermediary variable that leads to democracy (Moore 1966). In other words, authoritarianism could co-exist with a large middle class.

Two important corollaries can be drawn from Moore’s research. First of all, Moore’s research did not envisage the emergence of democratic rule without the implication of the bourgeoisie. Secondly, it is instructive to realise that in the above-mentioned typology of three forms of government that result from revolutions, a democratic political system always goes hand in hand with a capitalist economic system. According to Moore, while bourgeoisie led to democracy, the former cannot exist without capitalism, providing a strong link between bourgeoisie and capitalism. In other words, Moore can be interpreted as saying that capitalism is a *necessary* condition for democracy.

Rueschemeyer, Huber and Stephens, in a study produced more than two decades later, established that “capitalist development transforms the class structure, enlarging the working and middle classes and facilitating their self-organisation, thus making it more difficult for elites to exclude them politically. Simultaneously, development weakens the landed upper class, democracy's most consistent opponent” (1992, p. 84-85).

### **2.1.3. Directionality-Economic Development leading to Democracy**

The literature so far seems to imply the link between economic development and the spread of democracy. The debate about directionality, that is whether it is economic development that gives rise to democracy or vice versa, had not yet come into prominence. As the explanatory power of the modernisation theory ran out of steam, the debates about the directionality of the relationship between economic development and democracy gained momentum. In the midst of such debates, the study conducted by Lewis-Beck and Ross was more explicit about the idea of directionality of the relationship between democracy and economic development. Their statistical study, conducted on a number of states, concluded that economic development "causes" democracy, but democracy does not "cause" economic development (1993, 903-910).

Lewis-Beck and Ross inspired more researchers and soon a host of other research work premised on the same theme followed suit. One of the most prominent ones was arguably the research undertaken by Londregan and Poole (1996) on the democratising effects of high income. However, the authors' argument (as far as the directionality of the relationship between democracy and economic development is concerned) was that such democratising effects of economic development were more palpable in Southern Europe than other parts of the world as "it interacted with pressure from major trading partners in Western Europe (p. 1)" to democratize. In other words, while their study seemed to support the findings of Lewis-Beck and Ross (1993) about economic development leading to democracy, they argued that the democratising effects of economic development were more visible in one region than in the other and this effect was largely due to an intervening variable: the democratic conditionalties of the European Union.

#### **2.1.4 Directionality- Democracy leading to Economic Development (Democracy as the independent variable)**

In addition to the democratising effects of development as covered in the previous section, debates where democracy is the independent variable have also added to the complexity of the relationship between economy and democracy. L. Chen presents the ensuing debates under the title of “*democracy first, development later*” (2007). In contrast to the modernisation school of thought that foresees the arrival of democracy automatically once economic development takes root, this school of thought prioritises democracy over development. According to this school of thought, democratic institutions should be empowered irrespective of economic concerns. Once democratisation occurs, economic development will linearly follow suit.

Joseph Siegle, Michael Weinstein, and Morton Halperin, some of the most ardent proponents of this school of thought, argued that democracies consistently perform better than non-democracies on most socio-economic indicators. Hence, democracy promotion should precede expanding economic development in developing countries (2005).

Bhagwati, one of the most vociferous advocates of globalisation and market-economy, also highlighted the centrality of democratic governance for a well-functioning economy. He stated that markets could deliver growth with or without democracy. However, democracy without markets would be unlikely to promote significant improvement in economic welfare of a nation (1995).

Bhagwati’s emphasis on democratic governance for a better performance of free-market economy is also echoed by David Leblang, who asserts that economies in countries that protect property rights of their citizens grow more rapidly than those in nations that do not protect people’s property rights and certainly democracies protect more citizens’ property rights than do non-democracies (1996).



### **2.1.5 Directionality revisited**

While the directionality argument seemed to divide some scholars, others viewed it with caution. This was most apparent in the work of Przeworski et al. They argued that development makes democracies endure, but it does not make them more likely to emerge. They also argued that economic growth determines the survival of democracies, but not that of dictatorships. (2000, 101-109). As could be seen from the arguments of the authors, they refute the linearity of the link between democratic transitions and development (and vice versa) by highlighting different intervening factors that come into play.

Amartya Sen, also evoking Przeworski et al, is categorical about the irrelevance of the link in either direction between democracy and development: “If all the comparative studies are viewed together, the hypothesis that there is no clear relation between economic growth and democracy in either direction remains extremely plausible.” (1997).

David Beetham established that the link was more complex than initially thought. Basing his research primarily on free-market economy, he cautiously argued that free market economy could be both pernicious and conducive to democracy. Whereas overpowered market sources should be contained and regulated in order to protect the “necessary civility of social relations in a democratic polity (76)”, they should also be encouraged to exist in order to create counter-powers to the state power (1997).

### **2.1.6 Conclusion**

The debate on the link between economy and democracy still remains very controversial. While liberalism-inspired views set the stage for the inclusion of economic freedoms into the purview of democratic values, the modernisation school attempted to establish more tangible links between socio-economic factors and democracy taking the economy as the independent

variable. However, such an approach was not embraced unanimously. It clashed with those that took the economy as the dependent variable. As a result, as stated by Torsten and Tebellini, to this day, the literature on the link between the economy and democracy remains inconclusive (2006). Despite the inconclusiveness of the debate, there still exist countries where economic factors would sustain authoritarianism (as is the case with many oil-producing countries in the Middle East). How have economic factors given rise to an atmosphere of enduring authoritarianism in the Middle East? This will be the focus of the next section.

## **2.2: The situation in the Middle East: Why economic factors are justified**

Democratic transition in the Middle East has generated a contentious debate over the decades. What has contributed to this controversy is the fact that the region had been excluded from the Third Wave of democracy, as the consistent critiques of Samuel Huntington have displayed (1991)<sup>12</sup>. Moreover, while famous transitologists O'Donnell and Schmitter were interested in transitions to democracy in areas like Eastern Europe and South America, it was the Middle East that was often absent from their writings. Why did the Middle East suffer from such a democratic deficit and what could be done to remedy it?

Mona El-Ghobashy summarises the existing research on enduring authoritarianism in the Middle East with five factors: culture, lack of institutions, foreign intervention, the absence of “prerequisites”, and economic reasons (2010).

This research is going to highlight the role of economic reasons, particularly under the control of the state, in stalling democracy in the region. Before delving into the subject in greater detail, it is important to highlight why this research emphasises the role of economic factors in

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<sup>12</sup> Samuel Huntington, with his famous book called “*Clash of Civilisations*”, is one of the authors popularising the argument of “Middle Eastern exceptionalism”, which links the lack of cultural modernization (a necessary factor according to the proponents of the theory of modernisation for democracy) in the region to the dominant Islamic laws and culture (1991, p. 297).

maintaining the enduring authoritarianism in the region. Why the economy? Which economic conditions are more conducive to the emergence of democracy? Why could economic factors better explain the resilience of authoritarianism in certain Middle Eastern countries (such as Iran) than in the others? This section will respond to these questions by going through the four other factors brought up by El-Ghobashy. After having exposed these factors, I will demonstrate why the economy could be perceived as the central driver of authoritarianism. The link between economic factors (particularly an economy under the aegis of the state) and enduring authoritarianism will then be exposed.

### **2.2.1: Culture-based argument**

The first oft-used argument is that of culture. The predominant Islamic culture<sup>13</sup> has often been used to explain the democratic deficit of the Middle East. Especially within the context of Huntington's "Third Wave" (1991), the region's ability to withstand democratic transitions that took place in the rest of the world was dubbed the "Middle Eastern exceptionalism". According to this thesis of Middle Eastern exceptionalism, the region has resisted democratisation and its predominantly Islamic culture is the explanatory factor. For example, authors like Elie Kedouri asserted that there is "a deep confusion in the Arab public mind, at least about the meaning of democracy" and that "the idea of democracy is quite alien to the mindset of Islam. In tune with this 'exceptionalism', Bernard Lewis (1990) and Samuel Huntington made reference to a "clash of civilisations" between the Islamic world and the West. Accordingly, democracy, a Western value, was deemed to be incompatible with Islamic civilisation (Huntington 1996). However, according to authors like Eva Bellin, such "*orientalist*" approaches had been deployed against Catholicism and Confucianism over the course of the 20<sup>th</sup> century to explain the lag that they had displayed in democratisation (Bellin, 2004a). Moreover, no matter what the outcome becomes,

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<sup>13</sup> For a detailed analysis, see *Democracy and Arab Political Culture* by Elie Kedouri (1992).

the outbreak of the Arab Spring and the resulting struggle against the deeply ensconced authoritarian regimes of Tunisia, Egypt, Syria, and Libya called into question the currency of the argument of *exceptionalism*.

### **2.2.2 Institutions-based argument**

Authors like Marsha Pripstein Posusney (2004) and Mona El-Ghobashy (2010) have also argued that the lack of proper institutions accounts for the democratic deficit of the region (In other words, the lack of competitive party politics in most Middle Eastern countries and the fact that the institutional framework in many countries of the region does not tolerate dissent). In fact, competitive party politics has been so restricted in the region that Thomas Carothers has highlighted “the importance of developing viable political parties (2000, 5-21)” in order to promote democracy in the Middle East.

In this institutionalist debate, the structure of political systems plays a key role since it can either facilitate or complicate democratic transitions. As such, the authors note that the bulk of the countries of the Middle East are devoid of political institutions capable of promoting political opening. As mentioned by Ellen Lust Okar, the prevailing institutional structure prior to the Arab Spring has been one in which incumbents exploited the fear of political Islam, convincing many secularist opponents that they were better off with the current regime than with Islamist rule. The extent to which incumbents could succeed varied, depending on whether or not Islamist movements had been allowed to mobilize openly and the extent that the regime based its legitimacy on Islam. (2011, 163-70).

Yet, as elucidated by Eva Bellin, the democratic transitions in the region are stymied in the Middle East primarily due to the *coercive apparatus* of states that have the will and the capacity of the state to repress popular movements; the will and capacity of the state’s coercive

apparatus to suppress democratic initiative have extinguished the possibility of transition. Herein lies the region's true exceptionalism (2004a). Hence, as it turns out, as long as the invincible coercive apparatus of the state (fed with rents or the domination of the state on the economy) is not vanquished, the emergence of institutional structures capable of promoting democracy remains an arduous task to achieve. In other words, the institutional argument becomes linked to the existing economic factors that are in favour of the state. As stated by Bellin, "the robustness of the coercive apparatus is directly linked to maintenance of fiscal health. The security establishment is most likely to give up when its financial foundation is seriously compromised" (2004b, 144). In a similar vein, Michael Ross, in his seminal article called "*Does oil hinder democracy?*" makes reference to the presence of such a coercive apparatus under the ascendancy of the state when he talks about the "*repression effect*" of oil: oil-producing countries can resort to repressing popular movements for democracy by using oil against dissent. (2001).

### **2.2.3 Foreign Interference**

Foreign interference has also been raised as an obstacle to democratisation in the Middle East. It is irrefutable that European colonisation of the region as well as the mandatory regimes put in place by the colonising powers have not created an atmosphere amenable to democracy as of the first quarter of the 20<sup>th</sup> century. In fact, authors like Rashid Khalidi have argued that following the break-up of the Ottoman Empire, such Western intervention has made it difficult for representative governments to emerge in countries like Egypt, Syria, and Iraq. (2004, 1-11). Others have argued that lately Europeans have prolonged authoritarianism in places like North Africa by putting their weight behind repressive regimes in order to weaken the Islamist threat to international security. For instance, Michel Camau argues that since the Barcelona Process,

which paved the way for the Euro-Mediterranean Partnership<sup>14</sup> between Middle Eastern and European countries, Europe directly supported dictators in Tunisia, Egypt, and Algeria with a view to safeguarding security (2006, 78-79).

Yet, it is difficult to generalise foreign intervention as being uniquely harmful to democratisation in the region. For instance, in Turkey the conditionalities imposed by the European Union for country's accession were pivotal in improving the state of free-market economy and that of human rights (Baç 2009). In Saudi Arabia the direct post-9/11 pressure compelled the Saudi regime to reinstitute municipal elections in 2005 (Gause III 2010, 60). Finally, in Libya it was foreign intervention that helped bring down the firmly entrenched autocratic rule of Kaddafi during the Arab Spring.

#### **2.2.4: The Prerequisites**

Proponents of modernisation theory (Issawi 1956; Halpern 1963; Huntington 1963) had for long blamed the democratic deficit in the region on the lack of "prerequisites". Nevertheless, the explanatory power of modernisation theory in accounting for the lack of democracy in the region ran out of steam especially in the face of the economic development registered by many oil-rich countries of the region<sup>15</sup>. Some of these oil-rich countries in the Middle East (Kuwait, Qatar, The United Arab Emirates, Bahrain, Saudi Arabia, and Oman) are in fact amongst high-income countries in the world. According to Herb (2008), countries like the United Arab Emirates and Qatar have not encountered popular movements for democracy. How to explain this apathy? Furthermore, some of these countries have registered a high level of education of their

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<sup>14</sup> Euro-Mediterranean partnership is a multilateral partnership that was inaugurated through the Barcelona process in 1995. Its principal objectives were, amongst others, peace, security, and greater economic trade between member states that spanned the both sides of the Mediterranean.

<sup>15</sup> If anything, contrary to the oft-raised "exceptionalism" argument by the exponents of the theory of modernisation, the contestation against authoritarianism has been lower in oil-rich and economically developed Arab monarchies than in the rest of the Arab world during the "Arab spring". This "monarchic exceptionalism" is raised by Marc Lynch (2012).

population along with a high level of urbanisation; some of them (such as Saudi Arabia) are even highly industrialised (Herb 2005).

Even in non-oil economies like Tunisia, for example, the country's authoritarian system proceeded apace for decades despite the presence of a large educated middle class (Bellin, 1995, 147). According to Mahmoud Ben Romdhane (2003), during the publication of Samuel Huntington's modernisation theory inspired "Third Wave", Tunisia's per-capita income, literacy rate, and urbanisation rate were higher than the average for the countries where transitions to democracy occurred. However, these higher socio-economic indicators did not prevent authoritarianism from lasting for a long time in Tunisia. Hence, modernisation theory was incapable of explaining the democratic deficit in these countries. In countries like Syria and Jordan there occurred rapid socio-economic modernisation that was not necessarily followed by democratisation.

### **2.3.5 Economy-based arguments**

Economic factors in the Middle East have been fuelling authoritarianism both directly and indirectly. Both of these direct and indirect factors have to do with the fact that most economies of the region are under the auspices of the state.

Direct impacts of the economy on authoritarianism are more prominent in oil-producing countries. One of the striking features of the oil-rich countries of the Middle East is that many of them are considered rentier states<sup>16</sup>. In these rentier states with economies based primarily on natural resources (petroleum, natural gas, etc.), the rents distributed to the population can help reduce the pressure on the government for greater political opening and pluralism. According to Pete W. Moore, rulers with exclusive access to oil profits are often free to distribute this wealth

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<sup>16</sup> The concept of rentier states was invented by Maydavy. According to the author, rentier states (most of which are in the Middle East) are characterised by a low level of the taxation of their citizens, and are often not plagued with pressures for democracy by their population (Mahdavy, 1970).

through the co-optation of political allies and sidelining of the opponents (2010, 79). Oil rents at the disposition of a strong state can also be used to buy the loyalty of the population. These rents could be used to forge neo-patrimonial links between the state and society, with the state having invariably sought to placate society by avoiding taxing its citizens and/or providing material benefits in exchange for silence and political apathy. Hence, the adage of “*no taxation without representation*” (Ross 2001; Huntington 1991, 65) becomes applicable to the situation, albeit in the reverse form of “*no representation without taxation*” (Herb 2005). This neo-patrimonial and economic relation can also be summarised as follows by Hinnebusch, one of the political economists of the Middle East:

“What makes the Middle East ‘exceptional’ is less culture, per se, than the unique institutional–social structural configurations by which it has combined mass incorporating populism with rent-lubricated neo-patrimonialism – a combination nearly unique to this region (2007)”.

State control on the economy can also give rise to authoritarianism indirectly. We can highlight at least two examples in this regard. This first illustration deals with the state power constraining the power of the private sector. In economies that are not production-based, but are rather extractive, access to natural resource rents by the state can “undermine the capacity to build countervailing power to the state in society” (Bellin 2004a, 139). This situation makes the bourgeoisie weaker than and dependent on the government. That is why business and the private sector in majority of the Middle Eastern economies have not been able to significantly challenge the state in comparison to other developing countries. According to Alan Richards (2001) and



Hinnebusch (2007), the application of the Washington Consensus<sup>17</sup> was carried out in a way to retain the existing power relations between the state and society in favour the former while keeping the latter in a disadvantaged stature. What has been quite characteristic of most privatisation schemes in the region is that the emerging private sectors have maintained their intimate links with the state and the latter has continued to keep the upper hand in a symbiotic relationship often called “*crony capitalism*”. Consequently, the autonomy of the state has remained intact as the private sector has failed to build “countervailing centres of power to the state”, as stated by Eva Bellin (2004a). According to Huber, Stephens and Rueschemeyer, state needs to be strong enough and autonomous enough to ensure the rule of law and avoid being captive of dominant interest groups. Notwithstanding, its power also needs to be counterbalanced by the organisational strength of civil society. Thus, centralised state control on the economy is inimical to democracy (1993, 74).

The second illustration of the state control on the economy contributing to authoritarianism relates to coercion. According to Bellin, government’s access to rents feeds state capacity to coerce. The robustness of this *coercive apparatus* of the state depends on two factors: the capacity of the state to repress (i.e., the access to rents) and the will of the state to repress. (Bellin 2004a). The on-going support of foreign powers to authoritarian regimes because of the stability and the predictability of world-wide oil prices ensures the durability oil revenues accruing to the state coffers, giving the state the capacity to repress, while at the same time legitimising their authoritarian rule internationally. For example, the long-lasting relationship between the United States and Saudi Arabia is quite indicative of a foreign power supporting an authoritarian regime: while the United States ensures the security of the Saudi regime through its

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<sup>17</sup> Refers to a set of 10 economic policy prescriptions put forward by the English economist, John Williamston. Some of these policy prescriptions (such as deregulation and privatisation) aim to limit the state control on the economy.

support, Saudi Arabia ensures a stable supply of oil in the international markets (Okruhlik 2010, 498-409).

In conclusion, while the earlier section has exposed an inconclusive debate about the links between economy and democracy, the situation that has been unfolding in various Middle Eastern countries confirms the negative role that the state control in the economy has been playing as far as democracy is concerned. While the debate can be inconclusive elsewhere as far as the impact of economy on democracy is concerned, the Middle Eastern examples hint at a seemingly more conclusive result: too much state involvement in the economy has, for the most part, been a hindrance to democratisation in the region. The following chapter will deal with the theoretical framework relating to state control of the economy and its consequences as far as democracy is concerned.

## **CHAPTER 3: THEORETICAL FRAMEWORK**

Given the noticeable role of state in sustaining authoritarianism both directly and indirectly in various countries of the Middle East, on what basis should we, then, compare our case studies, Iran and Turkey? This chapter will carve out the theoretical framework, which I will apply to my comparative case study between Iran and Turkey in light of these prevailing debates covered in chapter two.

Whilst the rentier state theory can be applied to Iran and not to Turkey, the concept of state autonomy can be studied for both states as both states exhibit differing levels of state autonomy. Whereas Turkey has seen the role of the state gradually diminish over the past few decades, it has also managed to retain the stability of its parliamentary democracy in spite of its ups and downs. On the other hand, Iran has experienced an increased role of the state apparatus in the economy as well as a corresponding gradual deterioration of the state of democracy in spite of various popular pro-democracy movements breaking out within the past several years. As a result, authoritarianism in Iran has been solidified. How could the involvement of the state in the economy account for this authoritarianism?

To respond to this question, I will develop a theoretical framework linking state control over the economy to regime type. To do so, I will use the concept of state autonomy developed by Rueschemeyer, Skocpol, and Evans (1985) as a theoretical model to indicate how state control in the economy can hamper democracy.

I will first define state autonomy and the factors that underpin it. Then, I will present two theoretical models involving the concept of state autonomy. The first, the *rentier state model*, explains the link between the rents (usually obtained from natural resources) and autonomy. This model will indicate that greater autonomy of the state is more likely to foster authoritarianism.

The second model, the *productive economy model*, will focus on the link between an economy based on production (rather than rents) and state autonomy. It will highlight that a productive economy is more likely to constrain the autonomy of the state, and is more amenable to democracy.

### **3.1 The Autonomy of the State**

The proponents of the school of modernisation (Issawi 1956; Lipset 1959; Moore 1966) had ignored the impact of the state as an autonomous entity<sup>18</sup>. That is why the publication of “*Bringing the State Back in*” by Skocpol, Evans, and Rueschemeyer was ground-breaking. As its authors stated, it was not that such phenomena as political authoritarianism and totalitarianism were ignored by previous research, but just that the preferred theoretical explanations were mostly centred on economic backwardness or the unfortunate pervasiveness of non-Western “traditional” values (1985, 6). According to the foregoing authors, the state is an actor, which, in addition to being influenced by the society that surrounds it, also shapes social and political processes (1985, vii).

Skocpol, Evans, and Rueschemeyer define this influence as the “*autonomy of the state*”. According to the authors, states conceived as organizations claiming control over territories and people may formulate and pursue goals that are not simply reflective of the demands or interests of social groups, classes, or society. (1985, 9).

Consequently, a state that is autonomous from the society that it governs is less likely to hearken to opposing voices or act on the wishes of different interest groups. In other words, it can hold sway in a balance of power in its own favour. Conversely, the autonomy of the state

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<sup>18</sup> These authors were amongst the advocates of the behaviourist era in political science. This era deemphasised the role played by the state apparatus. As a result, non-state actors were prioritised to account for various socio-political phenomena such as democratic transitions.

apparatus diminishes as it becomes more dependent on different socio-economic interest groups in society. According to Stephens, Huber, and Rueschemeyer, the aforementioned balance of power between the state and society is, in fact, the essence of democratic rule as the authors define democracy as “*a matter of power and power-sharing*”. They argue that “the power of the state needs to be counterbalanced by the organizational strength of the civil society to make democracy possible” (1993, 73-74). This is consistent with the argument of Eva Bellin: one of the inherent reasons for the robustness of authoritarianism in the Middle East is the lack of such countervailing powers to state power (2004b).

How does the state reinforce its autonomy or retain it? This brings us to the key concept of “*capacities*”: “one may then explore the “*capacities*” of states to implement official goals, especially over the actual or potential opposition of powerful social groups or in the face of recalcitrant socioeconomic circumstances” (Skocpol, Rueschemeyer and Evans 1985, 9). The capacities, in this context, can refer to financial means as well as human resources; most importantly, resources to pursue certain policy goals that change the balance of power between society and the state in favour of the latter. It highlights the *economic* dimension of state autonomy. Consequently, the higher the capacity of the state to pursue certain policy goals is, the greater its autonomy vis-à-vis the society that it governs.

Consonant with the capacities argument, I will propose two conceptual models in the following sections. The rentier state model where states enjoy greater autonomy will help us account for the underlying reasons behind authoritarianism in these countries. In contrast, the productive economy model will explain how a more limited state autonomy makes authoritarianism more difficult to sustain.

### **3.2 The Rentier State model: Greater Autonomy of the state**

How can oil rents provide the state with greater autonomy? Most importantly, how can the autonomy afforded to the state by these rents sustain authoritarianism? This section will flesh out a theoretical framework associating rent-based economies with authoritarianism. I will explain how natural resource rents enable governments to steer clear of heavily taxing their citizens. The greater autonomy granted to the state by oil rents can pose challenges to democracy.

First of all, without taxation, governments are less likely to be accountable to their citizens. This lack of accountability can fuel neo-patrimonial relationships as the government attempts to buy peace by allocating revenues. The lack of an independent private sector to counteract state power also adds to the strength of the state power, making the property-owning middle class organisationally weaker than the state. This upper hand that the state retains against the middle class gives the former the capacity to repress dissent. Once this capacity to repress is matched with the will to repress (through the presence of a well-armed coercive apparatus), authoritarianism is more durably sustained.

#### **3.2.1 Rents replacing Tax Incomes: Less accountability**

Countries where oil rents accrue to and are controlled by the state typically feel little need to resort to taxing their citizens. Consequently, rents break the vital link that unites governments with taxpayers (Richards & Waterbury 1996, p. 17). This gives rise to a lack of accountability on the side of the government towards its citizenry; hence, the adage of “*no representation without taxation*” (Herb 2005).

I will thus attempt to analyse to what extent a given economy’s revenues are derived from natural resource rents and what percentage of the GDP is tax-based in order to better comprehend

the role of taxes. What are the impacts of these natural resource rents on democratisation? The next sub-section will address this question.

### **3.2.2 Allocation States and Neo-patrimonialism**

When the vital link that unites governments with the citizens, i.e., taxation, is missing, and as a result, the government does not feel accountable towards its citizens, neo-patrimonialism becomes inevitable. According to Luciani, the rents that afford Middle Eastern governments the luxury of lower taxation enable them to decide how to allocate revenues. States earning the bulk of their revenues by means of exports often times uniquely concern themselves with the task of allocating this revenue, rather than production, since they do not rely on the domestic economy for revenue. In other words, according to Luciani, these are '*allocation states*' where revenue derives primarily from external resources (1987). Revenues can be used to buy peace and loyalty in relationships evocative of patron-client relationships. Some of the best indicators of neo-patrimonial links for buying peace through allocation are state subsidies on consumer products, free or low-cost health care, and/or the percentage of employment that is public versus private. Often times, on account of relatively low levels of economic liberalisation, the existence of subsidies on basic food staples and direct hand-outs to the poor have constituted an important component of the loyalty of the populace to the regime. For instance, massive nationalisation movements undertaken throughout the region have intensified this tendency to give out subsidies to the poor while increasing state autonomy as in the case of post-revolutionary Iran (Karshenas & Pesaran 1995, 95).

According to Rex Brynen, the availability of financial resources fuels powerful neo-patrimonial networks based on family, tribe, and proximity to the ruling elite. Such clientelistic power structures typically favour personalism and discourage formal associational activity.

Because economic interests are better pursued individually rather than collectively, the development of class-conscious professional or trade union organisations is retarded by these rents (1992, p. 74).

### **3.2.3 Weak private sector: weak countervailing powers to the state power.**

As mentioned in the preceding sections, since state is the primary recipient of rents, which obviates the need for taxation, it allocates resources in a way to buy peace. Simultaneously, one of the inherent characteristics of rentier economies of the Middle East is the lack of a strong and independent private sector under the control of the middle class to counteract the state power. As mentioned by Eva Bellin, the region suffers from a chronic lack of countervailing power to state power, characterised, in the main, by too much state intervention in the economy (2004b).

While democracy is a “*matter of power and power-sharing*” according to Rueschemeyer, Stephens, and Huber (1993, p.73-74), how could power be shared in a way not to compromise democracy? The authors offer a power-sharing typology. This typology consists of three clusters of power, two of which are class power and civil society. The first cluster, the power of the middle class, is followed by the second one: the power of civil society. The authors highlight that in order for civil society to flourish, the presence of the middle class is indispensable<sup>19</sup> (Ibid, 73-74). The middle class needs to be financially autonomous from the state, As a result of this autonomy, a financially autonomous private sector (which is part of civil society) will arise. Consequently, civil society will be strengthened since “by definition, the middle class outside of the civil service (i.e., financially autonomous from the state) belongs to the private sector”

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<sup>19</sup> Nevertheless, while the authors deem the power of civil society as an inseparable component of civil society, they also formulate a caveat with regards to state-society relations: “The structure of the state and state-society relations are also clearly relevant for the chances in democracy. The state needs to be strong and autonomous enough to ensure the rule of law and avoid being the captive of the interests of dominant groups; the state's authority to make binding decisions in a territory and the state's monopoly of coercion must be settled”. (ibid, p. 74). In other words, they see the implication of the state apparatus as necessary in the democratic process. The authors’ conceptualisation of the salutary blend of autonomy between the state and society is also quite reflective of the term “*embedded autonomy*” concocted by Peter Evans.



(Kamrava 2007, p.198-99).

Notwithstanding, as mentioned in the previous chapter, most of the privatisation schemes deployed in the Middle East have been implemented in a way to keep the state power intact. As a result, far from democratising, these privatisation schemes (called crony capitalism), favoured the ruling elite in the state and enabled them to pursue their rule unimpeded. According to Brynen et al, although private sector actors have gained greater voice in policy-making or come into policy positions as a result of economic reform, the reassertion of the private sector has bolstered, rather than weakened authoritarian rule, particularly in the Gulf (2012, 226).

Consequently, in such rentier economies where crony capitalism defines privatisation, major capital-intensive enterprises such as oil companies, banks, and other employers remain under the sway of the state. The state is often unwilling to privatise such major entities in order not to jeopardise its autonomy. For example, according to Robert Looney, Iran's oil revenues have, in effect, enabled the government to maintain its money-losing state-owned enterprises, which are the main job providers (2006, 34). As a result, the government's autonomy was not compromised.

What are the main indicators of state power in the economy? As indicators of state power in economy, an analysis of the major stake-holders in the state-owned enterprises would be important. Is the private sector squeezed by the institutional and judicial arrangements? What per cent of the GDP is in the hands of the private sector?

### **3.2.4 From the Capacity to Repress to the Will to Repress: The Coercive Apparatus**

The previous sub-sections have exposed the conditions that make the state more autonomous from society, thus reinforcing its capacity to repress. Once this capacity to repress is matched with the will to repress, authoritarianism becomes inevitable in the framework linking rentier economies to the enduring authoritarianism. As such, this sub-section will cover the

coercive apparatus of the state as an expression of the will to repress deriving from the capacity to repress.

Eva Bellin argued that as long as the coercive apparatus of the state had the ‘capacity’ and the ‘will’ to repress pro-democracy movements, authoritarianism in the region is bound to remain robust (2004b). That is why I will focus on coercive apparatus as one of the explanatory factors of the lack of democracy in Iran as part of my comparative analysis. First of all, in addition to analysing their structure and formation, the determinants of the robustness of a state’s coercive apparatus will be investigated. The research conducted by Posusney is quite instructive in this regard: “Fiscal health is essential in rewarding the personnel of the state’s coercive apparatus, and the Middle East is distinguished by the comparatively high proportion of government expenditures devoted to security forces [...] because stable funding of the coercive apparatus appears to characterize even those states that have faced severe foreign exchange shortages and implemented economic reforms, it can help explain why the political openings in the region have not gone further” (2004, p. 131). We will thus analyse the financial power of the coercive apparatus, especially in the case of Iran.

While analysing the coercive apparatus of the state, a caveat has to be borne in mind: they should not be confused with the army. As raised by Michael Albertus and Victor Menaldo militias such as the *Basij* in Iran typically act, either implicitly or explicitly, at the behest of the state, often independent of the decisions taken by the army (2012, 157). In Egypt, the secret police system called the *Mukhabarat*, used not only by the monarchy in the 1920s and 30s, but also by the Mubarak regime, regularly monitored, harassed, intimidated, and even tortured dissenters (Sirrs 2010, 195). Dictators tend to rely on such repressive forces in order to hold on to power and forestall democracy.

In essence, the rentier state model has tried to indicate that the state enjoys greater autonomy from society. When the state is the sole decision-maker as far as the use of windfall natural resource revenues are concerned, it feels little need to tax the population for its fiscal health. This lack of tax revenues breaks the vital link that unites governments with tax-payers (Richards & Waterbury 1996, p. 17). The autonomous state distributes its largesse to its citizens, which diminishes the accountability of the state towards society. Simultaneously, since the state is primary stake-holder in the economy, the private sector gets increasingly squeezed making the middle class organisationally weaker towards the state. As a result, the middle class becomes more vulnerable to the state's coercive apparatus, which smothers anti-regime protests and anti-regime activity. In the end, the state control of the economy gives rise to enduring authoritarianism.

### **3.3: Productive (Non-extractive) Economy Model**

Given the negative implications of natural resource rents on democratisation in the Middle East, the role of non-extractive economies in reinforcing democracy in countries like Turkey becomes quite eye-catching. How can a non-extractive economy weaken the autonomy of state from society? More importantly, what kind of link can we detect between this weak autonomy of state and democracy? This section will respond to these questions.

#### **3.3.1: Lack of rents: Greater need for taxation and greater accountability**

While the rentier-model brought up the lack of taxation as a stumbling block to representation, conversely, does taxation lead to better representation? Many scholars such as North (1990), Bates and Lien (1985), Huntington (1991, 65) have argued in favour of taxation as being conducive to democracy. The crux of their argument is that greater taxation by the government heightens the expectations of the population in terms of services and representation compelling governments to be more accountable and more attentive to the expectations of their

populations. One of the most salient indicators of taxation is without a doubt the ratio of Tax/GDP<sup>20</sup>. The higher this ratio, the less autonomous a government is likely to be from society. The state's dependence on taxes compromises its autonomy from society and paves the way for the emergence of different centres of power that challenge state power.

### **3.3.2 The emergence of an independent private sector as a countervailing power to state power**

An independent private sector, as mentioned in the previous sections, restrains the state power, making authoritarianism harder to sustain. According to Huber, Ruschemeyer, and Stephens, the emergence of the private sectors give the middle classes an unprecedented capacity for self-organisation due to such developments as urbanisation and factory production, forming countervailing powers to state power (1991, p.73-74). Referring to the “capacities” concept, as the private sector, controlled by upper and middle classes, gains the upper hand in the economy, the capacity of the state diminishes, making it less autonomous from society. Repressing the private sector and the middle class, the main revenue-generator of the economy, becomes costly. The middle class becomes financially and organisationally less vulnerable to the coercive apparatus of the state.

One of the most obvious gauges of the power of the private sector is the share of private sector as the percentage of the total GDP. Moreover, a qualitative analysis of the organisational strength of certain private enterprises in shaping governmental decisions is also an important measure of the autonomy of the private sector from the state. It would be instructive to determine whether the private sector companies have mustered up to form different clusters of power to more efficiently exert their influence on the decision-making process of the state.

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<sup>20</sup> According to basic macroeconomic theory, the GDP is composed of four main components: Consumption(C), investment (I), net export revenues (XN) and government spending (G), with the sources of G coming primarily from tax revenues.

While democracy is “a matter of power sharing”, how strong should the middle class be in comparison to the state? As mentioned by Huber, Ruschemeyer, and Stephens, the state needs to be strong enough and autonomous enough to ensure the rule of law and avoid being the captive of the interests of dominant groups. However, at the same time, its power needs to be counterbalanced by the organisational strength of the civil society to make democracy possible (1993, p. 74).

In conclusion, the theoretical framework has striven to highlight the fact that the productive economy model is more amenable to democracy for the following reasons: first of all, the tax-paying citizenry exerts certain pressures on the state by expecting accountability, which diminishes the autonomy of the state from society. Secondly, it gives rise to the emergence of a middle class, which gradually wields increasing organisational power through the private sector. This power starts forming countervailing powers to state power, weakening the state’s capacity to repress and to resort to coercive force. Consequently, the resulting power structure with the state power on the one hand, and the power of the middle class (represented by the private sector) on the other, is more conducive to democratic rule.

The next chapters will apply the theoretical framework that we have carved out in this section to my case studies: Iran and Turkey. I will account for the absence of democracy in Iran through the rentier state model as the country’s burgeoning democracy movement has been muzzled through a strong and well-armed coercive apparatus of the state, IRGC (Iranian Revolutionary Guards Corps). While the private sector in Iran has been squeezed out and left incapacitated, the IRGC, in addition to its role in coercing dissent, has also become the primary stake-holder in the Iranian economy. The presence of large oil rents has enabled the Islamic Republic of Iran to buy peace in the most downtrodden strata of society by resorting to subsidies

and direct cash hand-outs. As a result, the middle class has remained organisationally weak. With the lack of countervailing powers to state power, authoritarianism has endured.

In my second case study, Turkey, where institutional structures of a parliamentary democracy have remained intact despite several attempts at disruption throughout the 20<sup>th</sup> century, I attribute this more or less successful democratic continuation to the productive economy model. The lack of natural resource rents has compelled Turkey to seek additional sources of revenues. As a result, the country has developed, in comparison to Iran, a better functioning tax-collection bureaucracy. The taxation of the citizenry has also churned out expectations of accountability and better representation. The fiscal vulnerability of the state in the absence of rents has paved the way for the emergence of an organisationally strong middle class represented by power-wielding business associations and other private sector actors. As countervailing powers to state power have formed, the state's autonomy has weakened, making it more attentive to dissent. As a result, Turkey has remained more democratic.

## CHAPTER 4 –IRAN: STATE AUTONOMY AFTER THE REVOLUTION

*'Business is no good unless you enjoy a government rent or are the son of a cleric', said Faramarz Etemadi, 52, peddling black fabric for women's veils at a stall in Tehran's vast bazaar. 'We had one shah, and now we have thousands.'*<sup>21</sup>

The Iranian revolution of 1979 changed various dynamics in Iran because it gave rise to the complete dismantling of the shah's political regime, the remaking of Iran's foreign policy and alignments, as well as a cultural and economic transformation of the country (Richard & Waterbury 2006, 320). This transformation occurred following the Shah Mohammad Reza Pahlavi's grandiose modernisation programmes thanks to the oil wealth. A vocal class of merchants, leftists, feminists, nationalists, constitutionalists, and clerics from almost all social classes demanded 'political modernisation' (i.e., a more pluralist society) to accompany socio-economic modernisation by channelling their opposition to the shah under the leadership of Ayatollah Khomeini (Keshavarzian 2011, 235).

Just as the Iranian revolution has been one of the ground-breaking events in the world, ushering in political Islam, so too did its implications in restructuring the Iranian economy. Iran used to enjoy a sizeable private sector under the auspices of the shah as the private sector accounted for 75% of the industrial production in the mid-70s. It was the regime's ideological commitment to capitalism that accounted for this rate (Shambayati 1994, 320). This industrial production also churned out its own share of private industrialists. As a result, the number of private industrial establishments rose from less than 1,000 in 1957 to 6,200 in 1974. Notwithstanding, while the private sector was an important component of the Iranian economy before the revolution, its strength depended, for the most part, on state support and oil rents. (Ibid). This was a political system that favoured the shah's closest allies in the private sector and was a typical example of crony capitalism despite the emergence of a burgeoning private sector.

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<sup>21</sup> K Vick, 'Class is pivotal in Iran runoff', Washington Post Foreign Service, 24 June 2005, A20.

During the post-revolutionary era, the state's involvement increased markedly in the economy whereas the industrialists of the pre-revolutionary era were forced into exile and their wealth was confiscated by the state (Keshaverzian 2011, 235). Accompanying this shift from capitalism to populism, the new Islamic Republic also witnessed an ideological shift while authoritarianism proceeded apace; Ayatollah Khomeini, deriving his unquestionable authority from God, suppressed and purged all of his rivals (Alamdari 2007, 1290).

The system of crony capitalism fed by the oil rents during the monarchic era precluded the emergence of countervailing powers to state power. The overthrow of Iran's monarchy and its replacement by an Islamic Republic extended the state's hold on the economy while authoritarianism, this time based on religion, deteriorated.

This chapter will focus on the metamorphosis that occurred within the Iranian economy following the revolution and how it impacted the state's autonomy and the chances of democracy in Iran. The first section will provide a synopsis of the Iranian economy following the revolution. The second section will present a picture of the resulting state-society relations and the state autonomy using the *rentier state model*, the theoretical framework developed in the earlier chapter. The third section will delve into the state of democracy in Iran by analysing how the prevailing state autonomy has empowered the state's coercive apparatus, which has consistently stifled Iranians' democratic aspirations.

#### **4.1: Iranian Economy after the Revolution and Shift in the Centres of Economic Power**

As with almost all spheres of life, the trajectory of the Iranian economy shifted radically after the 1979 revolution. As highlighted by Amuzegar, the 1979 constitution served as the initial step toward the Islamicization of the Iranian economy. The crucial difference between the new constitution and those of other contemporary nations—including Iran's own 1906 constitution—is in its emphasis on life's purpose. The economy, the 1979 constitution declares, is not an "end in



itself' but only a "means" of moving toward God (1992, 415-16). Soon after, the state's grip on the economy grew tighter and a host of nationalisation schemes followed suit, making the Iranian economy more centralised than ever. This centralisation of the economy has created different clusters of economic power under the hands of the state and state-operated foundations.

According to Thaler et al, some informal centres of economic power and networks in Iran have experienced a "cyclical ebb and flow" in their level of influence since the revolution. Certain networks have eclipsed others at various times. During periods when one group was dominant, other groups remained influential, just not the extent of the dominant group. We can identify three distinct centres of economic power each of which reigned during different periods since the revolution. The first one is the clerics and their network, which reigned throughout the 80s until the end of the Iran-Iraq war. By the 1990s, *bonyads*<sup>22</sup> had become dominant in the economic sphere although the power wielded by the clerics and their networks continued to exert considerable influence. By the beginning of 2000, the IRGC<sup>23</sup> (The Islamic Revolutionary Corps) began to supplant the clerics and the *bonyads* as the most influential type of network. (2010, 54).

The clerics were primarily composed of Khomeini and his close aides presiding over the most important socio-economic and political matters of the Islamic Republic until his death. As for the *bonyads*, according to Maloney, they were created mostly out of the assets belonging Pahlavis and other elite families that fled Iran. They evolved into important and often unaccountable economic actors over the next 30 years (2010, 2). Finally, the IRGC was also founded by Khomeini at the outset of the revolution with the task of safeguarding it. However, the IRGC's hold on the economy became more prominent during the presidency of Ahmadinejad

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<sup>22</sup> Bonyad is the Persian term for "foundation". Bonyads will be further explored in section 4.2.1

<sup>23</sup> More on the IRGC will be explained in section 4.2.1

although it had been involved (through its affiliated vigilante groups such as the *Basij* and *Ansareh Hezbollah*) in the enforcement of the cultural norms of the Islamic Republic such as the mandatory dress code for women and attacking liberal students at universities (Alfoneh 2008, 7).

While the control exerted by the clerics (most important one being Ali Khamanei, the present-day supreme leader), the bonyads, and the IRGC have come to dominate the Iranian economy, they have also created conditions amenable to corruption and black market. According to Transparency International, Iran's corruption index<sup>24</sup> in 2013 was 144 out of 177 countries, (Transparency International 2013). However, the existence of such a high level of corruption has been quite beneficial to the power centres of the Islamic Republic. According to Thaler et al, efforts at reforming Iran's corruption-ridden economy have often been hampered by these groups. The distribution of oil proceeds, an important revenue-generating commodity, amongst these groups without government intervention has been a common trend (2010, 111-12). Just how important is oil to the Iranian economy and how does it affect the power relationships?

#### **4.2: Iran, the Rentier state model and state autonomy**

Oil constitutes the backbone of the Iranian economy. Oil revenues accruing to state coffers make up 80% of Iran's total export earnings and 50% to 60% of its government revenue, according to the Intelligence Unit (2012). About 90% of foreign exchange revenues are gained through exports of oil and gas (Central Bank of Iran 2010). In spite of its vital importance to the economy, the oil sector accounts for a tiny portion of the labour force. According to Brumberg and Ahram, the oil sector employed merely between 120,000 to 180,000 people in 2006, constituting less than 1% of the total labour force in Iran (2007, p. 3). Given the preponderance of the oil rents in Iran, the share of total tax revenues as a per cent of GDP is lower than any other developed and non-oil developing country. According to World Bank indicators, the ratio of

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<sup>24</sup> While a country ranking number 1 is the least corrupted, a ranking of 177 corresponds to the highest corruption.

taxes to Iranian GDP was about 6 per cent between 2001 and 2006, while the global average was over 14 per cent (Farzanegan 2013, 23). In brief, by virtue of complete state control on handling oil revenues, low levels of taxation, the fact that oil sector accounts for a tiny percentage of the labour force and that oil revenues constitute the overwhelming majority of export earnings, we can easily classify Iran as a rentier state, as per Luciani and Beblawi (1988)'s definition.

Oil has played a major role in cementing the Iranian state's ascendancy on the economy, giving the state the capacity to become more autonomous from civil society and the private sector. Low levels of taxation, subsidies and hand-outs have also had the effect of winning the loyalty of a certain stratum of the population. In the words of Rueschemeyer, Stephens, and Huber democracy being a "*matter of power and power-sharing*" (1993, p.73-74), the asymmetrically higher state power can prove inimical to democratic rule. In what follows, I will demonstrate the weakness of the private sector in Iran and the pervasiveness of the state-control within the economic sphere. Next, low level of taxation and a high level of clientelism exercised by the Islamic Republic of Iran will be examined. Afterwards, my analysis will focus on the coercive apparatus developed by the government and its intimate links to the state control of the economy. Finally, as concrete examples of state control of the economy stifling democratic opening, the 1999 student demonstration and post-2009 election turmoil, two major pro-democracy demonstrations in the history of the Islamic Republic of Iran, and the role of IRGC in quelling these pro-democracy rallies will be analysed.

#### **4:2:1: Iran's Private sector versus the state-controlled economy: Lack of countervailing powers to state power**

As mentioned in section 4.1, Iran's private sector has been highly incapacitated owing to the forced nationalisations of the post-revolutionary era. Private enterprises have been present in agriculture, trade, small-scale manufacturing, and mining, but play a minimal role in large-scale economic activity (IMF 2006). In a bid to keep the power of private enterprises at bay, the government reinforced the familiar regulatory maze and red tape for private investors, who needed to obtain numerous permits and approvals before being allowed to function (Waterbury & Richards 2008, 257).

According to Amuzegar, these laws enacted by the *Majlis* (the parliament) restricted private sector ownership of strategic industries in order not to constrain the power of the state. Hence, non-strategic manufacturing, tourism, social services, trade and transportation were the areas where private sector was allowed to participate (1992, 424). In 1990/1991, public enterprises accounted for 73% of industrial value added, 72% of employment and 65% of investment (Amuzegar 1993). Despite their poor macroeconomic performance and their costliness to the state, public sector's hold in the economy more or less proceeded intact throughout the 90s. So much so that the state still directly controlled roughly 70% the economic activity in the year 2000 in Iran. Moreover, the private sector share of the economy in 2000 was not more than 17%. (Khajepour 2000, 579).

Furthermore, over the past decade, a large number of state-owned entities, called *bonyads*, engaged in the establishment of semi-public and semi-private firms that have taken over some of the privatized companies. Hence, if one includes all the mentioned semi-public entities, it is estimated that the public sector controls some 80% of the Iranian economy (Khajepour 2000,

579). These foundations, semi-public in their structure, were said to account for an estimated 33% - 40% of Iran's total GDP (Katzman 2006, 2).

**Bonyads:** Originating as foundations at the service of the poor after the revolution, *bonyads* have turned into major stakeholders in the Iranian economy. Exempted from paying taxes, these semi-private foundations have extended their hold to incorporate various manufacturing industries. What resulted was, in the words of a noted scholar Ali Ansari, “the establishment of informal networks and cartels of business associates, unregulated and avaricious to the extreme (2007, 13). According to Nader Habibi, although there exist numerous *bonyads* in Iran, *Bonyad-e Mostazafeen* (Foundation of the Oppressed) and *Bonyad-e Shahid* (Foundation of the Martyrs) are the two major ones that enjoy significant economic powers enhancing the government's economic and political influence even as they stifle competition in the economy (2008, 3). Another powerful *bonyad* is associated with an important religious shrine and pilgrim destination in the northeastern city of Mashhad. Headed by *Va'ez-Tabasi*, the Imam Reza Shrine Foundation amassed a fortune worth an estimated \$15 billion through ventures in automobile manufacturing, agriculture, and real estate and is believed to own 90 per cent of the fertile land in Khorasan province (Thaler et al 2010, 57-58).

*Bonyad-e Mostazafeen* controlled 12 billion dollars in assets in 2003 and employed 400,000 people directly (BNP Paribas 2003, 15). According to Kenneth Kartzman, *Bonyad-e Mostazafeen* is active in several major sectors, including shipping, metals, petrochemicals, construction materials, dams, towers, farming, horticulture, tourism, transportation, hotels (including two major hotels in Tehran), and commercial services. It produces the best selling soft drink in Iran, called *Zam Zam*. The Foundation uses the profits from these ventures to assist 120,000 families of veterans and victims of the 1980-88 Iran-Iraq war, as well as large segments of the poor. It included within its ranks some hardliner clerics (2006).

Towards the beginning of 2000s, while *bonyads* still retained their importance as important stakeholders in the economy, another important stakeholder, the Iranian Revolutionary Guards Corps (IRGC)—also known as the Army of the Guardians of the Revolution or *Pasdaran* in Persian—, rose to prominence, especially under the presidency of Ahmadinejad.

**Iranian Revolutionary Guards Corps (IRGC):** Founded after the Revolution of 1979, the IRGC has been a parallel army to the regular army of Iran. While the regular army is tasked with the protection of Iran's borders, the IRGC's goal has been to protect Iran's Islamic system of governance both against foreign and domestic enemies. According to Steven O'Hern, the IRGC, which reports directly to the Supreme Leader, Ali Khamanei, has manpower of 125,000 members and in addition to dominating the economy, it is also an influential organ in foreign affairs, national security, and politics (2012, xi). They also control the 90,000 men strong *Basiji* militia often used in riots against civilians (Abrahamian 2008, 175-6).

The IRGC oversees or owns important interests in various sectors of the Iranian economy, including oil, construction, agriculture, mining, transportation, defence industry along with export and import businesses. The IRGC's *Khatam ol-Anbiya* engineering arm is one of Iran's largest industrial contractors (Thaler et al 2010, 59).

Given the fluctuating nature of the oil prices, the main source of funding of many of the money-losing state-owned enterprises and an important portion of the IRGC, Iran has often been confronted with the dilemma of continuing funding these enterprises for the sake political power or privatising them for macroeconomic stability. Although privatisation schemes had long been launched in Iran, they remained ineffectual and lacked the drive to go far. Under the presidency of Ahmadinejad, although privatisation seemed to gain momentum, the results were far from empowering an independent private sector. According to Ali Alfoneh, since the inauguration of

Ahmadinejad's privatisation campaign, the IRGC and its front companies, using the funds that they have been accumulating since the 1980s, have purchased close to 70% of the assets belonging to the state-owned enterprises while only 12,5% of them have been sold to the private sector (2010, 1-3). The hard-line clerical establishment and the IRGC, to which it has many ties, have grown immensely wealthy through their control of tax-exempt foundations that dominate many sectors of the economy (Freedom House 2012).

As this section, has demonstrated, the wings of Iran's private sector are clipped and it lacks the organisational and financial capacity to stand up to state power. Thanks to the oil money flowing directly to state coffers, the state has been strengthening the money-losing state-owned enterprises in a bid to safeguard its pre-eminent economic power. What seemed to be an ambitious privatisation drive launched under Ahmadinejad's presidency only ended up retaining the existing balance of power between the private sector and the state in the latter's favour. In the words of Skocpol, Rueschemeyer and Evans such a balance of power between the society and the state gives the latter "the *capacities* to implement official goals (1985, 9), which, in the Iranian case, is keeping a strong state apparatus for the survival of the Islamic Republic.

#### **4.2.2 Neo-patrimonialism and lower taxation: Buying Loyalty**

Just before the outbreak of the Iranian revolution, the oil boom of 1970 had produced a high level of inflation and a remarkable gap between the urban dwellers and rural poor. The excesses that the shah's family was indulging in were often portrayed as reasons why the country's immense wealth did not trickle down to the masses. That is why, according to Amuzegar, the revolution was launched; the slogans of the revolutionary era promised greater prosperity and a more equitable division of the oil wealth (1992, 420-421).

Consequently, as mentioned in the previous section, *bonyads* (foundations) with supposedly charitable missions were founded by confiscating the wealth left behind by the shah's

family and many of the property-owning capitalists in order to provide for the poor. This was, according to Sami, a clear indication that revolutionary state was an allocation or distributive state. It had a certain set of clients and priorities. As such, the populist emphasis of the Islamic Republic and its championing of the rights of the *mostazefin*, the weak and the oppressed, translated into hand-outs and various forms of assistance for selected groups of the urban and rural poor. These selective hand-outs, established networks of patronage and support tied to particular institutions and people. The recruitment of bands of militant young men, *hezbollahi*, for vigilante organisations was, in part aided by this process. At higher-class levels, these direct hand-outs also included the *bazaar*<sup>25</sup> merchants, which was instrumental in the overthrow of the shah (1988, 7).

Despite the devastating 8-year war with Iraq, Iran's international isolation on account of systematic American sanctions, and Iran's rapid population growth in the immediate aftermath of the revolution, Iran's neo-patrimonialist policies of buying the loyalty of the poor proceeded apace. In 2003, according to BNP Paribas report<sup>26</sup>, half of the poor population benefited from social coverage coming from the government and charity organisations; these programmes included direct transfers and assistance for tuition fees, health, and social security (2003, 14).

The Islamic Republic also boasted an extremely costly subsidy programme<sup>27</sup> that kept the prices of various commodities and essential goods at check. According to Nikou, Iran has subsidized petroleum products, basic foodstuffs, medical goods and utilities since 1980, first to

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<sup>25</sup> **Bazaar**: Refers to the traditional marketplaces in Iran and most of the Middle East. The merchants of the Bazaar, called *Bazaris* in Persian, have been important decision-makers in the Iranian economy.

<sup>26</sup> Translated from French : « *La moitié de la population pauvre bénéficie de couverture sociale provenant du gouvernement et des institutions charitables ; ces programmes comprennent des transferts monétaires, frais de scolarité, santé et sécurité sociale.* »

<sup>27</sup> Due to the intensity of international trade sanctions imposed on Iran for its controversial nuclear programme, the administration of Ahmadinejad decided to gradually phase out most of the fuel and food-related subsidies, which were initially met with stiff resistance in certain urban areas. However, the programme is still underway and we have to wait a few more years in order to discern its long-term effects on the continuation of the loyalty of the poor to the regime.



manage hardships during the eight-year war with Iraq, and then to prevent political and economic challenges after the war. Their estimated cost to Iran in 2010 was between \$70 billion and \$100 billion annually (2010). The oil money was also directly used to finance the costly subsidy programme. According to Ilias, a significant portion of the oil money was channelled into sustaining Iran's subsidies programme, which was estimated to reach over 25% the country's total GDP in 2008 (2008 7-14).

Both Rafsanjani<sup>28</sup> and Khatami<sup>29</sup> administrations have attempted to mitigate the extent of Iran's generous subsidies and the hand-outs to the poor, but have often encountered resistance from the hard-liners. Khatami's attempts at liberalisation especially struck a chord with the people on the receiving end of subsidies. According to Alamdari, the rise of Ahmadinejad after the reformist era in Iran could be explained by two major reasons: (I): The disenchantment of various pro-democracy with the slow pace of reform under Khatami—hence, many of them refused to participate in the 2005 elections; (II): the discontentment of millions of Iranians, including hard-liners, who were benefiting from these hand-outs with Khatami's attempts at economic liberalisation (2007, 1285-1292). Ahmadinejad's populist promises of “*putting petroleum income on people's tables*” especially entranced many low-income Iranians.

During the initial stages of Ahmadinejad's tenure, the government's distributive policies reached their apogee. The most instructive in this case is the distribution of “Justice Shares”<sup>30</sup>.

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<sup>28</sup> Iran's president between 1989-1997; he reigned immediately after the end of Iran-Iraq war and supervised the projects of Iran's post-war reconstruction.

<sup>29</sup> Iran's president between 1997-2005; he belonged to the reformist camp that came to power with promises of political and economic liberalisation.

<sup>30</sup> Launched under presidency of Ahmadinejad, this programme intended to privatise the shares of Iran's money-losing state enterprises. As part of the plan, shares were to be distributed to low-income families starting with the poorest. However, in reflection, instead of privatising these enterprises, this programme ended up enhancing the loyalty of the poor to Ahmedinejad's populist policies.

According to Habibi, in the first phase of this process, justice shares were distributed to 4.6 million eligible individuals, prioritising the poorest; the value of these shares was assessed at \$2.3 billion. The government tried to sell the remaining 40 % of the shares of privatized enterprises on the stock market; in many cases, however, these shares were purchased by semi-state agencies or foundations (*bonyads*) (2008, 4). While this distribution assured the loyalty of the poor to the Administration of Ahmadinejad, it also kept the state power intact as the *bonyads* retained their strength.

Oil incomes have enabled Iran to fund neo-patrimonial policies of direct cash transfers and subsidies, making taxation an insignificant component of the GDP. The presence of oil and the fact that the regime's priority is set on its own survival by avoiding high taxation of citizens have precluded the emergence of a well-functioning tax administration. According to Curtis and Hooglund, since the private sector plays a small role in economic activities compared with the state and because some government enterprises are exempt from tax reporting, the tax base has remained very thin. For example, government-linked charitable foundations, or *bonyads*, were expected to pay taxes of only about US\$46 million in 2004, although those consortiums are believed to control close to 40 per cent of Iran's GDP (2008, 192).

While tax evasion is a pervasive problem in Iran, the lack of governmental supervision has added to the lack of enthusiasm on the part the citizens to declare taxes. For example, according to Bakhtiar, the *Bazaar* merchants seldom declare their true net worth or income to the authorities, and the authorities have no system of finding out the true income of these individuals and companies. Moreover, Iran has millions of people who virtually do not pay any taxes (2007).

As this section has demonstrated, oil revenues have enabled the government to co-opt certain strata of the Iranian population by providing them with direct transfers, subsidised fuel and food products to broaden its own support base. The government's laxity on tax collection and

the lack of a well-functioning tax regime have also encouraged evasion. In essence, neo-patrimonialism and rent-seeking behaviour of the regime through oil have worked to sustain the regime's lifetime and cemented its autonomy amongst the poor segments of the population.

#### **4.2.3 Rent-fed Coercive Apparatus and Democracy**

Through the course of the Iran-Iraq war, the *bonyads* built strong connections with the Revolutionary Guards and the *Basij* paramilitary group. In the coming decades, each of these groups benefited from the oil revenues (Brumberg & Ahram 2007, 20) The *Basij* militia (also known as *Sazmaneh Basij-e Mostazafin* in Persian, or the Organization for Mobilization of the Oppressed, in English), is a voluntary organisation founded during the Iran-Iraq war. They actively participated in the war, many of them being recruited at a very young age, primarily from poor families or families of war veterans and martyrs.

According to Curtis and Hooglund, at the conclusion of the Iran–Iraq War, the government faced the need to reintegrate hundreds of thousands of young *Basij* volunteers into Iranian society. Many of them were later assigned to the task of enforcing the Islamisation of society, night-time patrolling of urban streets and intersections, and policing of areas where young people gather, such as universities and the sites of weekend and summer youth activities. A 1992 decree gave the *Basij* the law enforcement mission. However, since the law's inception, the authority of the *Basij* has expanded to include monitoring of a wide variety of “suspicious” everyday activities of citizens. This monitoring function has included arrests of women who fail to observe the Islamic dress code and men who consume alcoholic beverages. Iran's regime often resorted to coercion by the *Basij* force to stifle unrest and pro-democracy rallies and to reinforce the clerical rule (2008, 271). Later in 2008, they were incorporated into the ranks of the IRGC as the latter grew increasingly prominent after the arrival of Ahmadinejad in power.

Although with the arrival of the reformists in power in 1997, the power of the *Basij* was thought to have faded into oblivion, there were three key events that enabled them to move again to the forefront of the Iranian politics. The first was the July 1999 student protests. With the growing dissatisfaction simmering amongst Iran's youth against daily restrictions and freedom of speech, many university students in Tehran (and later other major cities) took to the street to demand greater accountability, more freedoms, and respect for students. According to Hen-Tov, *Basij* was actively deployed on university campuses, quelling youth unrest (2010, 175). As documented by Human Rights Watch, the *Basij* (also mentioned as the plainclothes security forces) raided student dormitories, beating students and trapping many in their rooms. (2004). This unrest also drew the ire of the IRGC. In an ultimatum that they gave to the reformist president, Mohammad Khatami, twenty-four Revolutionary Guards senior officers stated that they, "cannot tolerate the situation anymore" and would take action if Khatami did not change his policies. The IRGC's "Special Force" is trained for scenarios of suppressing political or social uprisings in urban settings – especially in Tehran (Khallaji 2007). Eventually, under pressure from the *Basij* and the IRGC, Khatami had to retract his support for students and that is partially why 1999 student demonstration ran out of steam, not eliciting a democratic opening.

The second defining moment for *Basij* was the arrival of Ahmadinejad in power. This also set the stage for an increased participation of *Basij* in the economy. Under Ahmadinejad, the growing militarisation of the economy gave rise to the economic might of the IRGC and its subsidiary militia, *Basij*. According to Alfoneh, following the privatisation drive of 2005 inaugurated by the administration of Ahmadinejad, IRGC and *Basij*, through their credit institution called Mehr Finance and Credit Institution, have attempted to buy a sizeable proportion of the many of the shares of the public enterprises in what has become an increasing “militarisation” rather than “privatisation” of the Iranian economy. Other company shares

purchased by financial institutions of the IRGC and the *Basij* include Iran Khodro car manufacturer, Middle East Tidewater shipping and handling company, and many other companies. (2010). The *Basij* and the IRGC have reaped the economic benefits of these privatisations by founding their economic might. According to Curtis and Hooglund, thanks to their financial capabilities, the size of the coercive force of *Basij*, despite being lower than 100,000 youths, can expand to 1 million youths if needed (2008, xxxvi)

The third defining moment of the *Basij's* rise to prominence was, doubtless to say, the 2009 fraudulent elections. The elections of 2009 were tainted with vote-rigging allegations as Ahmadinejad's rival, Mousavi, who appeared as the most popular candidate, was declared as having amassed a mere 34% of the votes against Ahmadinejad, who was said to have won the elections with 62% (BBC News 2009). The reports of large-scale voting irregularities drove millions of people in almost every Iranian city to protest against the election results, creating what came to be known as the *Green Movement*. The protest movement was brutally suppressed and Ahmadinejad took over for a second mandate while the internal tensions continued. *Basij*, along with another group called *Ansar-e Hezbollah*, were very instrumental at brutally quelling the protests. According to Anderson, some of the brutal tactics deployed during the 2009 elections, the biggest challenge to the Islamic Republic, were the following:

“They choose their targets at the edges of the crowds, going for the vulnerable and unwary stragglers, and moving in as a group to reduce them with violence. Last Monday, the men who fired guns at demonstrators from the rooftops of buildings were almost certainly Basijis. They killed seven demonstrators at their leisure, and it also seems likely that they hoped this display of lethal intent would so intimidate the protesters that they would give up and go home (2009).

According to Freedom House, since the 2009 presidential election, the IRGC-led *Basij* militia has increased its presence on campuses, and vocal critics of the regime face increased persecution and prosecution (2012).

As this section has demonstrated, Iran's coercive apparatus, thanks to the state control of the economy, has consistently smothered Iranians' democratic aspirations. The proliferating control exercised by these groups and their coercive ways of repressing dissent is a typical example of a combination of the 'capacity' to repress with the 'will' to repress, as raised by Eva Bellin (2004a).

In conclusion, the control exercised by the clerical establishment on Iran's economy have hampered democratic openings. Oil rents have played a major role in strengthening the state's attempts at buying the loyalty of the downtrodden strata of the Iranian population by forging neo-patrimonial links. They have also been influential in the emergence of strong a pro-status quo coercive apparatus, such as the IRGC and its *Basij* militia, which have taken control of the economy. The fact that the state could rely on oil revenues instead of taxes has prevented the private sector (the major-tax paying sector) from getting strong. Since the power of the state has not been constrained by that of other countervailing powers, authoritarianism has been sustained in Iran.

## **CHAPTER 5 – TURKEY: PRODUCTIVE ECONOMY MODEL**

Turkey's parliamentary democracy has been far from perfect. Founded by Atatürk in 1923 from the ashes of the once powerful Ottoman Empire, Turkey remained a single-party republic until 1945. The transition to a multiparty democracy proved tumultuous as the country was beset by military coups in 1960, 1971, 1980, and 1997 every time the military judged secularism and Turkish nationalism to be in danger. Notwithstanding, the electoral nature of Turkish democracy persisted and according to Freedom House, the country's Freedom Score oscillated between 5 after the coup d'état of 1980 and 3.5 in 2010, making Turkey a partially free country throughout this period (Freedom House 2014). The coup d'état of 1980 by the generals resulted in a shrinking space for freedom of expression, which later improved.

From an economic vantage point, Turkey did not enjoy significant sources of fossil fuels as did its Middle Eastern neighbours such as Iran or Iraq. Against the background of such lack of natural resources, the Turkish economy had to come up with different ways to ensure economic survival and loyalty to the regime. While taxes played a key role to support the state budget, the government was also more accountable than Iran by being more attentive to the demands of taxpaying citizens and the increasingly influential private sector.

Turkey's statist economic tradition launched under the auspices of Atatürk remained intact throughout the following decades, enhancing the productive capacity of the Turkish economy. According to Patton, while Turkey's state-led economic development achieved an annual growth rate of 7% between 1960 and 1977, the oil crises of the middle and late 70s considerably destabilised the economy and the costly state-led economic development had to be abandoned in favour of an IMF-led stabilisation plan—known as structural adjustment programmes (2010, 453).

Taxation remained one of the central pillars of government revenues. Moreover, with the 1980 International Monetary Fund (IMF) administered economic liberalisation programme Turkey's economy started opening up. The privatisation schemes deployed by the government gave rise to the emergence of large business enterprises. With the rising power of these business elites, the Turkish economy started to increasingly rely on the private sector that steered the country towards a more democratic direction.

To account for the power relations within the Turkish economy and its consequent effects on democratisation, this chapter will be organised as follows: In the first section, I will describe the Turkish economy before and after its transformation through the 1980 liberalisation programme. I will then follow with how this programme has been instrumental in limiting the autonomy of the state. Most importantly, I will indicate how the tax-paying middle class, who started wielding considerable power in Turkey, more or less coalesced around the business elites in supporting the pro-European Union democratisation reforms. As a result, countervailing powers to state power arose, making the state more attentive to the interests of these power brokers. Finally, I will analyse how the government whose autonomy was constrained by these countervailing powers responded to these demands of democratisation.

### **5.1 Turkish Economy Before and After the 1980**

Although Turkish economy was largely agricultural at the outset of the Republic's establishment, the state's interventionist policies ushered in state-owned economic enterprises, which considerably industrialised the country (Patton 2010, 452). Atatürk's economic reforms, inspired largely from the official ideological position called *étatisme*<sup>31</sup> laid the foundations for many of the forthcoming economic policies. These policies enabled Turkey to substantially diversify its economy. According to Shambayati, statist policies continued beyond 1950, when

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<sup>31</sup> Also called *statism*, is the belief that the state should control economic and social policy to a certain degree.



the Democrat Party replaced the Republican People's Party as the ruling party. Despite the Democrats' promise to scale back government intervention, much of the state's economic empire survived the 1950s. By the end of the 1970s, state economic enterprises (SEE) employed 16 per cent of the non-agricultural labour force (646,000) while public investment in manufacturing had risen to 65 per cent. The SEEs accounted for 32 per cent of value added, 36 per cent of employment, and 43 per cent of total investment in manufacturing. In 1978 government revenues equalled 20.5 per cent of GDP, while government expenditure was equal to 23 per cent of GDP (1994, 312).

These statist policies also delivered decent average growth rates throughout different periods after the 50s: 1950-1959, 7.1%; 1960-1969, 5.4%; 1970-1979, 4.7% (ERF and IM 2005). Lack of oil rents compelled the Turkish government to rely on taxation to partially finance its state-driven economic development policies. In 1979, just a year before Turkey embraced Washington Consensus, taxes constituted nearly 80% of the government revenues (Shambayati 1994, 312).

In spite of impressive growth rates, Turkey's economy faced major constraints. Turkey's state-funded bureaucracy proved very costly to country's balance of payments and the growth rate registered throughout the 60s and 80s was for the most part dependent on debt<sup>32</sup>. According to Richards and Waterbury, the economic crisis of the late 70s, stemming from high oil prices, dealt a serious blow to Turkey's state-dominated economy. Financing Turkey's money-losing state-enterprises confronted the government to the dilemma of either proceeding with state-driven expansionary economic policies, which ran the risk of deepening the extent of Turkey's macro-economic instability, or embracing the policies of the Washington Consensus on economic

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<sup>32</sup> Faced with rising import bills because of the increasing cost of energy and other imported materials, the government took out a number of short-term loans. Turkish external debt rose from \$1854m in 1970 to \$4323m in 1977. By the late 1970s Turkey faced a full-scale crisis and was no longer capable of servicing its enormous debt (Shambayati 1994, 313; World Bank 1979, 155).

liberalisation despite the initial adverse social effects of the austerity policies promoted by such programmes (2010, 234). The government chose the latter and the adoption of the Washington Consensus was amongst the underlying reasons for social conflict in 1980, causing the army to intervene in politics yet again.

The pre-1980 state-driven economic development programme, despite some of its positive achievements, was not sustainable on a long-term basis. Turkey's economy was characterised by a mixed record of initial success followed by costly failures and high inflation. As the post-1980 era promoted a diminished role for the state, privatisation gained momentum, leading to more stakeholders in the country's economy. The state, represented by the government and army (despite its conflicting interests with the ruling government at times), had to hearken to the demands of the tax-paying citizenry and the private interest groups. While Turkey was beset by another major economic recession in 1994, the post-1980 era's most remarkable economic developments until the recession took place under the leadership of Prime Minister Turgut Özal (1983-89). The new economic trajectory prioritised export-oriented development. As such, according to Richards and Waterbury, Turkish manufactured exports responded very strongly to this new policy environment. Manufactured goods jumped from one-third of exports in 1980 to three-quarters in 1985, with continued strong performance thereafter (amounting to 66% of total exports). And the economy started to diversify. According to Celâlsun and Rodrik, by 1985, three major sectors contributed to the GDP: services: 51%, Industry: 30.6%, and agriculture: 18.4% (1989, 618).

Throughout his rule, Özal forged a centre-right coalition to support the initial push for market reforms, incorporating key business leaders and also, as junior partners, various Islamist political elements. (2010, 235-236). It was also during his prime ministership that Turkey officially applied for membership in the European Economic Community (modern day European

Union)—a move highly supported by the emerging trade unions and business associations<sup>33</sup> of Turkey's fledgling private sector. EU membership has been highly desirable for Turkey thanks mostly to the economic benefits provided by the union to member states. These benefits included (and were not limited to) customs-free access of manufactured Turkish goods to EU countries (thus, the possibility of increasing Turkey's exports), growing inflow of Foreign Direct Investment owing to increased business confidence, and a generous state subsidy system funded in part by the European Union. Yet, the accession required compliance on the side of Turkey in various areas, especially in the realm of democracy: Turkey was expected to democratise considerably in order to enjoy the economic benefits of membership of an eventual accession.

Another characteristic of the post-1980 era has been Turkey's susceptibility to economic crises due to the cyclical boom and bust of the Turkish economy. According to Ertuğrul and Selçuk, Turkey went through four recessions after 1980: 1989, 1991, 1993, and 2001; the last recession was the biggest recession in its history (2001, 6-30). While economic liberalisation was pursued with rigour at times, politicians also embarked on reckless spending, especially at election time to woo voters. Such populist spending practices triggered fiscal imbalances, finally giving rise to the major economic crisis of 2001; what began as a financial crisis escalated into an economic meltdown in which the Turkish currency (lira) halved in value, causing millions of Turks to lose their savings. The voters took revenge. None of the parties from 1999-2002 coalition government was re-elected in the 2002 parliamentary election. The Islamist-leaning Justice and Development Party (AKP) got elected with a sweeping victory by promising macroeconomic stability. (Patton 2010, 453).

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<sup>33</sup> The most important one of these business associations is **TÜSIAD**, which stands for *Türk Sanayicileri ve İşadamları Derneği* (Turkish Industrialists' and Businessmen's Association) followed by the **TOBB**, *Türkiye Odalar ve Borsalar Birliği* (Union of Chambers and Commodity Exchanges of Turkey), and **MÜSIAD**, *Müstakil Sanayici ve İş Adamları Derneği* (The Association of Independent Industrialists and Businessmen), an Islamically-oriented business association. As we will see in the next section, these associations representing Turkey's private sector have exerted considerable influence on the economy of the country.

The AKP, under the leadership of Recep Tayyip Erdoğan, the former mayor of Istanbul, refocused Turkey's attention on accession into the EU. Forging a coalition of Anatolian businessmen and dissatisfied popular classes, Erdoğan benefited from the public disgust with corruption, mismanagement, and economic crisis. The AKP maintained fiscal discipline, deficits were slashed to the point that the government ran a surplus in 2002-2004 amounting to approximately 6.5% of GDP, and the inflation rate fell to 7.7 in 2005, the lowest inflation rate for a generation (Richards & Waterbury 2010, 237-238).

### **5.2 Limited Autonomy of the Turkish State: Between tax-paying citizenry, labour unions and business elites**

Although Turkey has come a long way from its post-independence reliance on agriculture, it has also grappled with macroeconomic instability due, primarily, to election-time populist spending, which generated high debt. In the absence of rents to mitigate the impact of excessive spending, other forms of revenue generation were needed. Contrary to rentier states where the vital link between citizens and governments is almost broken (Richard & Waterbury 1996, 17), taxation in Turkey has been one of the major sources of government revenues.

Taxation also compelled the Turkish state to be more sensitive to the demands of different interest groups. On average, taxes accounted for more than 80 percent of total government revenues in 1979 (Shambayati 1994, 315). Total tax revenues as a percentage of GDP in Turkey have risen steadily since 1965 to reach 27.7 percent in 2012 (OECD 2012). This stands in stark contrast to the Iranian state (previous chapter) where the proportion of taxes in total tax revenues is comparatively lower.

While the abundance of oil rents in Iran has enabled the Iranian state to co-opt the poorest segments of society by providing them with subsidies and cash hand-outs, the lack of such oil rents in Turkey has compelled the Turkish government to highly tax commodities. One of the

commodities that has always been taxed excessively is the gasoline, which is not only the highest amongst all the OECD countries, but also one of the highest in the world. This revenue helps the government handle fiscal consolidation. (Heine et al 2012, 19).

While the Turkish government's need for revenues pushed it to rely on taxation and further austerity programmes in the form of privatisations, as prescribed by the Structural Adjustment Programmes of the IMF as of 1980s, it has also placed the Turkish government in a more vulnerable position with respect to labour, tax-paying citizenry and different stake-holders in society. According to Haggard and Kaufman, the economic crises of 1970s and 1980s and the resulting structural adjustments caused the real wages to fall dramatically, making the organised labour militant, which threatened the political stability of the country (1997, 277). This was mostly because the labour unions in Turkey enjoyed substantial freedoms until the 1980 military coup.

Major labour unions in Turkey have consisted of TÜRK-İŞ (Confederation of Turkish Trade Unions), DISK (Confederation of Revolutionary Trade Unions of Turkey), HAK-İŞ (Confederation of Real Trade Unions of Turkey) and the most recent union, KESK (Confederation of Public Workers' Union). According to Stan De Spiegelaere, labour unions in Turkey exerted considerable political clout on the government until the outbreak of the military coup in 1980 (2010, 328). Throughout the 70s, on account of major economic problems and wage negotiations, the unions became increasingly militant, calling for widespread strikes thanks to their political and economic clout (Wannöffel 2011, 552). Throughout the 70s, the government remained cautious in order not to antagonise unions that were amongst the important power-brokers in the country. Good relations with the unions, notably the TÜRK-İŞ, that represented the highest number of workers in Turkey was an important policy objective. According to Ali Rıza Büyükuşlu, getting the approval of TÜRK-İŞ was so crucial that throughout the 70s, the ruling

governments met union representatives often in a bid to keep the union workers satisfied by paying attention to their demands. Riots and threats of strike in the face conflict between the government and the unions was something to be avoided for the economic prosperity of the country (1994, 110-115).

The liberalisation drive that gained momentum after the 1980 military coup, while weakening the union activity, still kept the autonomy of the state circumscribed. This time, instead of unions, the private sector grew in influence. According to a World Bank Report, private sector in 2013 accounted for more than 80 per cent of the economy, including a significant contribution from small and medium-sized enterprises (SMEs) (World Bank 2007, 2). Turkey's private sector now retains the monopoly on most of the industrial production. It has also retained an important clout in other sectors such as banking, communications, and various types of services. The rising monopoly of the private sector in the economic activity has also cast it as a centre of countervailing power to state power, able to dictate its own policies to the Government of Turkey. TÜSIAD, TOBB, and MÜSIAD are amongst the key groupings of private sector. What follows is a brief description of these private sector interest groups and the economic and political power that they wield. The section 5.3 will delve in more detail into how these private sector actors have used their countervailing powers to state power in order to compel the Turkish state to democratise and how the Turkish government reacted in turn.

TÜSIAD: Founded in 1971, in reaction to Turkey's state-controlled and closed economy, TÜSIAD is a voluntary-based civil society organisation comprising leading entrepreneurs and executives from the Turkish business world. TÜSIAD has long been one of the proponents of free-market economy and Turkey's full adherence to the European Union (TÜSIAD 2013a). By the end of the 1970s its membership increased to 165 of Turkey's largest industrial and commercial companies. Although membership included both industrial and commercial interests,

industrialists dominated the organisation. TÜSIAD's select membership provided it with a strong financial base, which in the late 1970s was mobilized to publicly criticise the government and earned TÜSIAD the nickname of the "Association that toppled the government" (Shambayati 1994, 315).

In 2013, the association represented some 600 of Turkey's foremost industrial and service sector institutions; these members in turn represent approximately 3,500 companies. Members of TÜSIAD carry out 80 percent of Turkey's exports, pay 85 percent of Turkey's corporate taxes, and are responsible for 65 percent of Turkey's industrial production (TÜSIAD 2013b)

TOBB: Founded in 1950, the TOBB is Turkey's highest legal entity representing the private sector. It is comprised of 365 members in the form of local chambers of commerce, industry, maritime commerce and commodity exchanges (TOBB 2010). These 365 members, each from different chambers of commerce, represent an estimated 1.2 million companies (Galal 2008, 49).

MÜSIAD: Founded at a later stage of economic development in Turkey in 1990, MÜSIAD brought together a larger group of enterprises that spread over a greater geographical and spatial diversity than TÜSIAD. The overwhelming majority of the companies aligned with this association were formed after 1980. Amongst the founding principles of the MÜSIAD was the idea of strengthening economic ties with Muslim nations, which is markedly different from TÜSIAD's pro-European Union stance (Bugra 1998, 532). MÜSIAD comprises 7000 members, representing close 35 000 enterprises that employ approximately 1.5 million people. It accounts for 15% of Turkey's GDP (MÜSIAD 2013).<sup>34</sup>

As I have discussed in this section, Turkish government's need for tax revenues to sustain fiscal stability, the presence of well-established and important private sector interest groups such as TÜSIAD, MÜSIAD, and TOBB along with unions have contributed to the emergence of

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<sup>34</sup> Translated from Turkish.

countervailing powers to the state power in Turkey. This stands in stark contrast to the Iranian case where the state's access to rents has enabled it to keep taxes low and to afford to repress the private sector by keeping the economy in the hands of parallel pro-state groups such as *bonyads* and the IRGC. The next section will explain the democratising effects of Turkish government's lower autonomy.

### **5.3 The Private Sector's Push for Democracy**

This section will analyse how these interest groups, who control the bulk of Turkish economy, have forced the Turkish government to be more responsive to the democratic aspirations of the population. All of the three aforementioned business elites have exerted a considerable amount of pressure starting from the 90s (a few years after Turkey's formal application to become part of the EEC, or the EU, as it is known today) on the Turkish government to follow through the democratisation reforms of the EU.

The EU democratisation reforms were supported by an important segment of the Turkish population. According to Domaniç, the public opinion in favour of<sup>35</sup> these reforms reached its pinnacle in 2004 with 67.5% (2007, 10). Civil society, led in good part by the business community, has been amongst one of the most important vectors of democratisation efforts. Business associations in Turkey formed countervailing centres of power to state power and they steered democratisation policies towards a direction stipulated by the European Union.

According to Öniş and Türem, amongst the foregoing business associations, it was TÜSIAD that most vocally voiced the need for democratisation. TÜSIAD's plea for policy reforms was based on the implicit assumption that what was desirable for business interests could also be beneficial for the country as a whole. Hence, from its very inception, TÜSIAD tried to

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<sup>35</sup> Ever since this public opinion survey, support for EU-membership in the Turkish public opinion has plummeted considerably. This fall is attributable, amongst other reasons, to Europe's growing intransigence to resolve the Cyprus question as well as Turkey's economic boom starting in the beginning of 2000s, making the public call into question the desirability of accession.



project an image of a voluntary organisation oriented towards the promotion of “public interest” as opposed to the image of a narrowly-defined class-based interest association (2010, 92-93).

In an earlier publication, the same authors provided external and internal reasons to account for TÜSIAD’s push for democracy. Externally, the collapse of the Soviet model of development, the global spread of democracy, as well as the increasing emphasis placed by the European Union on democracy and human rights as a precondition for full-membership<sup>36</sup> influenced the perceptions of business leaders. Internally, it would legitimise the positions of big businesses in society. Second, TÜSIAD sought to check state power and render it more transparent and accountable. Finally, TÜSIAD considered democracy as a means to curtail the redistributive powers of the state and to consolidate its own position (Öniş and Türem 2002, 444).

In order to push for democratisation, TÜSIAD variously submitted reports to the Turkish government. According to Bayer and Öniş, the report, *Perspectives on Democratisation in Turkey*, commissioned by TÜSIAD in 1997, stands out as one of the clearest commitments to democratisation by big business representatives anywhere. This report is considered to be one of the earliest attempts to confront the political role of the military as well as the Kurdish question. It made a series of proposals for constitutional reforms concerning civil–military relations, political parties, elections, individual freedoms and transparency, and drew a direct connection between the Kurdish question and Turkey’s deficient democracy (2010, 186-187).

TOBB, owing to its sizeable membership comprised of private companies, also favoured a stable environment conducive to economic prosperity and business. Hence, repression and conflicts, which were seen as threats to economic stability, pushed the TOBB to take positions that were diametrically opposed to those of the Turkish state. The most salient example, as in the

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<sup>36</sup> For Turkey’s business leaders, full-membership with the European Union is a desirable end as it will enable the businesses to expand their client base into the EU free from tariffs and other obstacles.

case of TÜSIAD, was the Kurdish issue. According to Yilmaz, both TOBB and TÜSIAD agreed on the urgent need for the legalisation of the right to use the Kurdish language in the public sphere. They believed that the acceptance of cultural rights would facilitate the integration of the Kurds with the larger society and shrink the popular support base of ethnic separatism (1999, 4). Although the TOBB was initially ambivalent with regards to the EU democratisation package, its stance changed after the 1999 Helsinki Summit<sup>37</sup> and it started lobbying for greater democratic opening. This change of stance was primarily attributable to TOBB's growing economic linkages with other European business institutions (Yankaya 2009, 5).

MÜSIAD, on the other hand, challenged the government on different fronts. According to Öniş and Türem, in the political sphere, MÜSIAD pushed for the expansion of religious freedoms and thus challenged the secular character of the Turkish state. At least well into the 1990s MÜSIAD, unlike its rival, TÜSIAD, was not explicitly concerned with issues relating to civil or individual rights. Unlike TÜSIAD, which had an explicitly pro-western orientation, it resorted to strong anti-western rhetoric at the peak of its influence. Indeed, successful models of East Asian capitalism constituted a primary reference point (2002, 448-449).

In a similar fashion to TÜSIAD and TOBB, MÜSIAD has also published a number of reports and pamphlets on a wide variety of economic and non-economic issues including democratisation and business ethics. Perhaps the fundamental difference between the two organizations arises over key identity issues. MÜSIAD challenges what it conceives as the authoritarian secularism of the Turkish state and pleads for an extension of religious rights and freedoms, whereas TÜSIAD has consistently been a staunch defender of the Turkish version of the secular state (Öniş and Türem 2010, 100-101).

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<sup>37</sup> Helsinki Summit of 1999 is a watershed in EU-Turkish relations. It was through this summit that Turkey's candidature for the European Union was formally recognised, setting the stage for the upcoming accession talks.

The most explicit report on democratization published by MÜSIAD is entitled *Constitutional Reform and the Democratization of the State*. Published in 2000, this report highlighted the need to undertake wide-ranging reforms, which would help render the state more accountable to society (MÜSIAD 2000). While the report places an asymmetric emphasis on religious freedoms, it also highlights the importance of accountable governance and the need to eliminate restrictions on freedom of thought. According to Yankaya, the EU membership conditionality<sup>38</sup>, with its emphasis on the establishment of civilian control over the military, promised to MÜSIAD and other Islamic groups a window of opportunity to enhance their economic and political position vis-à-vis the military by curtailing the latter's influence on political and public spheres. This brought a radical change in these groups' positions with regards to the EU with the acceptance of Turkey's official candidacy for full membership in 1999 Helsinki Summit. (2009, 4). As a result, the MÜSIAD joined other civil society organisations and economic interest groups to pressure the government for democratic opening in a bid to enhance religious freedoms.

#### **5.4 The Impact of the Private Sector in Turkey's Democratic Opening**

The economic crises that Turkey has experienced throughout the last three decades have in fact pushed the government to take stock of the business groups' (notably that of TÜSIAD) pressure for democratisation. These crises have often had a negative impact on the government revenues. Since the bulk of the economy is in private hands, the government has had to comply with their recommendations. These recommendations, mostly forcing the Turkish government to comply with the European Union democratisation agenda, reached their peak especially after the

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<sup>38</sup> The political aspects of EU conditionalities dictated further democratisation and greater space for civil society.

1997 Luxembourg Summit held on Copenhagen criteria<sup>39</sup>. According to Serap Atan, the fact that Turkey was faced with the risk of being excluded from the EU accession talks due to insufficient progress in the domain of public liberties alarmed the big business associations, which in turn started to exert greater pressure over the government to undertake the required democratisation reforms stipulated by the Copenhagen criteria (2004, 102).

TÜSIAD, in particular, has contributed to the democratizing EU reforms of Turkish politics in a number of ways. It has encouraged and sometimes put pressure on the Turkish governments to accelerate and continue with the reforms by holding press briefings and conferences and paying visits to, holding meetings with the government officials and political parties. It has also collaborated with the other pro-EU NGOs to further the reforms in Turkey, which has for instance ended up in campaigns as has been exemplified by “Yes to Europe” campaign<sup>40</sup> (Bardakçi 2007, 366). Campaigns like this and direct contacts that TÜSIAD has retained with government officials bore fruit, as post-1999 constitutional amendments were mostly attributable to the private sector’s campaigning for democratic opening. These amendments, launched under the rule of a coalition government, were spectacular in their content as they dealt with the most sensitive issues such as death penalty, right to education in minority languages, and the involvement of the National Security Council in everyday politics. As such, death penalty was abolished. Kurdish and other minority languages, which had long time been denied recognition, were legalised (Artan 2004, 110-112). The timing of the abolishment of death penalty was also important as it coincided with the arrest of the separatist Kurdish PKK’s leader, Abdullah Öcalan, who was facing the danger of execution.

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<sup>39</sup> The Copenhagen Criteria include of a long list of requirements on democratic governance. Compliance with these requirements by Turkey has been set among one of the pre-conditions of accession to the European Union

<sup>40</sup> This campaign highlighted the necessity of Turkey’s accession to the EU.

Thanks to TÜSIAD's pressure on the government, there were also significant gains in personal freedoms. These were codified in 34 constitutional amendments as part of the pro-EU democratisation package (Bardakçi 2007, 371). As part of the constitutional package in October 2001, the provision of Article 118 regarding the status and the composition of the National Security Council (NSC) was changed. As a result of these changes, the number of civilian members of the NSC was raised from five to nine while the number of the military members remained at five. Another change was stressing the advisory nature of this body, which was limited to recommendations. The government was to "evaluate" them rather than to give them "priority consideration" (Ibid 220-221). Following the election victory of AKP government in 2002, the reform process gained momentum. AKP's initial years in office were characterised by an unexpected drive for Turkey's integration into the EU and the corresponding democratic reforms.

Another ground-breaking amendment was the one relating to a controversial article called Article 301<sup>41</sup> of the Turkish Penal Code. This article had previously been used to incriminate various critiques of the government. . The new Turkish Penal was introduced as a package of penal-law reform prior to the opening of negotiations for Turkish membership of the European Union, and came into effect on 1 June 2005 (Algan 2008, 2237). The Turkish business associations played a key role in pressing the AKP government to amend this controversial article. According to Sinan Ülgen, in the run-up to the December 2006 EU summit – which was to decide whether Turkey's accession talks should continue – business groups such as TUSIAD and TOBB got together with other civil society organisations and trade unions. They arranged to

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<sup>41</sup> Article 301 is a controversial article of the Turkish Penal Code making it illegal to insult Turkey, the Turkish nation, or Turkish government institutions.

meet Prime Minister Erdogan to ask him publicly to amend a controversial clause on free speech in the Turkish penal code (2006, 3).

As it can be discerned from these examples, the presence of countervailing powers to state power in Turkey and lack of substantial sources of rents have obliged the Turkish government to be responsive to some of the opposing centres of power. As stated by Stephens, Huber, and Rueschemeyer, the aforementioned balance of power between the state and society is, in fact, the essence of democratic rule as the authors define democracy as “*a matter of power and power-sharing*”. They argue that “the power of the state needs to be counterbalanced by the organizational strength of the civil society to make democracy possible” (1993, 73-74).

Contrary to the Iranian example where rents have enabled the state to weaken the private sector, buy the loyalty of the poorest segments of the population, Turkish example is illustrative of one where a productive economic system and tax-paying citizenry have empowered the middle class and the private sector. Their empowerment of the private sector and civil society has increased their demands for accountability from the state apparatus.

## **CHAPTER 6: CONCLUDING REMARKS**

This thesis started to with the aim of understanding the major impediments to democracy in the Middle East. By means of a comprehensive literature review of these impediments (culture, foreign intervention, lack of proper institutions, lack of prerequisites, and economy), my analysis highlighted the asymmetrical role played by state control of the economy in prolonging authoritarianism. As such, our case studies, Iran and Turkey, *most similar cases*, were analysed from this vantage point. This concluding chapter will summarise the findings of both case studies in a comparative manner. Then, it will reflect on the broader theoretical implications of my research. Theoretically, this research consists of two important implications. First of all, it sought to analyse the persistence of authoritarianism from the vantage point of state autonomy. As such, this research attributes authoritarianism to the presence of strong states that have access to rents, which enable them to maintain a solid coercive apparatus. Second, as a corollary of the first implication, this research has also striven to discount the notion that the culturally the Middle Eastern cultures are antithetical to democracy.

### **6.1 Autonomy of the state: From rentier economies to productive economies**

Autonomy of the state is the theoretical framework used to account for the state control on the economy. As explained at length in Chapter 3, states conceived as organisations claiming control over territories and people may formulate and pursue goals that are not simply reflective of the demands or interests of social groups, classes, or society. Skocpol, Evans, and Rueschemeyer defined this phenomenon as the ‘autonomy of state’ (1985, 9). States that are autonomous from the societies that they govern tend to have the “*capacity*” to be autonomous. “Capacity” refers to the ability of the states to implement official goals, especially over the actual or potential opposition of powerful social groups or in the face of recalcitrant socioeconomic

circumstances (*Ibid*). The capacities, in this context, can refer to financial means as well as human resources; most importantly, resources to pursue certain policy goals that change the balance of power between society and the state in favour of the latter. It highlights the *economic* dimension of state autonomy. Consequently, the higher the capacity of the state to pursue certain policy goals is, the greater its autonomy vis-à-vis the society that it governs. According to Stephens, Huber, and Rueschemeyer, the aforementioned balance of power between the state and society is, in fact, the essence of democratic rule as the authors define democracy as “*a matter of power and power-sharing*”. They argue that “the power of the state needs to be counterbalanced by the organizational strength of the civil society to make democracy possible” (1993, 73-74).

As this analysis has demonstrated, the post-revolutionary economy of Iran has been increasingly dominated by the state. This state dominance has been primarily derived from the country’s rich oil reserves, which make up 80 percent of Iran’s export earnings and 50 to 60 percent of state revenues (Economist Intelligence Unit 2012). Taxes, on the other hand, accounted for a mere 6% of the total GDP between 2001 and 2006 (Farzanegan 2013, 23). This low level of taxation has broken the vital link between the government and the taxpayer. The private sector, on the other hand, has been relegated to an inferior position within the economic landscape as its share of the economy in 2000 was not more than 17 percent (Khajepour 2000, 579).

Contrary to Iran’s rent-driven economy, which has reinforced the state autonomy, the Turkish state has been economically more fragile. Due to the lack of oil and gas resources to exploit, taxation has formed the backbone of the state revenues. On average, taxes accounted for more than 80 percent of total government revenues in 1979. The economic consequence of this dependence was that the state had to increase domestic production in order to increase its own revenue. (Shambayati 1994, 315). Total tax revenues as a percentage of GDP in Turkey have



risen steadily since 1965 to reach 27.7 percent in 2012 (OECD 2012). While the Turkish government's need for taxes circumscribed its *capacity* to remain autonomous from a population, taxes are not the only limit to the state autonomy. The liberalisation drive of 1980 empowered many of the existing private economic actors while also churning out new ones. According to a World Bank Report, private sector in 2013 accounted for more than 80 percent of the economy, including a significant contribution from small and medium-sized enterprises (SMEs) (World Bank 2007, 2). Whereas, in Turkey, taxation brought about expectations of accountability on the part of Turkish citizens, in Iran, subsidies and neo-patrimonial policies have decreased economic pressures on the Iranian government.

Due to its dependence on the tax-paying citizenry and on the private sector, the Turkish state is less autonomous than the Iranian state, which has enjoyed greater autonomy by virtue of the resources conferred by oil revenues.

## **6.2: Vectors of (non-)democracy: Iran's Bonyads and IRGC versus Turkey's TÜSIAD, TOBB and MÜSIAD**

Since the foundation of the Islamic Republic, government control of the economy has been primarily exercised through the *bonyads* and the IGRC. Accounting for an estimated 33 to 40 percent of the total GDP (Kartzman 2006, 2), bonyads have become major economic stakeholders. *Bonyad-e Mostazafeen* and *Bonyad-e Shahid* are two major state-run foundations. Towards the end of President Ahmadinejad's mandate, another important economic actor, the IRGC, rose to prominence. Their presence in various sectors such as oil, construction, agriculture, mining as well as transportation attests to their enormous economic power. Both The IRGC and its militia, the Basiji forces, enjoy well-armed coercive armies (O'Hern 2012, xi; Abrahamian 2008; 175-176).

The *bonyads* and the IGRC have been vectors of authoritarianism for a few reasons. First of all, their hold in key economic sectors has kept the private sector incapacitated. The weakness of the private sector has prevented the emergence of countervailing powers to state power. Secondly, many of the industries controlled by the *bonyads* and the IRGC have been on the receiving end of generous government subsidies, which have enabled these companies to keep the prices of basic food staples affordable to the poor. These subsidies, together with a low level of taxation, have helped forge neo-patrimonial links between the government and the poor. Finally, the IRGC's Basiji militia has often brutally repressed pro-democracy demonstrations the most notable of which was the 2009 demonstrations led by the Green Movement.

In contrast, Turkey's dominant private sector has exerted a lot more political clout on various policies of the government. Three major business associations have represented the Turkish private sector; TÜSIAD, TOBB, and MÜSIAD are most influential. Amongst these associations, TÜSIAD has wielded greater countervailing power to state power. Members of TÜSIAD carry out the bulk of Turkey's exports, pay most of Turkey's corporate taxes, and are responsible for majority of industrial production (TÜSIAD 2013b). Due to their countervailing power to state power, these three interest groups have variously challenged the government on different fronts.

As far as democratisation is concerned, these interest groups with considerable economic power have tried to urge the government to adopt the EU democratisation reforms. While TÜSIAD and TOBB compelled the government to limit the role of the army in politics and to grant further freedoms to the Kurdish minority, MÜSIAD pressed for more religious freedoms under Turkey's staunchly secular system of governance.

In the light of my analysis, I can confirm the two hypotheses made earlier in this research:

*1- In Turkey the diminishing control of the state since 1980 in the economy has made the state less autonomous from society, contributing to the stability of Turkish democracy.*

*2- In the case of Iran proliferating state control of the economy since 1980 has made the state more autonomous from society, sustaining (and even worsening) authoritarianism.*

### **6.3: Limits and Implications**

While this thesis attempted to shed light on the impacts of the diverging economic trajectories of Iran and Turkey on their level of democratisation, it certainly contains limits that can be addressed in upcoming research. It has to be borne in mind that this research did not attempt to address the question of why Turkey is not a full democracy. My goal was merely to account for the differences between Iran and Turkey that resembled each other as far as their historical, cultural and political trajectories are concerned. While Turkey's business associations pressured the government to comply with European Unions democratisation norms, there have been limits to level of pressure exerted by business associations on the government. In fact, according to Önis and Türem, while the post 1980 era has been a period during which the dependence of Turkish business associations on the government has been considerably reduced, this dependence has not been completely eliminated. Business associations still need the government's support in some key areas of the economy. They still need the government to retain some tariffs, which is essential to their survival and they still resort to borrowing from public banks. Hence, a certain degree of dependence still exists (2010, 108).

Future research could focus on two important areas. One area of interest would be to gauge the reasons underpinning the existing relations of dependence between business associations in Turkey and whether this relation of dependence has been on the wane since the early 2000s. Another area of interest would be to determine why Turkey's level of democracy has started declining after 2005 under Recep Tayyip Erdogan, the incumbent prime minister. Has

Erdogan become economically too autonomous? If so, what happened to change the balance of power between the state and countervailing economic forces? As far as Iran is concerned, it would also be interesting to investigate whether economic sanctions imposed on Iran since 2010 because of its nuclear programme and its dismal record of human rights violations are likely to elicit any improvement in the realm of democracy.

When it comes to its theoretical implication, my research has sought to highlight the asymmetrical role of state autonomy in underpinning authoritarianism in the region. As such, I attempted to disagree with Samuel Huntington's and Bernard Lewis's thesis of Middle Eastern exceptionalism that attributes authoritarianism to the region's predominantly Islamic culture. Instead, this thesis supported the idea that movements for democracy did arise in the Middle East. However, what prevented them from succeeding was more the state control on the economy than the region's Islamic culture.

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