

**MARKET REFORMS AND CORRUPTION IN DEVELOPING
COUNTRIES:
MAKING SENSE OF THE RELATIONSHIP BETWEEN THE
ECONOMIC AND THE POLITICAL IN NEOLIBERALISM**

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ABSTRACT

MARKET REFORMS AND CORRUPTION IN DEVELOPING COUNTRIES: MAKING SENSE OF THE RELATIONSHIP BETWEEN THE ECONOMIC AND THE POLITICAL IN NEOLIBERALISM

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This thesis investigates the relationship between neoliberal market reforms and corruption in the developing countries. Against those approaches which consider market reforms and corruption as incompatible and mutually exclusive, it offers to look into the changing forms and functions that corruption and rent-seeking take in neoliberalism. The study aims to show that on the one hand corruption, rent-seeking and cronyism are used by neoliberal governments as a political strategy to implement their market reforms and on the other hand they functioned as an accumulation mechanism to strengthen big capital groups. In order to elaborate

these arguments, a critical evaluation of the dominant neoliberal and institutional methodological approaches in the literature is made and the changing state-business relations as well as the changing institutional framework in the neoliberal context of the selected countries of Latin America and Turkey are examined. The thesis is also arguing that the recent anti-corruption discourse assumed the function of legitimizing second-generation of structural reforms and the separation of the economic from the political.

Keywords: Market reforms, corruption, neoliberalism, structural reforms.

ÖZ

AZGELİŞMİŞ ÜLKELERDE PİYASA REFORMLARI VE YOLSUZLUK: NEOLİBERALİZMDE İKTİSAT VE SİYASET İLİŞKİSİNİ ANLAMLANDIRMAK

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Bu tez geliřmekte olan ÷lkelerdeki neoliberal piyasa reformları ve yolsuzluk ilişkisini arařtırmaktadır. Piyasa reformları ve yolsuzluęu birbirine karřıt ve birbirini dıřlayan olgular olarak ele alan yaklařımlara karřı yolsuzluk ve rant kovalama faaliyetlerinin, neoliberalizmde aldıęı yeni biçimlere ve üstlendięi rollere bakmayı önermektedir. Çalışma, yolsuzluk, rant kovalama ve patronaj ilişkilerinin, bir yandan neoliberal hükümetler tarafından piyasa reformlarını uygulamak için siyasi bir strateji olarak kullanıldığını, dięer yandan da büyük sermaye gruplarını güçlendiren bir birikim mekanizması işlevi üstlendiğini göstermeyi amaçlamaktadır. Bu argümanların tartışılması için, literatürde hakim

olan neoliberal ve kurumcu yaklaşımların eleştirel bir değeriendirilmesi yapılmış; seçilmiş Latin Amerika ülkelerinde ve Türkiye’de devlet-işadami ilişkilerinin ve kurumsal yapının neoliberalizmle birlikte nasıl değıştiğı incelenmiştir. Tez aynı zamanda son yıllardaki yolsuzluk karşıtı söylemin ikinci kuşak yapısal reformların uygulanması ve iktisadın siyasetten ayrıştırılması için meşrulaştırıcı bir işlev gördüğünü iddia etmektedir.

Anahtar Sözcükler: Piyasa reformları, yolsuzluk, neoliberalizm, yapısal reformlar

to my dear mother, father and sister
who have gone beyond the constraining bounds of the institution of family
and helped my emancipation in all spheres of my life.

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CHAPTER I

INTRODUCTION

In the late 1990s many of the political leaders in the developing countries have been accused of, arrested or imprisoned because of the crime of corruption. Fujimori in Peru, Menem in Argentina, Salinas in Mexico, Collor in Brazil, Perez in Venezuela, those leaders who implemented neoliberal market reforms, who have been the initiators of a very radical transformation of the state/society and state/economy relations in their countries, were just a few among others who were charged with the crime of corruption, which has become a key component of the anti-government discourse of the popular protests. Ironically enough these leaders, just like many others, had risen to power with the promise that they would fight against the long-standing problems of corruption and rent-seeking pursued either by politicians or interest groups. Their promise had fitted the expectations of the neoliberal discourse with regards to corruption and rent-seeking: The belief that market reforms would eliminate corruption and rent-seeking, because these reforms would bring about deregulation, liberalization so that states would no longer create opportunities for corruption and rent-seeking, which were considered as maladies distorting social welfare, macroeconomic equilibrium and the free functioning of the market.

However the implementation of market reforms did not put an end to corruption and rent-seeking. Yet, rather than making a deeper analysis of the relationship between market reforms and corruption, the mainstream approaches argued that it is because of the persistence of corruption and rent-seeking that market reforms could not be properly implemented. Such approaches have taken-for-granted this argument to the extent that they attributed the economic problems experienced in the developing countries and which were, most of the time, aggravated by severe crises, to the so-called predatory state, political/irrational/populist decisions by the governments, corrupt and rent-seeking activities by different groups. Most of the third world countries' governments were accused of being the source of corruption and rent-seeking to the extent that the opposition parties tried to challenge the legitimacy of the incumbent governments on the basis of these problems. In a very wide range of countries from the Phillipines to Venezuela, from Indonesia to Turkey, corruption, rent-seeking and predatory state were indicated as the sources of the problems threatening both society and economy. Interestingly enough, in many countries those actors and classes whose interests would be expected to conflict with each other, did use a similar discourse on that issue in defining and indicating the causes to the problem. Businessmen associations, trade unions, NGO's, political parties which are located on the different points of the ideological spectrum as well as the international agencies did have a common ground on the problem of predatory state and corruption.¹

¹ A very illustrative case would be the Anti-Corruption and Anti-Poverty Campaign which had its repercussions on the public opinion in Turkey in recent years. TÜSİAD, businessmen associations had

The dominant perspective was that corruption persisted because of the continuing state intervention, politicians' cronyistic relationships with particular interest groups. From that perspective state, politicians, rent-seeking, corruption, cronyism were posed in contradiction with market reforms. It is the need to challenge such a mainstream approach that resided behind the point of departure of this thesis whose aim is to uncover the existing dominant perspectives and to study how the discourse towards corruption, state and market reforms was constructed and what kind of a role such a discourse assumed in neoliberalism.

The problem of this thesis, then, is to investigate the relationship between market reforms and corruption in the developing countries and its major question is whether or not this relationship should be seen as a mutually exclusive and incompatible one.

In order to answer this major question the thesis will first of all attempt at finding out the methodological roots of the dominant approaches towards rent-seeking and corruption. In Chapter 2, I will examine the most illustrative representatives of the approaches such as public choice theory, rational choice institutionalism, new economic institutionalism and historical institutionalism. I will discuss the arguments of these approaches with respect to the following points: What are their

a particular interest in corruption and made some scholars prepare reports on corruption: trade unions' confederation most popular slogan has been "Against Corruption and Poverty". World Bank, a key actor having a very influential role in domestic politics in Turkey like other developing countries has put "Anti-Corruption" as one of its strategies of priority; the incumbent government has introduced a parliamentary commission responsible for investigating the nature, types and sources of corruption (see www.tbmm.gov.tr). Moreover the recent draft law for the reform of the public administration has demonstrated corruption as one of its basis for legitimation. See TC Başbakanlık (2003). Of course, most importantly, all these efforts were given a public consent, which also proves how hegemonic the discourse of corruption has become.

ontological and epistemological premises? How do they define state as explanan and as explanandum? How do they define rent, rent-seeking and predatory state? How do they describe the relationship between individual and institution? How do they conceptualize institutional persistence and change?

In Chapter 3, I will look into the way in which the dominant neoliberal and institutionalist perspectives conceptualize the relationship between market reforms and corruption in neoliberalism. The methodological discussion of the second chapter has a direct relevance for Chapter 3, because their methodological premises are important to understand their analysis of market reforms and corruption. I will attempt at finding out, if exists, the internal consistencies and contradictions in the way in which these approaches explain the existence of corruption, rent-seeking and cronyism in neoliberalism. Though it is not possible to cover all the literature and particular internal differences within the literature, I will be careful to point out to these differences wherever it is necessary. Moreover I will discuss the possible solutions that are suggested for the elimination of corruption, rent-seeking and cronyism. I will differentiate those policy prescriptions, which attribute an inherently negative meaning to the state and those which ascribe a positive role to some states.

In the second part of the third chapter, I will try to develop an alternative critical perspective towards the study of corruption, rent-seeking and cronyism in the context of market reforms. I will be asking the following questions in that part, in order to be able to answer the major question as put above.

- Can corruption be analyzed as an entity in itself or should it be considered as a multi-faceted, comprehensive phenomenon to be located in a broader set of social relations?
- Why do neoliberal governments in the developing countries often refer to corruption, predatory state, rent-seeking and cronyism? Can this reference be considered as a means to justify market reforms?
- Why did corruption and rent-seeking persist in the context of the market reforms? What are the areas where corruption and rent-seeking can be observed?
- What is the role of the changing institutional framework in making possible corruption and rent-seeking in neoliberalism?
- Do cronyism and personalistic links between business groups, bureaucrats and politicians impede market reforms or do they assume an important function for the implementation of market reforms?

These questions will be posed with respect to selected countries of the developing world where market reforms are implemented. I will be focusing on Latin American countries (Argentina, Mexico, Brazil, Venezuela, Chile, Peru) and Turkey. I will be reviewing the South Korean case in comparison to the other cases, because South Korea is sometimes considered as an ideal case of developmentalism, economic performance and institutionalized relations, contrary to Latin America and Turkey; sometimes as a case manifesting the same symptoms of corruption and cronyism. It is important to note that I will not be

making a case analysis, but will be making a literature review to criticize the dominant way in which the relationship between market reforms and corruption is discussed in these countries and to develop alternative insights for the analysis of this relationship.

In Chapter 4, I will examine the second-generation of structural and institutional reforms, which are expected to eliminate sources of corruption in the developing countries and look at how a discourse of anti-corruption emerged. I will reveal the actors who are the advocates of anti-corruption, namely the World Bank, OECD, the governments and businessmen associations of the developing countries. I will question why the discourse of anti-corruption gained an increasing significance and popularity in the second half of the 1990's and early 2000's and what was its relationship with the second-generation of structural reforms, which succeed the first generation of market reforms. I will also discuss the political implications and meaning of creating such a discourse of corruption. Since the second-generation of structural reforms claim to "separate" the economic from the political, I will try to find out whether this discourse of corruption had any relevance to this objective.

In the final chapter, I will present the main conclusions derived from the thesis. These conclusions can be read as my answers to the questions that I have posed above in order to develop insights for my major question.

CHAPTER II

A CRITICAL REVIEW OF NEOLIBERAL AND INSTITUTIONALIST ANALYSES OF STATE-MARKET RELATIONS WITHIN THE CONTEXT OF DEVELOPING COUNTRIES

This chapter is devoted to find out the methodological roots of the dominant approaches in the analysis of rent-seeking, corruption and predatory state. Such an attempt will allow me to base my critique of those arguments on the relationship between market reforms and corruption on more solid grounds.

These concepts occupy a considerable place in the literature on state theory, comparative politics and political economy, beginning from the 1970s but increasingly after the 1980s. I found it more appropriate, within the scope of the thesis, to limit my literature review to public choice theory, rational choice institutionalism, new economic institutionalism and historical institutionalism and authors who were the most typical representatives of these approaches. I wanted to discuss these approaches not with all of their aspects, but in a way to relate the discussion to the major problem of the thesis as posed in the introductory chapter,

namely the relationship between market reforms, state and corruption. I have chosen public choice approach, the most illustrative representative being James Buchanan, Margaret Levi who presents her approach as rational choice institutionalism, Douglass North who is considered as the precursor of new economic institutionalism and finally some figures from the tradition of historical institutionalism, though the latter has many internal differences. I have tried to pay attention to the common grounds and differences between these approaches in order to reveal their limits and if exist, possibilities and insights.

The organization of the chapter is as follows: Firstly I am making a general review of the concepts of rent-seeking, corruption, cronyism and predatory state and am evaluating them introducing with reference to the methodological approaches in the literature and to the historical context in which they are located. I will be discussing these approaches not separately, but around some basic themes and questions in order to show how they resemble or differ in dealing with the analysis of state, institution, corruption and rent-seeking. Such a methodological analysis is justified by the need to show the impact of the theoretical premises of these approaches on the discussion on the relationship between market reforms and corruption in the following chapter.

2.1. Methodological Roots of the Analysis of Corruption, Rent-Seeking and Corruption

Before analyzing the ontological and epistemological premises of the approaches in the existing literature, it would be useful to give a preliminary definition of the concepts used in the literature for purposes of clarification.

Rent is usually defined as ungained income. Rents are defined as “..that part of the payment an owner of resources over and above that which those resources could command in any alternative use “(quoted from Buchanan, 1980: 3 by Roy, 1996: 23). Rent-seeking is the activity individuals and/or interest groups pursue in order to create such incomes through diverse means. According to Buchanan, rent-seeking creates social waste, because no value is produced by the activity of rent-seeking (Buchanan, 1980). Rent-seeking which is told to increase personal gains does in fact deteriorate social welfare. In the context of this thesis, I focus on those rent-seeking activities which are associated with market reforms. For instance in the foreign trade, rent-seeking may be pursued in exports: Some companies may be provided tax rebates or subsidies for their exports, which could lead to distortions of the competition in the market.

There are diverse definitions of corruption, but the most frequent usage of the term is the use of public sources for private benefit. Sometimes corruption is divided between political corruption, public sector corruption and private sector corruption in order to differentiate the actors involved in corruption. For instance corruption is defined by Little as “the abuse of public office either elected or

appointed”, not business fraud, nepotism, illegal actions by public agents for private benefits (1996: 649). However, as the Turkish Grand National Assembly Parliamentary Commission for Investigating the Sources and Implications of Corruption suggests, there is more than one part involved in corruption and the definition of corruption should include the active role of the private sector. From a similar point of view, Kong defines it as “the extraction and acceptance of payment from private entities (be they individual citizens or businesses) by public officials and the private misappropriation and abuse of public funds” (1996: 49).

It is difficult to classify types of corruption, because a civil servant from the lower echelons of bureaucracy who gets a small amount of bribe from a citizen as well as a politician who gets millions of dollars for his campaign illegally from a big business company would be considered as involved in a corrupt activity. In this thesis corruption is used, in general terms, for the use of public resources for private gain, but I am specifically focusing on corruption which occurs between big business groups, bureaucrats and politicians. In other words the type of corruption I discuss is not classified under public, private or political, but refers to a relationship between bureaucrats, politicians and business groups in the context of market reforms.¹

Cronyism is used for a situation where the politicians and/or bureaucrats prefer to favour groups (business groups, relatives...etc.) which are close to them in different contexts. Cronyism comes from the term crony which means “close

friend or companion” (Oxford Dictionary, 1995). Sometimes the term nepotism is used as “the practice among people with power or influence of favouring their own relatives, especially by giving them jobs”, (Oxford Dictionary, 1995) but both in my literature review and for the theme of the thesis I use the term cronyism to indicate the personal relationships between the government and some business groups who are the close associates of each other.

Rent-seeking was firstly associated with Keynesian economic policies in the developed world. It was argued that the state, by intervening in the economy was creating an artificial scarcity and thus rents that some groups in society benefited from. Import quotas, licenses, monopoly privileges were all means for rent-seeking. Hence in these developed countries in North America and Western Europe the new monetarist, liberalization and deregulation policies of the 1980s legitimized themselves by associating rent-seeking and corruption with Keynesianism and an interventionist state and by attributing the reasons behind the economic crisis of the 1970s to state intervention in the economy.

A similar analysis was then adopted to the developing countries as well. It was argued that economic problems experienced by these countries were due to excessive state intervention,, a highly bureaucratized state apparatus, rent-seeking and corruption. Hence policies of liberalization and deregulation which were suggested to and adopted by the developing countries were legitimized with reference to the negative image of “corrupt politicians”, “corrupt businessmen”,

¹ For the moment, I am simply defining corruption with regards to that relationship between the actors, but I will underline, in Chapter 3, the need to locate corruption in a broader set of social

“authoritarian state and bureaucrats” who had been the winners of the period of import-substitution industrialization. Meier argues how the analysis of rent-seeking which was used for explaining the political behaviour in the economy was then adopted to the researches on less developed countries with respect to tariff seeking for instance (Meier, 1991: 6). In the developing countries, market reforms and structural adjustment policies were expected to minimize and eliminate corruption and rent-seeking. As Yalman puts it, “putting an end to rent-seeking” became “a major objective of the structural adjustment policies so as to enable ‘market forces’ to generate ‘efficiency in the allocation of resources’” (Yalman, 1997: 68).

Corruption and rent-seeking were attached, thus, a negative meaning: On the economic side corruption was considered “as one of the consequences of excessive state intervention and the bureaucratic rents created thereby, on the political side, “as a consequence of the unaccountable monopoly power of various kinds of authoritarian or totalitarian regimes” (Harris-White, 1996: 2). However there were also studies which pointed out to the positive effects of corruption for the developing world. According to Khan who summarizes these arguments, corruption could be beneficial in opening “competition by persuading bureaucrats to create new rights enabling other suppliers to enter protected markets” (1996: 15). The irony lies in the fact that corruption is said to emerge from excessive state intervention and it is at the same time expected to ensure the entry of new actors in those markets which are difficult to penetrate.

relations, rather than considering it as an isolated fact.

The description of the developing countries' context by some studies was different from the developed countries in an important aspect: Some developing countries were depicted as having some historical and traditional characteristics allowing the flourishing of cronyism and therefore corruption or the favoring of some groups close to the government were not necessarily the by-product of state intervention as such, but were the outcome of the specific features of state/society relations in those developing countries. For instance, while in some particular historical cases the state was told to maximize its revenues by exploiting resources rather than using them in infrastructural investment or social welfare; in some others it could invest the resources for productive investment and economic growth (see Evans, 1992).

After this brief introduction to the concepts that I will be using in the thesis, I will now explain how these concepts are used from different methodological perspectives. There are different perspectives in the neoliberal and institutionalist literature on rent-seeking, predatory state and corruption, but different authors make different classifications². In the thesis I will refer to James Buchanan for public choice theory, Margaret Levi for rational choice institutionalism, Douglass

² Immergut (1998) distinguishes three strands in institutionalism: Rational choice, historical institutionalism, organizational theory. For Cammack (1992) there are two types of new institutionalism, one of which is closer to the basic premises of classical sociology, another one, which is closer to neoclassical economics. Thelen and Steinmo distinguish rational choice institutionalism and historical institutionalism. Grindle (1991) classifies James Buchanan, Robert Bates and Douglass North as the approach of New Political Economy. Bell (2002) distinguishes Rational Choice Institutionalism 1 and Rational Choice Institutionalism 2: While the first approach attempts to use a deductive methodology by deriving explanations from the "first principle assumptions about the motives and preferences of actors" (Bell, 2002: 480), the second derives actor preferences from "repeated and historically grounded observation of actors in real situations and where the context is specified broadly, not narrowly" (Bell, 2002: 483-484). Torfing (2001) classifies rational choice institutionalism, historical institutionalism and social constructivist

North for new economic institutionalism, Peter Evans for historical institutionalism. Yet, it is possible to classify these perspectives under two broad headings, by ignoring their differences: Firstly the strand of institutionalism which maintains the methodological foundations of neoclassical political economy and which is based on a choice-theoretic and methodologically individualist account of the social reality (these principles are common in a more or lesser degree for Buchanan, Levi, North) and secondly the strand of institutionalism which criticizes methodological individualism and which advocates a sociological and historical account of the social reality based on comparative case analysis and inductive method (which is admitted by historical institutionalist like Evans). While both of these strands of thought have their internal differences, they have also some common grounds despite their divergences and I will try to indicate these internal differences as well as similarities as far as possible throughout the discussion.

I will try to discuss their arguments from a comparative perspective on the basis of the following axes: How do they define institution, what are their ontological and epistemological grounds? How do they define the relationship between individual and institution? In what way do they conceptualize institutional persistence and change? What is the definition of the state as an explanandum and what roles are attributed to the state as explanan? All these questions are related to two major questions that will have a direct impact on the following parts of the thesis: 1) Do these approaches see rent-seeking as a structural, natural feature of

institutionalism. Hall and Taylor (1996) classifies historical institutionalism, rational choice

individuals and collectivities including the state or they consider it as the historical, contingent by-product of some specific state-society relations? 2) How do they conceptualize social and institutional change? The relevance of these questions for the basic focus of the thesis is that the discussion on market reforms and corruption requires the methodological issues related to the state, institutional change and persistence, because the persistence of corruption is usually explained, as will be discussed in the following chapter, with institutional persistence and/or with the role of the state and/or with the specific roles individuals assume in given institutional contexts. The success or failure of market reforms is also explained in similar terms. Thus, it is necessary to ask those methodological questions in order to make a critical assessment of the existing explanations in the literature concerning market reforms and corruption.

2.2. Individual Choice vs. Institutional Constraint

Those theories which either use a neoclassical approach (like Buchanan's public choice) or a revised version of it (like North and Levi) start from methodological individualist principles. Buchanan starts from the methodological individualist principles, which means that the unit of analysis is "choosing, acting, behaving persons" (Buchanan, 1984) who are able to rationally calculate and determine their preferences. The assumption is closely related to the use of economic tools in political analysis (Buchanan, 1986; Tullock, 2002) given the neoclassical economics' basic presumption of a rational, self-seeking individual and of calculations he/she makes accordingly.

Nevertheless individuals do often take part in collective action. Yet, this is again a behaviour which is the function of their individual interests. This means that those individuals who act collectively do so when this helps them to achieve their ends more easily³ (see Olson, 1971), so collective action may become a choice “individuals with selfish motives can mutually benefit” (Mueller, 1984). Here collective action is not something outside the individual, having a separate entity; rather it reflects the process of agreement made by individual decision-makers (Buchanan, 1986)⁴. Buchanan attaches importance not only to individual as such, but also to the rules of the game and institutions, which influence individuals who in turn choose and make these rules and institutions (Buchanan, 2002). Therefore public choice wants to relate the behaviour of individual actors with complex institutional interactions in the political sector (Buchanan, 1984). Politics, then, becomes an exchange between community members and policy outcomes “are best explained as the outcome of a game-like contest in which power-seeking individuals, or institutions acting like individuals, compete for resources and the support of electors who are also seeking to maximize their personal resources” (Hall, 1986: 10).

Similar to Buchanan, Margaret Levi starts from methodological individualist principles, with a peculiar and strong emphasis on the “rational” characteristic of individual behaviour, i.e. the object of inquiry is the individual who rationally

³ This point is based on the famous prisoner’s dilemma game. See Immergut (1998).

⁴ This point is closely associated with free rider problem as depicted by Mancur Olson. See Immergut (1998). It arises when those individuals whose need for collective action is terminated does no longer exist, tend to avoid collective action. This shows that acting collectively in a

calculate the costs and benefits of their actions and chose those actions which suit their purpose and preferences.. Levi criticizes neoclassical approach's extreme methodological individualist position on the grounds that they ignore the state and institutional influence on the decisions of individuals (1988: 7). Her own suggestion is to accept methodological individualism in principle, but she tries to make individualistic premises more flexible in a way to locate individuals within a set of rules, constraints and institutions. However this in turn should not, according to Levi (1988: 8) lead to the idea that constraints and rules of the game determine individual choices. Individuals are the ones who make institutions which in turn have their impact on individuals.⁵

Structure/agency problem is, implicitly or explicitly, present in the way in which institutionalists establish the link between individual choice and institutional constraint. However, before discussing this relationship, it is important to define what institutions are and how they emerge. For rational choice institutionalists in general, institutions provide the “strategic context imposing constraints upon self-interested behaviour” (Thelen and Steinmo, 1992: 7), “the strategic context in which optimizing behaviour takes place” (quoted from Shepsle, 1989 by Bell, 2002: 479).

methodological perspective is always rooted in individual preferences, no matter these preferences are.

⁵ In fact, at that point Levi seems to face the traditional, well-known structure/agency dilemma and tries to solve the problem by emphasizing the mutual influence between the two. She prefers a safe balance between individual and institution; choice and constraint; micro and macro by equating these couples (1988: 7-8). This problem is also related with the problem of understanding “change” for institutionalists, a point to which I will turn later.

For Buchanan, institutions create a framework in which individuals act. In fact, based on methodological individualist principles, he would accept that institutions are aggregates of individual interest, as a by-product of collective action in which individuals are involved in order to maximize their own benefits. On the other hand, Douglass North follows similarly methodological individualist premises for whom institutions are rules of the game and “humanly devised constraints that structure human interaction (North, 1995)⁶, but things are not so simplistic. There are three important points that can be identified in that sense: First of all, against the economic self-interested rationality of Buchanan which is too strict to grasp the real situations as well as the complexities of motivations behind the behaviour (Kato, 1996: 573), North uses the concept of “bounded rationality” to “explain the process of changing objectives, selecting means and employing strategies to achieve these objectives” (Kato, 1996: 575). Bounded rationality accepts that human beings have limited capacities and can only make an “assessment” or model of the real situation which may not necessarily overlap with what is really happening (1996: 576). Moreover the profit-maximization and selfish interest are not the only type of behaviour observed. Altruism for instance can be cited as a different kind of human behaviour (North, 2002) and there is not one type of rationality, rather alternative rationalities (Immergut, 1998: 18).

⁶ North distinguishes formal (common law, statute law, regulations) and informal constraints (conventions, norms) and makes a distinction between institution and organization. The latter refers to concrete “players” which are made up of individuals who act around a common objective (e.g. political parties, senate, regulatory bodies), economic (firms, trade unions), social (church, clubs), educational (schools, colleges) (North, 1995).

Secondly and more importantly both North and Levi point out to the asymmetrical distribution of bargaining power in society and to their implications for institutions, even though they do not look at the underlying reasons behind the very existence of the asymmetry which seems to be taken-for-granted. Though Buchanan admits that there are interest groups in society constituted as a result of collective action, he does not talk about the unequal and asymmetrical powers allocated to these interest groups. But North and Levi agree that “institutions are not necessarily” created to be socially efficient, rather they are created to serve the interests of those with the bargaining power to create new rules” (North, 1995).

Finally North and Levi differ from Buchanan in that they make a distinction between efficient and inefficient institutions. Institutions arise to reduce transaction costs, uncertainties in human life. Yet this does not guarantee that they will be efficient. For historical institutionalists efficiency is very contingent. As Hay and Wincott argue, “institutions are understood less as functional means of reducing uncertainty, so much as structures whose functionality or dysfunctionality is an open – empirical and historical – question” (1998). Moreover, similar to Levi, historical institutionalists point out to the “asymmetries of power associated with the operation and development of institutions” (Hall and Taylor, 1996: 938).

However historical institutionalists are very different from rational choice institutionalism in that they reject neoclassical assumptions and methodological individualism and the deductive methodology. Their method is based on empirical, historically sensitive case studies to make historical induction and to

find out causal regularities (Skocpol, 1985). Their understanding of institution is not simply a framework which restrains individual choices but has a broader meaning as “formal or informal procedures, routines, norms and conventions embedded in the organizational structure of the polity or political economy” (Hall and Taylor, 1996: 935). What would be the impact of these methodological differences on the relationship between individuals, social groups and institutions?

According to Thelen and Steinmo “a historical institutionalist would emphasize how class interests are more a function of a class position (mediated-reinforced or mitigated-by state and social institutions like political parties and union structure) than individual choice”, whereas a methodological individualist would not consider a class position as distinct from the individual. As far as epistemology is concerned historical institutionalism opts for historical induction, based on the comparative analysis of singular cases and on the finding out of causal regularities (Skocpol, 1985). On the other hand deductive methodology is based on the “explanations and working hypotheses deduced from abstracted first principles assumptions about the motives and preferences of actors” (Bell, 2002: 480).

According to rational choice institutionalists, institutions draw the framework, rules of the game, when they change, so do the strategies of the actors in a given context. In a sense institutional constraints determine the available options of the actors. But as Thelen and Steinmo underline, “not just strategies, but also the goals of the actors are shaped by institutional context (1992: 8). As Immergut argues, historical institutionalism tries to show the political construction of interests: “Institutions-be they the formal rules of political arenas, channels of

communication, language codes or the logics of strategic situations- act as filters that selectively favour particular interest of goals toward which political actors strive” (1998: 20). For instance a government policy may facilitate (encourage/discourage some interest mobilization by delegating or not power, by recognizing or not some groups. Then, the institutions are important in affecting not only individual choices, but social groups, interests, coalitions..etc. Hall and Taylor concretize that point by giving reference to the works of the eminent historical institutionalists.

Steinmo explains cross-national differences in tax policy largely by reference to the way in which political institutions structure the kinds of social interests most likely to be represented in the policy process. In the realm of American economic policy, Weir shows how the structure of the political system militates in favour of the formation of some social coalitions and against others (1996: 941).

2.3. State as an Explanandum

As pointed out earlier, one of the main points which distinguish rational choice institutionalist from the historical institutionalists is methodological individualism. The state, then, from a methodological point of view, is nothing but organization composed of individuals, even though these individuals act in institutional structures. This starting point has its implications for the state as an explanandum for the public choice theory: The state can not have a transcendental entity, its analysis should be based on the behaviour of individual actors in the government sector like the bureaucrats and politicians who are not different from the voters in the sense that they pursue their own interests (Buchanan, 1984). The state, thus, can not be rentier or predatory by nature, i.e. one can not attribute a

rentier character to the state as such since it does not have a separate, independent existence outside the individual. Rather individuals who want to pursue their own interests prefer to be involved in collective action, which results in rent-seeking or lobbying activities when the goal of this collective action requires putting pressure on government (Grindle, 1991: 46). Individuals at the government may, in turn, try to secure their own benefits by being monopolists in a competitive market. This is in line with the behaviour of persons who want to reach these outcomes more favourable to their own interests.

Governments are exploiters of the citizenry, rather than the means through which the citizenry secures for itself goods and services that can best be provided jointly or collectively” (Buchanan, 1984).

That quotation implies that though the government is necessary for the production of some goods and services that can not be provided by individuals alone, it does not achieve that task. Such a basic assumption leads Margaret Levi to analyze rulers for analyzing the state, which means that any organic, separate entity that might be ascribed to the state as such is contested and denied. Rulers are “the actors who compose the state” (Levi, 1988: 3) whose interests are to “extract as much revenue as they can from the population” (1988:3). Levi calls this extraction as predatory action, but this is no different from any other action which is based on the calculation of costs and benefits, geared to maximize interest and revenue. However, the interest of the rulers are derived from and supported by the institutional power (Levi, 1988: 3). This is a very important point since it indicates how rational choice is affiliated with the institutionalist approach. Levi includes in the analysis of the state both rulers and the institutional framework in

which they act. Like other individuals, rulers should be considered in a broader context and in interaction with others. Rulers interact with other rulers (international context) and their constituents (in the domestic context) (1988: 11). At that point Levi is similar to Buchanan in the sense that the rulers or the bureaucrats, politicians; the constituents or the voters and interest groups are all in the game and “policies are the outcome of an exchange between various groups who compose the polity”.

Douglass North’s definition of the state is different from Buchanan, because he makes a critique from within the neoclassical approach. According to North, new institutional economics, as he calls his position, has to modify and extend neoclassical approach and has to address some issues like transaction costs and institution that could not be dealt with from the neoclassical paradigm. On the other hand, assumptions of scarcity, competition, choice-theoretic approach are the basic elements that new institutional economics should from neoclassical political economy (North, 1995). The definition of the state for North is as follows: “A state is an organization with a comparative advantage in violence extending over a geographic area, whose boundaries are determined by its power to tax constituents” (North, 1981). It is the advantage of violence which gives the state the power to control resources. Here North’s definition is closer to the Weberian definition used by historical institutionalists, which is, “a set of organizations invested with the authority to make binding decisions for people and organizations juridically located in a particular territory and to implement these decisions using, is necessary force” (Rueschemeyer and Evans, 1985).

For historical institutionalists, state, as an explanandum, is a set of institutions having a logic and interests of its own (Skocpol, 1985). This is also not possible for a rational choice theorist who sticks to strict methodological individualist principles. When the state is called “predatory” for the historical institutionalists, this is not because of the principles of individualistic behaviours, but it stems from the fact that state officials prefer, in a given historical context, to pursue their interests in a way to extract resources from society, acknowledging the fact that in a quite different historical trajectory other goals and preferences could be set by the state.

When one talks about a predatory state this refers to 1) state officials who use the state so as to extract personal fortunes by exploiting resources of the country (Evans, 1992: 149) and 2) a few powerful groups which are dependent on the state for “power, status, rents and other forms of wealth” (Callaghy, 1990: 258). Here the political class is only concerned with rent-seeking (Evans, 1992: 149). Furthermore while property rights structure set up by the government serves the interests of the political class as well as the immediate political benefits of the party in power, it deteriorates the longer-term economic efficiency, since the investments are not made in infrastructure, production, but in the creation and allocation of rents to the clientelistic networks of the government. Callaghy gives the example of an overvalued exchange rate, import quotas and licensing systems as the means through which the extraction of surplus by the African government and the political class were met (Callaghy, 1990: 259). This situation is also called the prevalence of the political logic (Callaghy, 1990) or political irrationality

(Öniş, 1998) over economic logic/rationality. This distinction corresponds to the difference between inefficient and efficient property rights structure of Douglass North.

Though the observable characteristics of a predatory state justify rational choice perspective's basic premises, historical, empirical analyses of the historical institutionalists indicate that there are other states which would exhibit qualitatively different characteristics, implying that the state by itself can not be given a negative meaning as in the works of new political economy. Evans argues that

while states like Mobutu's were providing practical demonstrations of the perversions predicted by neoutilitarian visions of the state, a different set of nations halfway around the world were writing historical records of that confirmed institutionalist expectations (1992: 151).

Here what is meant by institutionalist expectation is the belief that state's active involvement might be a highly positive impetus for economic development, i.e. state's developmental role could be complementary to, not contrary to, the economic logic as was supposed by the new political economy. Developmental state was characterized by a development plan designed for productive investments rather than for consumption or speculation, a rational bureaucracy selected on the basis of meritocracy rather than personalistic links, which supervises the economy, the support of bourgeoisie on the basis of their economic performance rather than on the basis of clientelistic relations⁷.

⁷ For a detailed analysis of the developmental state see Leftwich (1995), Amsden (1988). For a critique of the arguments which miss the role of the social forces in the development process of S.

On the other hand, the contributions to historical institutionalism by Joel Migdal et.al (1994) are important in the sense that they reject an understanding of a unitary, homogeneous and ideal-typical state and shows different segments of the state while pointing out to the conflicts, alliances and struggles between social forces and their relation with the state.

2.4. State as an *Explanan*

Why is it important to discuss the state as an explanan? It is because, as will be seen in the following chapter, the state, no matter how it is defined, is used to explain something in the context of market reforms. Sometimes the state is used to explain the failure of market reforms, sometimes it is used to explain the very success of it. Of course, these explanations are also very closely related to how the state is put as an explanandum as well: Whether the state is defined in purely methodological individualist terms or as a historically specific contingent historical configuration or as an autonomous entity will influence the way in which the role of the state is defined in the context of market reforms. For instance if the state denotes only the self-seeking bureaucrats and politicians, then any intervention by the state would result in a failure of the market reforms since these politicians and bureaucrats would try to maximize their profit rather than to allow market reforms to happen. On the contrary if the state is considered as an autonomous entity whose interests and logic can change and which can shape society, then it will be attributed an enhancing (but of course in some contexts

Korea, see Chibber (1998) and Lie (1998) For a general critique of some institutionalists' neglect of the role of social forces and socioeconomic settings see Remmer (1996).

inhibiting) role for implementing market reforms. Based on the knowledge of how the approaches explain the state as such, this part of the chapter is then devoted to discuss how they explain the role of the state *in general*, in order to better understand how they explain the role of the state *in market reforms* in the next chapter.

Buchanan establishes a direct link between the extension of government's role and the increase of the opportunities for lobbying and rent-seeking by interest groups. According to the theory, the government is able to create artificial scarcity and thus rent opportunities by granting monopoly or other rights, thus allowing people to have more propensity to form interest groups in order to benefit from these privileges.⁸ The extensive state intervention in the economy (no matter what the reason is), allows the bureaucrats to offer some rents for some privileged interest groups, thus threatening the total social welfare and the free functioning of the market. Licenses, import quotas, monopoly privileges were those means through which the competing, self-seeking individuals have tried to get benefits (Tullock, 2002; Aktan, 2002). It was claimed that not only the individuals/interest groups within society, but also those individuals making up the state were seeking rents; i.e. want to maximize their incomes. The ability to create and allocate rents did give the state a unique opportunity to manipulate the public agenda according to its own interests (Aktan, 2002; Buchanan, 1984). Thus, rent creation which

⁸ It is important to note that these interest groups need not be powerful capitalist groups, having access to government privileges. Any collectivity putting pressure on government is considered as an interest group. So the workers who try to increase their benefits by using trade unions (Tullock, 2002) or the peasants who compete for agricultural subsidies for instance create equally harmful problems for the free functioning of the economy.

corresponds to the state creating an artificial scarcity (in the form of license, quota, grant, subsidy, privilege) gave way to rent-seeking. A simple example given would be a case where there is no free foreign exchange market and thus people give bribes to the public officials in foreign exchange offices (Tullock, 2002). The only way to dissolve rent-seeking and ensure free and equal competition would be a limited government.

So long as governmental action is restricted largely, if not entirely, to protecting individual rights, persons and property, and enforcing voluntarily negotiated private contracts, the market process dominates economic behaviour...If, however, government action moves significantly beyond the limits defined by the minimal on protective state...the tendency toward the erosion or dissipation of rents is countered and may be shortly blocked (quoted from Buchanan, 1980: 9 by Grindle, 1991).

Another pretext for limiting government action is the bureaucrats and/or politicians' tendency to aggrandize the institutions they are affiliated with, to offer public offices as job opportunities to their constituents and relatives (Tullock, 2002). Politicians prefer to implement those policies that serve their short-term interests (i.e. the securing of electoral success), rather than the ones, which would restore macroeconomic balance in the long run. Aktan (2002) calls this situation as political myopie. The reason behind the conflict between the short-run interests of politicians and the long-run interests of the economy is that since politicians want to maintain their political support base, they tend to use the policy tools like inflation, increase in public expenditures (which are financed by emission or public borrowing) and subsidies (Aktan, 2002). These policy tools are for the public choice in conflict with the free functioning of the market. Again state intervention is attributed a negative meaning for if the state is not allowed to use

these policy tools, economic problems would not arise. Put in other words, the problem lie with those individuals (bureaucrats, politicians) who are involved in collective action and, when given the suitable instruments, use them to maximize their own interests. Furthermore individuals in society put pressure on bureaucrats and politicians as far as the latter have the ability/power to use these instruments. That's why the government should be forbidden from using them. Hence the necessity for a limited government. Yet, in his later studies the limited government would be considered still necessary but not sufficient by Buchanan, for he introduced the concept of constitutional economics. The constitution refers to a well defined set of rules and regulations which is necessary for the functioning of the market.

According to Levi, state intervention might also be more directly used as a means to maximize revenues. Taxation revenues⁹ were a prominent source of revenue for the state during this period and to enable the state to feed an extensive bureaucratic state apparatus as well as those groups and constituents the state had close ties with (Levi, 1988). For the latter subsidies (agricultural support subsidies, investment subsidies in the form of cheap credit, tax and duty exemptions...etc.) constituted a very important impetus. This was either explained in terms of the relative bargaining power of the state's constituents (Levi, 1988) or in terms of the relationship between "support maximizing politicians" and "welfare maximizing constituents" (Haggard, 1991).

⁹ Margaret Levi (1988) makes a general theory of taxation as the basis/rationale for state's predatory rule. So this is depicted as a feature not peculiar to 1960's, 1970's or any other historical period.

To elaborate her argument Levi cites three determinants of this exchange, the first of which is the relative bargaining power of the constituents. For Buchanan interest groups gather for lobbying and rent-seeking activities; the more the state creates artificial scarcity, the more these groups compete for monopoly gains, privileges, licenses..etc. Similarly Levi argues that when rulers have more bargaining power vis-à-vis their constituents, they are more able to monopolize resources (1988: 12), in the form of regulating and licensing economic activities, which results in more rent-seeking by the constituents. However, different from Buchanan who doesn't presume that constituents are unequal in the market, Levi argues that because of the unequal distribution of bargaining resources¹⁰, a ruler will make different contracts with different agents, a statement assuming that rulers will be obliged to be more responsive to more powerful groups. This is one of the important points which makes Levi's analysis closer to historical institutionalism and which differentiates it from Buchanan. For the latter the political exchange where voters, bureaucrats, politicians are the actors, is not different from an economic exchange where consumers and suppliers' choices/preferences/tendencies are calculated¹¹. The unequal distribution of resources is not taken as a variable in that analysis¹². The same point is made by North (1981) who argues that the ruler will not tend to offend powerful

¹⁰ This could be thought with regards to Weber's conception of "unequal life chances" within the market. Levi says that her analysis does not neglect class, but she takes it as one variable among others (1988: 38).

¹¹ The difference stems from the fact that political exchange covers all members of the community, whereas economic exchange includes two partners. See Buchanan (1984).

¹² It is important to remember that public choice does not see any difference between unions and businessmen associations as far as they distort the efficient allocation of resources by exerting pressure on the government. The asymmetry between the resources of these two groups is not

constituents whose high bargaining power will put a competitive pressure on the government and will have propensity to set a property rights structure which favours those groups. Needless to say, this is one of the reasons, which impede economic efficiency in the long run. But in principle both approaches agree on the fact that the government/rulers create some rights like bribery, patronage and sanctions (Levi, 1988: 20)¹³.

The second determinant of exchange, transaction costs, is another point neglected by Buchanan. Levi criticizes public choice's analysis of rent-seeking for they attribute inefficiency only to the government by ignoring the times where markets are imperfect and inefficient (25). Levi and North attack neoclassical assumption that transaction costs of monitoring, bargaining..etc. in the market are zero. In fact transaction costs (cost of measuring what is subject to exchange, the cost of making, enforcing and auditing the contract) are very expensive¹⁴ (North, 2002: 39). Since rulers are themselves competing individuals trying to maximize their revenues, they will themselves face the problem of transaction costs and will have to design instruments reducing transaction costs (costs of bargaining, measuring revenue sources, monitoring compliance, costs of agency and enforcement). Interestingly enough, while the rulers do themselves try to cope with transaction cost problem, they are, on the other hand, expected to draw the framework for lowering them. "The existence of the state is essential for economic growth, the

important as far as their harmful effects on the economy are concerned. However they also accept that some powerful interests groups, not the society as a whole would benefit from rent-seeking.

¹³ Levi (1988: 17) says that the resources in question are exclusively quantified on a material basis, like military, economic, thus omitting legitimacy, authority, status, by sticking to a strict positivistic standing.

state however is the source of man-made economic decline” (quoted from North, 1981: 20 by Levi, 1988: 27).

Where does this apparent conflict emerge from then? I had already mentioned in the public choice that the state was deemed necessary to draw the legal framework of property rights. Dennis Mueller (1984) argues that “the collective act of establishing and enforcing laws and property rights is a necessary precondition for a system of voluntary exchange. Problems of collective choice exist in a Hobbesian, anarchic society and coterminous with the existence of recognizable groups and committees”. Hence a limited government is approved.

Douglass North begins from a similar starting point and argues that there is a need for providing public goods and services which are geared to establishing the necessary framework for ensuring property rights, setting the rules of competition and providing protection and justice for the citizens. Since there are economies of scale it is not profitable/possible that individuals by their own get these services. Therefore there is a need for an organization, which specializes in these services (North, 1981). The state will then set the rules and enforce contracts necessary for economic exchange.

But the same rulers who are expected to draw the necessary framework for the functioning of an efficient system and economy are also the ones who, because of the basic principle of rational behaviour, i.e. maximization of interest, try to increase their revenue by taking an additional advantage from institutional power.

¹⁴ This is also the basis of the emergence of institutions as well as the state.

This situation is further reinforced by the third determinant of exchange as put by Levi, namely the discount rate. According to Levi, (1988: 32) rulers with high discount rate will tend to increase their revenue as much as possible rather than promoting longer term economic growth. This situation is mostly observed in cases where rulers do not feel their office under guarantee. In fact the concept of a high discount rate is similar to the notion of political myopie which predicted that the politicians have propensity to protect their short-term interests at the expense of economic growth and macroeconomic balance. But here it is important to underline the fact that for rational choice institutionalism, the rulers' desire to consider their support base, electoral success, their own interest is completely rational. Robert Bates shows, in the context of the African governments, how the rulers create artificial scarcities in both foreign exchange and agricultural commodities, which results in private gain rather than the maximization of societal output (Quoted from Bates, 1981: 6 by Levi, 1988: 24).

Douglass North's proposed solution is much more complicated than Buchanan's motto for a limited government and constitutional economics. North differentiates between efficient and inefficient property rights structure and argues that in some cases the first, in others the second may rise. This difference is based on the differences between rulers and institutional structures in different contexts. This is because there exists a different and complex set of individual behaviour influenced by the institutional framework,¹⁵ not only one "selfish, rational

¹⁵ North does not understand institution as observable organizations only, but as a whole set of rules of the game (these rules including the concrete organizations and more abstract norms which are both historically shaped) bringing some constraints on the interactions between individuals.

behaviour”¹⁶ This point is very important so as to establish the bridge between economic institutionalism and historical institutionalism, because the latter also distinguishes diverse types of states, some of which resemble more the predatory rule, political myopia and inefficient property rights structure; some of which do not, by encouraging an efficient property right structure, foster economic growth and give priority to longer term economic interests and social welfare.

Historical institutionalists¹⁷ share with North the basic critique of neoclassical assumptions but their critique is more substantial. Evans criticizes Robert Bates who accepts the neoutulitarian argument that the state is the main responsible for the creation of rents impeding economic development in Africa, should be dismantled (Evans, 1995) But still, in Bates’ analysis Evans sees a way forward to historical institutionalism since he admits the necessity for bureaucratic regulation in the development of agricultural sector in an efficient way.

Evans thinks that the state by itself does not imply a negative meaning. As the contingent outcome of historically specific conditions, the state may lead to economic growth by still intervening in the economy but in a direction towards economic growth and development. Like North’s belief in the possibility of an efficient property right structure Evans distinguishes different types of state structures. He argues that “the state is not a generic entity whose economic impact can be deduced from the inherent predilections of bureaucrats; but as a historically

¹⁶ North emphasizes the combination of individual choice and institutional constraint (2002: 12).

¹⁷ Historical institutionalism is very comprehensive approach which has its inner differences. In this paper I deal with this approach with respect to terms predatory state and rent-seeking. For a more detailed analysis of the methodology see Barkey (1991), Kohli (1987), Callaghy (1984),

contingent creation whose properties depend on specific institutional endowments and the character of the surrounding social structure” (1995). Therefore while the state may extract resources from society and seek to maximize its revenues, another one can promote accumulation and growth. As can be seen, historical institutionalists do not attribute an inherent negative meaning to the state or politics¹⁸; or do not accept that rulers are always predatory. They argue that there can be different, historically shaped states in different conjunctures.

As can be remembered from the section discussing the relationship between the institution and individual, institutions have the ability to effect social groups. State, as a set of institutions, is considered from a similar perspective. As Skocpol argues,

states matter not only because of the goal-oriented activities of state officials. They matter because their organizational configurations, along with their overall patterns of activity, affect political culture, encourage some kinds of group formation and collective political actions (but not others) and make possible the raising of certain political issues (but not others) (1985: 21)¹⁹.

At that point does the distinctiveness of historical institutionalists appear: They can attach to the state qualitative characteristics, what rational choice institutionalism would never accept. The predatory state resembles the predatory rule of Levi and North and the understanding of state by Buchanan since the basic characteristics of this type of state is to extract resources from society so as to

Steinmo and Longstreth (1992), Chazan and Northchild (1988), Stepan (1978), Migdal et. al (1994).

¹⁸ For a critical evaluation of the understanding of “positive economics and negative politics” see Grindle (1991).

¹⁹ According to Skocpol, this way of looking at the effect of the state on society may be traced back to Alexis de Tocqueville.

increase private gains of the officials themselves or feeding those powerful groups which are close clients to the state. For example, for the post-independent, third world countries (mostly the African ones) the state was said to maximize its revenues by extracting resources from society (like petroleum, copper or other natural mine resources) and using them for personal benefits rather than for productive investments. The groups/constituents benefiting from such a state apparatus would be a political aristocracy, a class depending on state resources (Callaghy, 1990; Nelson, 1990).

But the developmental state on the other hand does not match the limited government of Buchanan since its *raison d'être* is not simply drawing the constitutional framework for the provision of goods and services. North also defended a state which is indispensable for growth; but for the historical institutionalists the developmental state does and has to put goals of its own, to shape society; unlike rational choice institutionalism they do not accept that individuals do act in the pursuit of their selfish interest only. Sometimes those interests and goals may be oriented towards the welfare of society. This point is important since here the social welfare is not a function of free market and limited government but depends on and is the outcome of state's direct role and intervention.

Why in some contexts developmental state exists and in some other cases predatory state is dominant? The difference arises, according to the historical institutionalists, from different historical and institutional variables and structures. Therefore predation is not derived from inherent characteristics of the rulers,

rather it emerges from a set of historically specific configurations in a given context. There are variables at which historical institutionalists look at for determining whether a state is predatory or developmental. This method is inductive, i.e. it starts from the observation of single cases and then finds out causal regularities (see Skocpol, 1985). This is different from rational choice institutionalist approach in the sense that the latter uses a deductive reasoning, by constructing hypotheses and testing them.²⁰ This is very clear in Levi's use of the concept of predatory rule and her assumptions related to this concept in totally different historical contexts (like Ancient Rome, medieval Europe, contemporary Australia...etc.) Historical institutionalists, on the other hand, look at variables which have a causal effect on the state. For instance, centralization of administration, existence of land reform...are variables making a state developmental or not.

For both rational choice and historical institutionalism, institutional differences play a key role in explaining the differences between states in terms of predation and rent-seeking. When one looks at the depiction of two different countries by one rational choice and one historical institutionalist theorist the similarity is obvious/apparent: Douglass North (2002) argues that in Beirut, the property rights were obtained only by those who exerted power in the public sphere; while the modern American village was characterized by a legal structure which ensures a property rights structure that is itself supported by behavioural norms. Accordingly Peter Evans (1992) argues that while in Zaire the state is not able to

²⁰ Levi is very precise at this point since she distinguishes herself from what she calls "state-

meet the requirements of a modern capitalist economy (like predictable enforcement of contract), in S. Korea the state does not only provide necessary infrastructure, but also draws the proper institutional framework where bourgeoisie is rewarded on the basis of performance towards developmental goals, themselves supported by the meritocratic norms of a rational bureaucracy.

The arguments of both authors ascribe predation to the lack of an institutional design which protects property rights in the case of North and fosters developmental goals in the case of Evans. Moreover, for both of the authors the state is both “problem and solution” (Evans, 1992). While the state can create efficient property rights/development/free market(social welfare or reduce transaction costs..etc. it can also create “rental heavens” for some groups or maximize its own income and profits.

But how and why while some states become successful in assuming a developmental role, others remain predatory? According to Immergut, causality for historical institutionalists should not be understood in a monolithic manner. Causality should be a) contextual b) multi-variable. For the former Immergut argues that “a particular configuration may not produce the same outcome in a different historical period (1998: 19). For the latter she mentions a “constellation of variables that is causally significant” (Immergut, 1998.19). In our case, the answer is two-fold. Firstly, as I have already mentioned, variables, which are found out from a historical-empirical investigation are determining and structural factors in rendering state predatory or developmental. The absence or presence of

land reform, of a strong, rational, Weberian bureaucracy are among such variables. However this does not mean that structural conditions determine development solely, the state itself is able to put some goals, though this very ability is influenced by societal and international context. Therefore it is more or less a contingent process. The solution of historical institutionalists is thus similar to the belief of North in the necessity of institutions, for they promote the necessity of the institutional capacity of the state as far as it is geared towards productive investment, economic growth and efficient use of resources under the supervision of a coherent bureaucracy (Evans, 1992). As can be seen, with the analysis of the historical institutionalists the predatory state is no longer an analytical tool to define the state in general as in public choice²¹ or to depict the crisis of the Keynesian, protectionist state in particular, but it is transferred to a developing context; while the developmental state is depicted as a historically observed feature of many late developers, not only third world countries (Evans, 1995) which caught up with the early industrialized countries.

2.5. Institutional Persistence and Change

As we shall see in the following chapter, the way in which these approaches analyze institutional persistence is important to understand how they make sense of the relationship between market reforms, corruption, rent-seeking and cronyism, because the point is to explain why corruption persists and why market reforms fail to eliminate cronyism, corruption and rent-seeking against the

²¹ Public choice tries to find the roots of rent-seeking as an inseparable feature of the state itself in French absolutism. See Ekelund and Tollison (1984). Levi, as I mentioned applies it not only to

expectations. Equally important is how they make sense of institutional change, because the diagnosis about the failure of the market reforms to eliminate corruption and rent-seeking will be followed by the question of how market reforms will be better implemented without corruption, rent-seeking and cronyism. Hence in order to answer this latter question one needs to understand how the theoretical grounds for change are posed by the approaches under consideration as well as their internal consistencies in explaining change. This part of the chapter will therefore deal with how persistence and change are conceptualised and attempt at answering the following questions: Why do institutional frameworks tend to persist? What is the significance of the notion of path-dependency in the analysis of this persistence? How to explain change? What is the relevance of distinguishing institution as object of change and subject of change?

According to rational choice institutionalists, institutional persistence might emerge from the actors' resistance to give the gains provided by the existing rules of the game (Torfing, 2001: 287). So institutions are expected to change when, as rules of the game, they provide no longer the gains and benefits the actors get from these rules. Yet, as Torfing argues, even so, the new policy path is unlikely to happen immediately, because the very institutional legacy narrows down the options of the actors (2001: 293). This creates a sort of path-dependency, because the costs of changing the existing policy path could be higher than the reform process and it would be sometimes more rational for the actors to make reform so

the capitalist state but to all states by developing a theory of rulers.

that, because “change to occur, new roles need to be learned, necessary skills and expertise may be hard to obtain, cost of process of innovation may be high, new sets of social relations will need to be constructed (quoted from Ikenberry by Cammack, 1992: 411). Here institutional persistence is ascribed to a cost-benefit analysis pursued by the rational actors.

North, on the other hand, ascribes the persistence of institutions –however inefficient they might be- to their contribution to stability, their embeddedness in culture and to the dependence of some interests on these institutions for survival (Lowndes, 1996: 187; North, 1995).

The notion of path-dependency for historical institutionalists is rather different from the rational choice. While for rational choice, “the emphasis is on the absence of change rather than how actual changes are shaped by the past” (Torfing, 2001: 294), for historical institutionalists the point is to explain “how institutions determine which strategies are included and excluded from the central decision-making arena; which strategies resonate with or dislocate the policy legacy and which strategies it is possible to implement successfully.” In a sense, institutions do not block change, they have an impact on its direction and shape. As Jessop says,

The institutional forms of representation, internal organization and socio-economic intervention will tend to favour some identities, interests and policy proposals rather than others; some forms of strategic alignment rather than others and some resources, tactics and time horizons rather than others (quoted from Jessop, 1990 by Torfing, 2001: 296).

However, this explanation does not explain how and why change occurs, rather it points out to the possible impact of institutions on change, how actual changes are influenced by institutional legacies, but it does not say how institutions themselves change. Here lies a weakness as pointed out by Thelen and Steinmo

Institutions are an independent variable and explain political outcomes in periods of stability, but when they break down, they become the dependent variable, whose shape is determined by the political conflicts that such institutional breakdown unleashes. But somewhat differently, at the moment of institutional breakdown, the logic of the argument is reversed *from 'institutions shape politics'* to *'politics shape institutions'* (Thelen and Steinmo, 1992: 15, emphasis is mine).

Similarly it is argued that institutions “are subject to incremental change and more radical change at critical junctures, they provide a context in which most normal politics is conducted” (quoted from Hall by Cammack, 1992: 417).²²

To justify that point, both rational choice and historical institutionalists ascribe to exogenous factors an explanatory power in explaining institutional change. North (1981) argues that a “change in relative prices that improves the bargaining power of a groups of constituents can lead to the alteration of the rules to give that groups more income or alternatively the constituents can force the ruler to give up some of this rule-making powers”. Similarly for Levi it is the change in relative bargaining power of constituents, transaction costs, discount rates that change institutional settings (Levi, 1988; Cammack, 1992: 415). North gives the example of the decline in the relative importance of land rent and the gaining significance

²² Yet, these radical changes are rare because of the possibility of old policy path to resist and kick back and historical and institutional change is an evolutionary process.

of manufacturing which altered the structure of production, hence resulting in the formation of interest groups.

Though it is a commonly shared belief that institutions are resistant to change, their impact can “change over time in subtle ways in response to shifts in the broader socioeconomic or political context” (Thelen and Steinmo, 1992: 18). North also underlines that change is more evolutionary than continuous (2002: 12)²³. According to Thelen and Steinmo, sources of institutional change can be a broader change in political, social and economic context which may i) increase the importance of some institutions ii) attribute new roles to some others iii) alter the goals of the actor in the existing institutions (1992: 16-17).

However the existence of exogenous factors is not sufficient. How rulers respond to those changes remain an important variable. According to North, change is dependent upon the perception of rulers and constituents who believe that the alteration of existing institutional structure will serve better their interests” (2002: 176). While reserving the fact that institutional innovations can be unintended outcomes of an evolutionary path, it is also admitted that it may result from deliberate political strategies to transform structural parameters in order to win long-term political advantage (Thelen and Steinmo, 1992). In a sense one can argue that change has an evolutionary characteristic, which refers to the fact that institutions put their own imprint on the processes, but this does not exclude

²³ North (2002) gives the example of American Constitution and, the behaviours and norms rewarding hardworking, laws induced an economic and political organization like US senate, firms..etc. which further motivated economic development which gave way to new institutional amendments.

discontinuities, which correspond to the responses of individuals in the context of structural transformation (Cammack, 1992: 403).

For those who pay attention to the unequal distribution of power, “change occurs when it is in the interest of those with sufficient bargaining strength to make adjustments “ (Lowndes, 1996: 188). According to North (1995) competition is a key element of institutional change; competitive forces invest in knowledge to survive. However North (1981) argues that sometimes institutional change has to be initiated by the ruler, not by the constituents who may face the free rider problem. For those who take a state-centric view based on rational behaviour assumption as Geddes argues, it is necessary that “the benefits outweigh the costs of implementing new reform for politicians (Kato, 1996: 572).

As far as the purpose of this thesis is concerned, it is important to make a distinction between *institution as object of change* and *institution as subject of change*. The former corresponds to institutional change, which arises because of the exogenous factors mentioned above. When subject of change, on the other hand, institutions initiate change: Either old institutions assume new roles, as “new actors come into play who pursue their (new goals through existing institutions” (Thelen and Steinmo, 1992: 16) or new ones are introduced to implement policy changes. However there the initial change which transforms the old and/or introduces new institutions is explained as a result of exogenous factors.

For structural changes to take place, the need for a proper institutional framework is also emphasized, which is considered as more or less suitable for policy change (in our case market reforms). According to Geddes “presidents are more likely to help build administrative competence in stable, well-institutionalized, less fragmented and more disciplined party systems” (quoted from Geddes by Kato, 1996: 573).

What is the meaning of this discussion for market reforms and corruption? In fact, all the dimensions of change are inter-related. As I will show in the next chapter, when the issue is “market reforms” and rent-seeking, it is argued that a) the already existing institutional context should be suitable for the implementation of market reforms and elimination of rent-seeking (in line with the principle of path dependency according to which some institutional framework are expected to be more favourable to the implementation of market reforms from their historical background while others would be less so) b) the politicians who, rationally would be against those reforms because of their relation with constituents or politicians with a developmental ethos (as some historical institutionalists would suggest) are expected to implement these reforms or c) new institutions are expected to be established despite the issue of institutional persistence. As can be observed, these points pose some paradoxes that I will point out in the following chapters. Moreover for the discussion of market reforms and rent-seeking, the difference between institution as object of change and subject of change is important, because it will be argued that the failure of market reforms will be ascribed to the failure of institutional change, while, on the other hand, institutions

are expected to initiate change for implementing market reforms and eliminate corruption as subject of change.

What kind of initial insights can one derive from the discussion of the nature of institution, change, persistence and state? First of all there is need for challenging the individualistic and a-historical account of social reality by the rational choice institutionalists and for going forward to consider state and institutions as part of the broader set of social relations.²⁴ Then, I would suggest that in order to make sense of the relationship between change and institution, the very definition of the institution should be challenged. There is need to consider institution more than as a constraint and as rules of the game do or as responding to socio-economic and structural changes. Institutions should be considered as shaped with regards to the social and political struggles. Since the individualistic account of institutions of rational choice does not have too much analytical power to understand the broader set of relations in which institutions are located,²⁵ it could be helpful to resort to a critique from within institutionalism:

Indeed, historical institutionalists have in recent years placed considerable and growing emphasis on the ineffective and inefficient nature of social institutions, on *institutions as the subject and focus of political struggle*; and on the contingent nature of such struggles whose outcomes can in no sense be derived from the extant institutional context itself (Hay and Wincott, 1998, emphasis is mine).

²⁴ For a relational understanding of state, for perspectives which consider state as a form of social relation, see Clarke (1991), Holloway and Picciotto (1978), Wood (1994).

²⁵ In his analysis of the central bank independence in Australia, Bell (2002: 482) criticizes rational choice on the grounds that central bankers' behaviour can not be understood on the basis of their tendency to "be tough on inflation" contrary to politicians' tendency to use inflation for getting votes, because this explains neither differences among countries in terms of central bankers' policies, nor the recent adoption of central bank independence for inflation control by the and politicians (2002: 482).

The contribution of Thelen and Steinmo is also important in that sense, because they indicate how institutions can not be separated from the political strategies, an added emphasis to the understanding institutions as both the “subject” and “focus” of political struggle.

The institutions that are at the center of historical institutional analyses – from party systems to the structure of economic interests such as business associations – can shape and constrain political strategies in important ways, but they are themselves also the outcome (conscious or unintended) of *deliberate political strategies, of political conflict and choice* (Thelen and Steinmo: 1992: 10, emphasis is mine).

Institutions, along with state institutions, then, can not be severed from their social context and political strategies. They are not only shaped by them, but they are the very arenas for their realization. Hence it is not possible to attribute a given static characteristic to an institution as “resistant”, as “dysfunctional” or “functional”. As Paul Cammack argue, with reference to the inadaptability of some institutions as depicted by Skowronek, “there is no general case to be made for the dysfunctionality” of an institution, because these institutions might have played a constructive rather than blocking role (1992: 425).²⁶

In the next chapter, I will analyze, in the light of this methodological discussion, the way in which these approaches explain market reforms, the role of institutions

²⁶ Here Cammack criticizes Skowronek on the grounds that he attributes an inherently positive role to a centralized insulated bureaucracy and negative role to parties, courts and Congress in economic regulation (Cammack, 1992: 425). He elaborates his criticism with regards to the American case and argues that Skowranek “doesn’t explore the hypothesis that while the decentralized system of spoils-based party machines may have been dysfunctional as far as the changing needs of central government, some north-eastern financial and emerging industrial interests were concerned, it was highly functional in that it permitted an accommodation between north and south which would have been impossible in the context of national executive authority, undisputed north-western hegemony and centralized programmatic parties” (Cammack, 1992: 421).

and corruption and make a more detailed critique of the neoliberal and institutonalist explanations on market reforms and corruption.

CHAPTER III

NEOLIBERAL RESTRUCTURING, MARKET REFORMS AND CHANGING FORMS OF CORRUPTION AND RENT-SEEKING

The analytical tools used by both new political economy and historical institutionalism, as explained in Chapter 2, are important to understand how these approaches attempt at discussing the relationship between market reforms, corruption and rent-seeking. In the first part of the chapter I will discuss the way in which these approaches attempt at answering the question of why and how market reforms brought about new forms of corruption as well as the way in which they understand the role of the state in the context of market reforms. I will also talk about the policies they suggest for the elimination of corruption, rent-seeking, cronyism and for the proper implementation of market reforms. In the second part, I will try to develop an alternative framework, by questioning to what extent these approaches are really able to explain the relationship of corruption and market reforms in the neoliberal context.

The country examples I am giving in this chapter are those capitalist developing countries which have implemented neoliberal market reforms in the last two decades. By market reforms, I mean generally what is called by the World Bank as the first-generation of reforms which attempted at dismantling the regulating mechanisms in the economy through trade liberalization, financial liberalization and privatization. Another characteristic of these countries is that their private sector is dominated by a handful of diversified business groups. Yet, since I did not make a case analysis I have chosen some examples from these developing countries and have focused on those which appeared as the most illustrative examples in the existing literature: countries of Latin America (Mexico, Venezuela, Argentina, Brazil, Peru and Chile), Turkey and South Korea.¹ This latter case was especially interesting to look into, since it was posed both as a success and failure story, in comparison to Latin America and Turkey in the literature in the course of the 1980's and 1990's and hence gave me a chance to show the internal consistencies of the neoliberal discourse. My point of departure was that, though the pace and sequencing of market reforms may change according to each country's historical backgrounds, class structures, political struggles, the cited countries of Latin America, Turkey and South Korea exhibited some common characteristics in terms of the problem of the thesis, which allowed me to consider them together.

¹ The periods that I will look into are Menem for Argentina, Salinas for Mexico, Perez for Venezuela, Fujimori for Peru, Özal for Turkey, Collor for Brazil. These leaders are not the first ones to attempt to implement market reforms. There have been short periods of adjustment policies before them (considered to be of little success) but they are the ones who firstly implemented market reforms with all its dimensions.

3.1. Market Reforms and Persistence of Corruption and Rent-Seeking: A Critical Evaluation of the Existing Explanations in the Literature

In the historical context of the 1980's, the basic tension was to explain both the continuities and discontinuities with the previous period. At first glance the neoliberal politics, at least at the discursive level, embraced the idea of the dismantling of state power since all the problems giving way to the economic crisis were ascribed to state intervention, a huge bureaucratic apparatus and rent-seeking. So it was expected that if the power of the state is curbed down, the economic efficiency would be forthcoming.

For liberals....state preponderance over civil society which is the root cause of the phenomenon of corruption. Traditionally monopolistic, over-powerful, inefficient, and unaccountable, the state survives by exorting rent corruptly from the private realm. If it were to be diminished in size and power (via downsizing, privatization and deregulation) the the provision of public goods could be made more transparent, efficient and honest (Little, 1996: 65).

The liberals promoted the abolition of what they saw as the sources of the impediment of the free functioning of the market. They argued that Keynesian policies of the developed countries, import substituting industrialization policies of the developing world or any other policy tools making possible rent-seeking should be terminated and the economy should be liberalized. They thought that liberalization of finance and trade should be accompanied with the restructuration of the state defined as a limited government whose bureaucracy would be a

technocratic team². The rents deriving from protectionism would be terminated by the liberalization of finance and by an open, export-oriented strategy. Those stemming from exchange rate controls would disappear thanks to financial liberalization and those which are created by the presence of a strong parastatal and public sector (subsidies, monopoly grants, licenses) would no longer be possible with privatization and state's decreasing role in the economy. To summarize, corruption was expected to decrease "by rolling back the state through privatization and deregulation and by introducing more competition, transparency and accountability into the political process through a transition to a liberal democratic regime" (Harris-White, 1996).

Interestingly enough, the empirical reality did not meet the expectations. What happened in the context of developing world to which I limit my analysis, was more the recurrence of the older problems with the new means as far as rent-seeking is concerned³ (see Manzetti and Blake, 1996) than the withering away of these problems. Harris-White explains this situation by arguing that "rather than reducing the incidence of corruption, economic liberalization in certain contexts acts rather to displace it, redefining the character of corrupt relationships away from those initiated and controlled by state actors to those initiated and controlled by actors in civil society" (1996: 2), but still the state continued to be an important arena of corruption as well.

² For a detailed analysis of these developments see Gamble (1979; 1986).

³ This should not lead to think that neoliberalism did not bring about nothing new. On the contrary, neoliberalism really brought about drastic changes in terms of class relations. What I

Three areas (trade, finance and public sector) where liberalization was expected to put an end to rent-seeking and corruption, created new opportunities. Subsidies in exports in the liberalized trade, resulted in fictive exports; financial liberalization resulted in speculation and corruption in the banking sector; privatization in corruption in the sale of public enterprises. Therefore, market reforms which aimed at liberalization (what would be later called first generation reforms by the World Bank) turned out to produce its own “rental heavens” rather than a competitive free market; thus empirically refuting the argument that market reforms inherently eliminate rent-seeking and corruption.⁴

So the question was: Why didn't the expected outcomes regarding the elimination of corruption and rent-seeking turn out to be realized? Different methodological approaches whose definitions of rent-seeking and predatory state are already given, tackled with this question. They tried to reveal the sources of corruption and the reasons for their persistence. So it is again useful to look at the differences and similarities between these approaches in terms of the way in which they attempted to explain the apparent paradox.

3.1.1. Varieties of Rational Choice Institutionalism and New Political Economy: From an Understanding of a “Negative

mean is that rent-seeking, as a problem associated with the pre-neoliberal period did not disappear, contrary to what was anticipated.

⁴ It should not be mistaken that the empirical falsification is sufficient enough to invalidate the liberal arguments on corruption. I will try to put my own critique later on a more substantive basis, with regards to the way in which the facts are seen and methodologically interpreted; but for the time being I just want to show how liberals were uncomfortable with the arising situation contradicting their remedy for corruption and rent-seeking.

Politics & Positive Economics”⁵ to the Need for an Efficient State

For the public choice theory, the answer to the problem of persistence of rent-seeking would lie in the fact that state intervention, despite market reforms, did not disappear and the political myopia again prevailed over the economic logic (Aktan, 2002). Rent-seeking activities in the 1970s in diverse forms like import quotas, monopoly grants to industrialists..etc. were replaced in the 1980s by export subsidies hence the basic rationale did not change. Hence state intervention (no matter the way) is responsible for the new problems again.

Coşkun Can Aktan (2002) argues that in the 1980s (with special reference to Turkey) rent-seeking was this time very widespread in the export sector since businessmen were competing to get access to export subsidies derived from the Central Bank as well as the taxation exemptions or tax rebates provided to those foreign trade firms which had close ties with the government. The fictitious exports were a very common way of rent-seeking by the false declarations of prices and the number of goods exported. The second aspect of the persistence of rent-seeking was privatization through which public enterprises were sold to certain business groups⁶ deliberately, by avoiding free and efficient competition between individual capitalists. A third persisting problem was the insistence of the governments to control exchange rate according to their own purposes. Finally,

⁵ The term is borrowed from Grindle (1991).

according to Aktan populist and inflationary policies continued to be the main tools of economic policy for the governments to maintain their political support base. In all of these spheres, the relations between politicians, interest groups and bureaucrats were marked by corruption and rent-seeking.

If it is not possible to change the nature of politicians who are in pursuit of vote maximization, of bureaucrats who are in pursuit of revenue maximization and of interest groups who are in pursuit of profit maximization (all of whom behaving according to their individual selfish interests), then the solution lies in making these groups deprived of using or having access to state resources, thus avoiding all the means for the state to create and distribute rents. It can be concluded that public choice establishes a direct link between the persistence of corruption and state intervention. James Buchanan's proposed solution was a limited government as already stated in the previous chapter. He is attaching a positive meaning to economics and negative one to the politics as Grindle (1991) puts it, but it should also be noted that he is using another term, constitutional economics to denote a set of rules to abide by so that markets operate efficiently.

For scholars who study comparative politics from a rational choice perspective it is not surprising that the neoliberal experience did not produce the anticipated outcomes, for as in the famous words of Robert Bates "Why should reasonable men adopt public policies that have harmful consequences for the societies they govern?" (quoted from Bates by Leith and Lofchie, 1993). If one recalls the

⁶ These business groups were not only domestic groups, but also multinational companies in many instances as the Latin American case suggests. See Manzetti and Blake (1996) for cases

rational choice approach's basic assumption that politicians and bureaucrats would rationally pursue their own interest, try to both extract resources from society and meet the needs of those groups who have a high relative bargaining power if we talk in Levi's terms or those who constitute the political support base which influences in turn the discount rate of rulers. Therefore neoliberal policies which envisage the efficiency of macroeconomic management, necessitating the abolition of agricultural subsidies, decrease of wages, dismantling of clientelistic relations would not be the preference of governments. Therefore there is nothing more rational than a government which resists the basic rationale of neoliberal market reforms and face the dilemma of the necessity to implement these reforms and their own political rationality.⁷ This is called by Barbara Geddes as the "politicians' dilemma" and explained by Bates and Krueger in the following way: "To remain in power, incumbent politicians render their control over public spending a source of political benefits; they adopt distributive strategies, financing programs and allocating 'pork' so as to reward constituents and build an organized following" (Bates and Krueger, 1993: 465). This is one of the aspects of what Miles Kahler calls orthodox paradox: "How does one convince governments to change policies that are economically damaging/irrational but politically rational? (quoted from Kahler by Callaghy, 1990). Here as can be seen economic policies suggested by neoliberalism are accepted as economically "rational".

of the sale of state owned enterprise to the multinational companies.

⁷ Here the problem is: Who are the actors of neoliberalism, which I will discuss later.

The conflict posed between politicians and neoliberalism, however, creates an inner paradox for the rational choice institutionalist scholars, because the politicians who are supposed to resist neoliberalism by nature are not only expected to implement reforms by being accompanied with their “change teams” (made up of technocrats) but more importantly in most developing countries did actually implement them as I will show in the following sections of this chapter. Therefore how market reforms were implemented by the politicians in many developing countries, even if there have been some failures, remains an unanswered question. It is also interesting to see that not only governments, but also the constituents or distributive coalitions or interest groups who became rent-seekers before the market reforms are expected not to renounce their privileges even though these privileges are harmful for economic efficiency (Waterbury, 1997). As Schneider puts it, theories of distributional coalitions like Olson’s one consider business influence as blocking reform (Schneider, 1997: 193). But when a conflict is posed between vested interests and neoliberalism, it is not possible to answer the question of how interest groups who were the rent-seekers of the previous period, became the very promoters and defenders of neoliberal policies in some cases. (see Leith and Lofchie, 1993).⁸

The role of the state constitutes another facet of the orthodox paradox, because, as posed by two authors who are from the new political economy tradition,

⁸ Apart from the newly emerging interests, in many cases, the strong business groups of the import-substitution industrialization have been the beneficiaries of the liberalization policies in the developing countries.

Economic policy reforms are not ‘anti-state’; rather, they appear to strengthen the powers of the core of the state, the executive branch and to enhance its control over key economic policy variables which affect the outcome of economic activity. This is the essence of what Miles Kahler labeled the ‘orthodox paradox’: that the expansion of the role of markets requires a strengthening of the state and especially of its financial bureaucracy (Bates and Krueger, 1993: 463).

So, though rational choice institutionalists are against state intervention, they would opt for some degree of institutional regulation in the context of reforms. For instance Peter Evans criticizes Bates for his neoclassical assumptions and his rejection of state intervention, but then shows how in the context of agricultural reforms (the object of study of Bates) Bates admits the need for a bureaucratic regulation for instance.

Another figure of the new political economy, Douglass North, adopts a different perspective and argues that, though the problem lies with the state, this is a specific kind of state which is inefficient, which does not set efficient property rights. So the solution is a state which makes necessary institutional arrangements for the market, which produces these goods and services that individuals alone could not produce, which sets efficient property rights.

3.1.2. Historical Institutionalism: “State as Both Problem and Solution”⁹

Historical institutionalists, in line with their methodological premises attach importance to the historical features of different countries’ state/society relations in the context of market reforms. They pay attention to the institutional

differences and different configurations of state and society in order to show how in some countries predatory state (which extracts resources from society and does not use them for social welfare and economic growth) and in others developmental state (associated with successful reforms carried out through joint projects between state and society) was predominant, this time in the context of market reforms. The point is to explain how, despite the attempts at market reforms, rent-seeking prevailed in developing countries and to find out what are the conditions for a successful development strategy.

Kessler explains how in Mexico, after the financial liberalization, the financial policy pursued by the state offered rent-seeking opportunities to the private sector. Moreover it increased the “state’s capacity to finance politically motivated public sector obligations” in order not to lose political support. The Mexican state was allowed to “provide economic goods that would generate renewed social support” (Kessler, 1998). Here rent-seeking activities of the business groups through state’s policy, the lack of political insulation and populism designed to maintain political support are indicated as problems. Kessler investigates the “political” reasons impeding the implementation of market reforms in the Mexican context. For him, one of the basic policy tools of Salinas government was an overvalued exchange rate.¹⁰ Kessler explains this continuity with the desire of Salinas to maintain the needs and demands of different classes. It is interesting to observe the parallel between what Kessler calls as “political capital” as an obstacle to market reforms

⁹ The term is borrowed from Evans (1997).

and what Callaghy calls “political class”. These terms indicate the intertwining of the political and economic as an obstacle to the functioning of the economy. “Political capital”¹¹ seeks to increase its won rents rather than contributing to the development of a productive economy. The government, on the other hand, has vested interests in the continuation of this situation. Hence the neoliberal period is often characterized by a tension between the desire to curb down these and their persistence (see Evans, 1992; Öniş, 1998).¹²

The relationships between the business and the government are found to be problematic, because they are depicted as “personalistic” as opposed to “institutionalized”. Schneider argues that the fact that Mexican business was organized in many voluntary associations was because the government always refused to establish institutionalized links with the business groups. The

¹⁰ It is important to note that overvalued exchange rate in question is different from the overvalued exchange rate associated with the period of import substitution industrialization and it is the outcome of a very different set of economic policies in neoliberalism.

¹¹ A similar terminology and approach is used for the African case. Though the African and Latin American cases are different and the case of Africa is not included in the study, I found it interesting to underline the similarity in the way in which the failure of market reforms and adjustment policies is depicted. According to Callaghy, the African states did not give up being predatory” states during the structural adjustment process: “Corruption, fraud, appropriation of state and private property, extraction of all kinds and arbitrary and particularistic administration become dominant features of African life”. Callaghy explains that since the transaction costs of the productive activities were very high, it became more profitable to benefit from the clientelistic opportunities offered by the predatory state (Callaghy, 1990). Callaghy goes on to explain the African experience (and failure) of structural adjustment in terms of the persistence of the state and the structural characteristics of what he calls as “post colonial syndrome”. According to Callaghy, this syndrome manifested itself in the clientelistic networks, distribution of rents, expansion of parastatal sector (1990: 258-259) and all the SAP’s targeted the disappearance of this syndrome. 1985 Shadow program in Zambia (287) and SAP in Nigeria tried to introduce FX auction (308), abolition of import licensing systems and elimination of subsidies. However these policies did not turn out to be completed since prebendalization (1990: 304) and crony capitalist forms persisted. Implicit to this argument is the assumption of a “normal, rational” capitalism associated with market reforms as in the public choice, rational choice and new political economy. Similarly to Kessler’s notion of “political capital”, Boone uses “politicized accumulation” (1994) and Mc Gaffey’s “political aristocracy” for Zaire (1988).

¹² A similar view is adopted by Leith and Lofchie for the case of Ghana (1993).

government was unwilling to incorporate them into the political decision-making process (Schneider, 2002). Buğra makes a similar comment on the nature of the relationship between the government and business in Turkey. She argues that this relationship has always been and is still there through particularistic links, rather than taking an institutionalized form based on mutual recognition (Buğra, 1996). Again in the Turkish context, Kalaycıoğlu argues that the relationship between TÜSİAD and the government highly relied on personal ties and Özal, despite his liberal principles, did not choose to establish a relation of equals with the business groups (Kalaycıoğlu, 1991). Moreover İlkin underlines that the selection of those businessmen to whom the government would give export subsidies was politically motivated (İlkin, 1991). It is very interesting to note that this feature of the state is said to have historical and tradition roots; but it did not change in the 1980s. For the case of Argentina, Teichman (2002: 495) says that “institutionalized arrangements linking the authorities and private sector were not important mechanisms in obtaining access to key policy makers”.

Some historical institutionalists argued that individualistic relations between the government and businessmen have encouraged rent-seeking.

The preference of the state elites for evading organized interest groups and interacting directly with individual enterprises results in perverse incentives by encouraging the formation of ‘narrow distribution coalitions’ and generates an environment conducive to rent-seeking (Öniş, 1999e: 256).

An environment of uncertainty was posed as an additional factor to lead the business groups to establish personalistic links with bureaucrats and politicians. Buğra, for the Turkish case asserts how uncertainty was a key determining factor

characterizing the relationship between the government and business and that the businessmen complained about lack of consultation (1996). Öniş argues, for the same case, how “the relationship between private business and the bureaucracy has been unstable and involved mutual distrust” (1998d: 234).

Similar to the approach of new political economy, another criticism directed to the neoliberal governments is that they interrupt market reforms by turning to populist policies. On the basis of the definition of Dornbusch and Edwards, Szusterman defines populist policies as “those where the state will use government expenditure, generalized controls, income policies and the exchange rate in pursuit of income redistribution, oblivious to the impact of such policies on the fiscal deficit and consequent inflation” (Szusterman, 2000: 196)¹³. The examples of wage increases before the elections, perpetuation of agricultural subsidies for the lower and middle classes of society are given to justify this kind of arguments. These so-called “populist” policies, to appeal to the voters were counterposed to the macroeconomic stability programs and were told to damage the market reforms. Ziya Öniş calls this situation, with reference to the Turkish case as the conflict between two options that the governments can choose: either “a high growth-cum-redistribution strategy which could be politically rational in the short run but would nevertheless increase the risk of macro-economic crisis” or “a slow growth cum-liberalization strategy which would be unpopular in the short-run but whose benefits would accrue in the medium term in the form of improved

efficiency and growth performance” (Öniş, 1998c: 192). According to Öniş and Webb, whenever the political support base is threatened, the governments choose the former option and implement “populist measures that were fiscally damaging, such as restraining public sector price increases, increasing public sector wages and spending more on popular local projects” (Öniş and Webb, 1998: 365). So the structural macroeconomic imbalances are ascribed to the prevalence of political irrationality over economic rationality.

A final problem was shown as residing in the absence of embedded autonomy as firstly put by Evans and then elaborated by other historical institutionalists. Since a meritocratic bureaucracy is the main component of an embedded autonomy, its absence is found to be an “important factor leading to a degeneration, collusion and rent-seeking in the relations between business and government” (Schneider and Maxfield, 1997: 5). Evans argues that autonomy vis-à-vis the business groups is needed so that embeddedness does not “degenerate into capture” (Evans, 1997: 83). The necessity for autonomy does not exclude the support of the business groups by the government. Yet it is important to note that government support of business groups (like in the sform of subsidies) per se does not create corruption for an historical institutionalist analysis as would do according to a new political economy approach. What creates corruption is the lack of “reciprocity”, implying that state actors should be able to request some performance from companies which benefit from subsidies and credits (Schneider and Maxfield, 1997: 10).

¹³ Here I refer to populist policies narrowly with regards to the economic policies and distribution policies. Populism has other connotations in the literature. See Cammack (2000) for a review.

According to historical-institutionalists, since predatory state is a historically contingent configuration, there is not a direct link between market reforms and the abolition of the maladies associated with the predatory state. Despite the existence of market reforms the legacy of the historically specific set of state-society relations could produce a predatory state which could block the proper implementation of these reforms through rent-seeking and cronyism. So the problems in the 1980's emerged from clientelistic relations, crony capitalism, particularistic links between bureaucracy and bourgeoisie, extraction of resources by the state, the prevalence of political logic over economic logic, political class and aristocracy rather than a strong bourgeoisie. But here it is important to remember that historical institutionalists admit the possibility of other kinds of states like the developmental states with embedded autonomy. Hence Evans (1992) talks about the necessity for a developmental role for the state in countries which undertake a structural adjustment program, against those who emphasize the negative characteristic of politics and state in the adjustment literature (dominated by the new political economy approach).

In the stabilization literature the role of the state in shaping the character of capital is seen as negative. It is assumed that the state can corrupt capital by creating opportunities for rental heavens, but in the absence of state-induced distortions, local capital is expected to respond as Schumpeterian entrepreneurs, taking risks, making long term investments in productive activities (Evans, 1992: 180).

Evans finds such a picture as unrealistic and also criticizes the “insulation argument” according to which in “the absence of political pressure, technically trained incumbents will make economically correct decisions which are sufficient for adjustment” (1992: 179-180). The “embeddedness argument” in fact states

that the “network of external ties allows the state to assess, monitor and shape private responses to policy initiatives. So connections to civil society not part of the problem but part of the solution.” (1992: 180). According to Evans, the establishing of networks with civil society and especially business groups risks falling into capture by interest groups, into corruption and clientelism, so in order to avoid that danger there is need for a Weberian bureaucracy. To put it differently, “*insulation from business and engagement with it* is crucial for combining the capacity to monitor and discipline powerful social actors while also extracting cooperation and information from them” (Haggard, Maxfield and Schneider, 1997: 60, emphasis is mine). In that sense, South Korean case is shown, by Evans, as an ideal example to be emulated by the Latin American cases especially (Evans, 1995).¹⁴

As can be seen, whether the state/society relations are characterized by common goals of development or rent-seeking is contingent upon a set of conditions: “Growth-oriented networks are instruments for the pursuit of collective goals, while rent-seeking networks are vehicles for allowing capital to avoid risks of transformation in favor of directly unproductive means of securing profits” (Evans, 1997: 70). However, as Haggard et al. argue, “the line between those networks that enhance efficiency and those that provide the opportunity for public goods to be appropriated for private ends remains thin and poorly understood” (Haggard, Maxfield and Schneider, 1997: 57).

¹⁴ Yet, as I will show later, this ideal case exhibits concomitantly developmental goals and

For almost all the authors discussed above, the state, whether defined on the basis of individuals or on the basis of institutions and historically specific configurations, is considered as the source of rents and corruption, though for historical institutionalists this source is not the state per se, but a specific kind of state, namely the predatory state.

For the new political economy, the historical records of neoliberalism are noted with reference to a set of dualities like political vs. economic rationalities where economic and political are conceptualized as two different external entities. However for historical institutionalists, the “political” intervention (in case it is directed to developmental goals) is necessary for economic success. It is also interesting to see that, despite their differences, North and Evans underline the need for institutions. Both acknowledge the conflictual character of the state and institutions which could either foster or impede economic growth and believe in an active role of the state, though this role should be properly redefined so that there would be absolutely no room for rent-seeking, crony capitalism and prebendalism.

It is very problematic to consider predatory state, rent-seeking and corruption as inherent features of individuals or state in an a-historical manner. In fact these should be historically analyzed, as part of the broader social context in which they are located. Similarly, it is also misleading to take the tools of economic policy (trade, finance and privatization) where corruption and rent-seeking emerge as

cronyism, rent-seeking.

technical processes, but as the very arenas where state-class relations are shaped. In the pursuit of an alternative understanding of market reforms and corruption, I will try to avoid these methodological problems and consider the state and institutions not as autonomous entities in themselves, but as I have already pointed out in the previous section, as focus and arena of struggles.¹⁵ I will also conceptualize the state not as distorting the economic reforms as some rational choice institutionalists would do, but as an important actor in the implementation of market reforms.

3.2. Towards an Alternative Understanding of the Relationship Between Corruption and Neoliberal Restructuring

3.2.1. Are Corruption and Market Reforms Mutually Exclusive?

The discussion in the first part of this chapter has already suggested that market reforms did not eliminate corruption and rent-seeking. However, the question still remains, in the light of the critical evaluation of the approaches in the previous chapter, why, how and in what direction corruption and rent-seeking changed. These new forms of corruption have a dual role, as I will attempt at depicting: On the one hand they help the *rapid accumulation of capital* in some business groups in the phase of neoliberalism; on the other hand and as related to the first role, they serve as a *political strategy* by the neoliberal leaders to transform rapidly the

¹⁵ State as the “site of struggle” is based on Poulantzas (1978), institution as the “focus of

already existing institutional structures and rules which might otherwise impede market reforms.

The first way to make sense of the relationship between market reforms and corruption is to consider corruption *not simply as persisting*, but *as taking new forms, thanks to, not despite* neoliberalism. Hence, corruption does not emerge from the inherent characteristics of bureaucrats, politicians and other individuals who have propensity to maximize their revenues and hence to rent-seeking as public choice theory would suggest. Neither can it be associated with the traditional and cultural characteristics of some state/society relations. Rather it emerges from the unequal power relations in neoliberalism.¹⁶

The relation and compatibility between market reforms and corruption that I will try to depict in that chapter is not logical, but historical. Therefore I would disagree with the statement that privatization for instance (as a market reform) “carries, by its nature, corruption, illegality and bribe”.¹⁷ Rather I will argue that it is the unequal power relations and competition in society which open up avenues of corruption in privatization in particular and market reforms in general. So as long as these power relations exist, it is not possible that there would be an ideal

struggle” is based on Hay and Wincott (1998).

¹⁶ Of course this does not mean that corruption is only observed in neoliberal relations, it permanently emerges in different historical periods in capitalism, but with different forms. For an argument which considers that corruption is systemic to capitalism see Önder (2002).

¹⁷ This statement is quoted from a press communiqué made in Turkey by EMO (Chamber of Electrical Engineers) and Enerji Yapı-Yol Sen (the trade union of energy and road workers) after the White Energy Operation carried out by police forces to find out the criminals of a huge corruption scandal in the energy sector, on 23 January 2001. I would agree, nonetheless with their argument that the corruption can not be severed from the long-standing neoliberal policies.

form of market reform, which once realized correctly, does not allow any potential for corruption.¹⁸

In what way did these new forms of corruption emerge and how can one locate them in the new neoliberal context and market reforms? According to White with liberalization,

the opportunities for corruption have vastly increased. The gradual dismantling of the previous system of directive planning, the increasing commercialization of the public sector and the rise of vibrant new economic sectors such as small collectives, household or self-employed businesses, larger scale private firms and foreign invested enterprises (notably joint ventures) have created a *myriad of opportunities for officials to use their still substantial powers to benefit themselves and their clientele* (1996: 44, emphasis is mine).

However this situation does not emerge simply from the officials' own interests. Businessmen benefit from the new opportunities to gain competitive advantage to make profit (Sönmez, 2002) and to survive in the market.¹⁹ State, once again, is an inseparable part of capital accumulation. Thus as White argues,

These increasing opportunities have been coupled with an increasing demand for official malfeasance on the part of newly rising economic forces who find it *necessary or advantageous to seek official assistance to facilitate their business* or gain competitive advantage against their business rivals. This is leading to an increasingly widespread and *quasi-institutionalized system of personal and organizational relationship between officials and business people* to their mutual benefit (1996: 45, emphasis is mine).

¹⁸ It is also important to note that corruption is not necessarily associated with capitalist societies. In fact the experiences of socialist countries exhibited patterns of corruption, though in different forms and areas. See Nazpary (2002). However my analysis is limited to capitalist countries.

¹⁹ Boratav argues that corruption requires a capitalist class who realizes accumulation and wealth thanks to the state and politicians who are part of that capitalist class (Boratav, 2002).

These statements are reinforced by empirical studies: The analysis of Venezuela, Brazil and Argentina enable Manzetti and Blake (1998) to deduce that “market reforms have changed the politics of corruption rather than eliminating this phenomenon” (Manzetti and Blake, 1998). According the Eizenstat (1998) when “economies [Transition economies] liberalize and open their doors to foreign investment and trade, the very processes of change-privatization, procurement and the like- become areas where corruption tends to flourish”. Robertson-Snape (1999), for the Indonesian case, shows how deregulation which was expected to decrease corruption increased the power of those groups close to Suharto’s regime. Moran (1999) explains for the South Korean case, which was considered to be an ideal case of developmentalism –deprived of rent-seeking and cronyism- how, ironically, during the 1980’s, the distribution of licenses became a means for corruption in the financial sector. The creation of a new support base for neoliberalism is also justified by Kessler, with regards to the Mexican case as follows:

Large manufacturers, distributors and bankers not only presided over the country’s most dynamic growth sectors, but they also served as *the primary source of investment capital* and foreign Exchange, the *lifeblood of Salinas’s market reforms*. By designing financial policy to channel rents to big business, the PRI sought to *deepen its alliance with the private sector actors who supported the new, outward-oriented economic strategy* (Kessler, 1998: 45, emphasis is mine).

However, it would be misleading to argue simply that the corruption and rent-seeking do indicate a relationship between business and government where both sides act for their own interests. The constitution of neoliberalism is more than that. It refers to the changing class relations, changing power relations in society

and corruption helps the implementation of neoliberal reforms to occur in a rapid manner by accumulating capital in a few private hands. As Harris-White argues,

Corruption is a special phenomenon – part of a broader, institutionalized process of redistribution and accumulation, of new forms of property relation (Harris and White, 1996: 38, emphasis is mine).

Moreover,

avoidance and evasion, while legally distinct entities are both part of the *tactical armoury* and of *private accumulation* (Harris and White, 1996: 34, emphasis is mine).

Keeping the relationship between capital accumulation and corruption in mind, one has to go one step further, to avoid any economism and find out that corruption is also referring to a political strategy on the part of neoliberal leaders who, as I shall below, despite their rhetoric, are involved in such activities to realize the market reforms in a top-down manner and to by-pass, along with businessmen, the already existing institutions which could serve as obstacles to the creation and consolidation of new interests. As Harris-White argues,

Decades of tax evasion, black investment and corruption results in *relations and institutions which are now serious obstacles to reform* in directions predicted by NPE (Harris-White, 1996: 38).

Yet one has to be careful while talking about the political strategy, because this strategy is not the outcome of the rationally calculated interests of the neoliberal leaders as the approach of new political economy would suggest, rather it is one of the means which was shaped by and used in the context of a transformation process, a dynamic process which influences all the existing social and institutional relations and brings about the neoliberal reforms.

Though my analysis is limited to capitalist societies, there is need to refer to those studies which are made on those countries which have experienced a transition from socialism to capitalism, through neoliberal market reforms, because the perspectives these studies adopt could be relevant for the already capitalist countries, since similar market reforms are implemented despite different historical trajectories. For instance, Pınar Bedirhanoglu, in the case of Russia, argues that it was Yeltsin's political strategy, as shaped by the capitalist transformation, to create a milieu appropriate for corruption in order to make his reforms acceptable and to create an oligarchy in support of the neoliberal reforms. Similar comments are made by other authors studying the countries in transition from socialism to capitalism. Joma Nazpary for Kazakhstan (2002), Smith (1997) and Gowan (1995) for Eastern Europe indicate that corruption is a means for the rising bourgeoisie to realize neoliberal reforms from above without leaving any room for a countervailing maneuver. In this authoritarian transition to capitalism some people get very rich and accumulate capital very rapid and corruption and rent-seeking are also highly useful for overcoming institutional obstacles As put by Smart, "(in) a socialist society with subordinate capitalist relations of production, rent-seeking may serve to increase the efficiency of an economy by *serving to overcome obstacles imposed by existing institutions*" (quoted from Smart, 1993: 16 by White, 1996: 43).

The fact remains that the new forms of corruption taken by neoliberalism will necessarily have a global dimension, because neoliberal policies bring about liberalization of trade and finance and hence the more rapid flow of international

capital to the developing countries in question.²⁰ Thus, it is possible to see how for the international capital itself corruption becomes a means to penetrate third world countries after liberalization. In fact, especially in the cases of Latin America, the international firms benefit from that means to buy public enterprises in privatization, as I shall show below. Under the pressure of global competition, transpassing national boundaries faster and more becomes a must so that bribes given to national bureaucracies are shown as liability in these firms' account. Wang and Rosenau (2001) explain how multinational corporations themselves produce corruption. To reinforce the argument, Pope (2004) reports that overseas companies think that they could be beyond the reach of local authorities and hence break the law to pay bribes. In turn bureaucrats want commissions from these corporations for investment permit.²¹ According to Oyan, the international firms' basic motive is to get share from foreign direct investments, tenders, markets of goods and services and that is why they resort to corruption for getting access to these in the developing countries (Oyan, 2000).

In order to elaborate these arguments and to show that corruption is not external to market reforms, I will firstly point out how neoliberal leaders used the discourse of corruption in legitimizing their reforms. Thereafter I will try to elaborate and reinforce my basic argument on the compatibility of corruption and market reforms by analyzing the changing institutional setting facilitating corrupt

²⁰ I exclude the discussion of globalization and neoliberalism in the thesis, but for a good account of this relationship see Brenner (1998).

relations and by examining how these relations assume an important function in the consolidation of business groups. I will focus, each time, on three areas where corrupt relations can be revealed, namely trade, finance and public sector, where market reforms are implemented, with a special emphasis on the latter. It is important to identify these areas analytically, because as Yılmaz (2003) points it out, it is in these areas that corruption reveals itself. I will also question to what extent the personalistic relations between business groups and the government as well as the populist policies are factors impeding market reforms.

3.2.2. State Intervention, Corruption and Rent-Seeking as Means to Legitimize Market Reforms and the Separation of the Economic from the Political

What was the legitimation basis of the government to implement top-down measures? The reasons may be diverse and historically shaped, changing from country to country. But one of the reasons directly related with the topic of the thesis and common to many of the developing countries' agenda is that neoliberal leaders ascribed economic problems to corruption and rent-seeking associated with state, bureaucracy and politicians who preceded them. It is no coincidence that almost all neoliberal leaders in the developing countries targeted them to legitimize their technocratic solutions.

²¹ The fact that in 1992, the US ambassador in Buenos Aires reported the commissions taken from American businessmen who wanted to invest in Argentina, is just an example (Gabetta, 1997).

The period of 1960's and 1970's is depicted as a period of corruption and state dominance in Indonesia (Robertson-Snape, 1999) and in S. Korea (Moran, 1999). Sometimes extended to the 1980's, where initial attempts of market reforms were made but resulted in a failure, which is ascribed to the continuation of the previous period's symptoms. For instance in Argentina Menem who came to power in 1989, has shown himself as the "*political outsider*" (Weyland, 1996) and his slogan was: "Follow me, I'm not going to betray you" while Collor's one in Brazil was "Whoever steals goes to jail" (Manzetti and Blake, 1996). The latter is proud of the fact that

faithful to its commitment to the democratic process, my administration has been spearheading this drive for the modernization of the states to the point that it is sending to Congress a number of bills dealing with various issues ranging from strict punishment for public officials guilty of illegal accumulation of wealth to new regulations for bids and contract (quoted from Collor by Bosque, 1996).

Similarly in Peru Fujimori who had no party affiliation but was elected president in 1990 tried to legitimize his power by referring to the negative legacy of the "partidocracia" and of "populist" Alan Garcia.²² (Crabtree, 2000: 171). Hence corruption, for the neoliberal leaders was part of a discourse to legitimize market reforms. To some extent this discourse made a sense, because of some governments' willingness to punish corruption, as the South Korean case suggests: "Kim Young Sam promised clean government at the start of his presidency....the anti-corruption emphasis appeared to have some substance when a number of senior military men and functionaries of the ruling DLP were

²² Garcia is the predecessor of Fujimori.

dismissed from office in 1993” (Yang, 1996: 52). Or in Turkey, when his minister of state was charged with the accusation of corruption in 1984, Turgut Özal dismissed him (Baran, 2000). However, once in office, neoliberal leaders would be themselves main actors in corrupt practices. As Jones puts it for different countries in Latin America,

populist anti-corruption card most strongly during their election campaigns- Collor in Brazil, Lusinchi in Venezuela and Menem in Argentina- to be themselves implicated in corruption once in office (Jones, 1996: 73).

The association of corruption and rent-seeking with state intervention was a successful strategy, to the extent that it became a common-sense belief in the public opinion as well. With regards to the Argentinean case Szusterman argues that,

Very few today question that past fiscal irresponsibility and the stifling persistence of the state had to be checked. The interventionist state was perceived as the source of the widespread inefficiency and corruption that characterized economic mismanagement for almost half a century (Szusterman, 2000).

If the diagnosis is state intervention, corrupt politicians, bureaucrats and in some instances businessmen, then the remedy would be market reforms which would eliminate state intervention in the economy to such an extent that these politicians, bureaucrats and other self-interested individuals would have no tools (as offered by the state) to maximize their profits by corruption and rent-seeking. The success of the neoliberal reforms, then, would also depend upon to what extent the economic is separated from the political. The words of Argentinean minister of economy, Domingo Cavallo, under Menem illustrate that point very well:

Politics and economics are progressively being separated to the point where it seems safe to predict that future elections will be fought over *who can implement a liberal economic program* most effectively rather than who can offer fundamental alternatives (Cavallo, 1991, emphasis is mine).

The separation of the economic from the political is a peculiar and historical feature of the capitalist relations of production.²³ Yet, this does not mean that once established, this feature becomes a static characteristic of capitalist relations. It has to be historically reproduced and reorganized through class struggle. So, it has been one of the major aims and attempts of the neoliberal governments to render a “liberal economic program” (market reforms) as the only alternative. Attributing the “economic” problems to the “political” interventions is thus an important component of the neoliberal discourse where corruption and rent-seeking play a legitimating role for the implementation of market reforms. This is why, it is argued that, corruption and rent-seeking, either depicted as the result of rational self-seeking behaviour or as the outcomes of some cultural traditions, are made possible by state intervention. It is no coincidence that the first-generation of market reforms was dominated by a discourse of limited and minimal state, in accordance with Buchanan’s public choice theory. To what extent this ideal form of the relationship between the economic from the political and this ideal type of the state corresponded to what actually happened the period of market reforms constitutes the core of the following discussions.

²³ This feature is due to the fact that in capitalism, different from feudalism where exploitation is based on a direct use of force, the form of the appropriation of surplus value is in such a way that the relations of force are abstracted from the immediate process of production, creating two separate spheres (Holloway and Picciotto, 1978: 24). For a very detailed and sophisticated analysis of this see Wood (1995).

3.2.3. The Changing Institutional Framework in the Context of Market Reforms, Corruption, Rent-Seeking and Cronyism

Market reforms were implemented in most of the developing countries by politicians and technocrats who are called in the literature as “change teams”. The role of these teams was not merely putting into practice the reforms. They developed innovative strategies to make modifications, changes and in some instances drastic alterations *of* and *within* the existing institutions. My point is that it is the changes in the institutional framework which made possible and easier both the making of the reforms and the new forms of corruption and rent-seeking.

The first apparent aspect of these changes is the centralization of decision-making in a small group of politicians and technocrats. Centralization of decision-making in a few hands differs according to countries, but as a general characteristic, power is delegated to top agencies, presidency and finance ministry (Weyland, 1996). Bureaucratic changes geared to centralization have diverse forms: Some ministries were handed over to others as in the example of the handing over of the Ministry of Budget and Planning to the superministry of Finance in Mexico under Salinas and of Minister of Public Works to the Ministry of Economy headed by Domingo Cavallo in Argentina (Teichman, 1997). Some governmental agencies were either merged or eliminated as in Argentina (Teichman, 1997), or some new agencies were established like the Undersecretariat of Treasury and Foreign Trade in Turkey, which has reduced the powers of the Ministry of Finance (Öniş, 1998c: 188) and like the Coordination Board (headed by the undersecretary to the prime

minister) and the Money and Credit Board charged with monetary policies (Krueger and Turan (1993: 355)

Sometimes the old agencies were not reformed but their powers and functions were reduced (like revenue collection for the Ministry of Finance) (Öniş and Webb, 1998). For instance the Division of Foreign Investment within the prime ministry eliminated the powers of other units administering controls and incentives with respect to capital inflows and which were under the ministries of Finance, Commerce, Industry and Technology and State Planning Organization (Krueger and Turan, 1993: 355).²⁴ Sometimes single-purpose units within the bureaucratic structures were established and they could help “organize conflict out of specific policy arenas” (Williams, 2002: 398) and render faster the market reforms. For instance the Office of Deregulation in Mexico has the right to propose the deregulation of any economic sector to the president (Williams, 2002: 402) and The Board of Mass Housing and Public Participation Fund in Turkey, was responsible for the administration of privatizations (Öniş, 1998c: 188).

The strengthening of executive power on the grounds that bureaucratic procedures are too lengthy has diverse aspects, the most common of which is ruling by decree. This facilitates the implementation of a series of market reforms without resorting to other bureaucratic or parliamentary approvals. In Argentina the Law of Economic Emergency allowed the government many rights like the suspension

²⁴ According to the authors “this formula would reduce the power of ministries and other agencies which played critical roles in economic policy-making and implementation, each with

of subsidies and State Reform Law enabled it to realize privatizations of telephone, highways, railways..etc. without congress approval (Manzetti and Blake, 1996; Teichman, 1997). The use of “medidas provisionas” (executive orders) in Collor’s Brazil, of decrees in Venezuela (Manzetti and Blake, 1996), of statutory decrees in Turkey by Özal were appropriate tools for the executive to implement top-down market reforms²⁵. Teichman’s explanation of how the strengthening of the executive had a direct and facilitating role in the implementation of privatization in Mexico is very instructive in that sense:

Organizational and procedural changes after 1986 which promoted the concentration of political power, facilitated the divestiture process. All cabinet secretaries were now required to present a list of public companies their control and to justify those they wished to retain: all others were to be divested. But the final decisions on divestitures, particularly the most important ones, were hammered out by the most powerful cabinet ministers- the minister of finance and the minister of budget and planning (at that time Carlos Salinas) and the president himself (Teichman, 1997, emphasis is mine).

Changing the existing institutional structure, centralization of decision-making and strengthening of technocrats are highly approved and suggested by a rational choice perspective. The recommendations of Bates and Krueger to the developing countries for economic policy-making overlap with what actually happened and what I explained above:

....creation of new structures and institutions lies close to the core of politics of economic policy reform.....key innovations include:

a different set of institutional values and goals, and each competing with the others for policy prevalence”.

²⁵ “From 1989 to the end of 1994, the number of emergency presidential decrees used by Menem exceeded the total number issued by all the constitutional presidents in more than one hundred and thirty years” (quoted from Blutman, 1994: 61 by Teichman, 1997).

Attempts to shift the locus of economic policy-making from the representative to the executive branch of government

Attempts to increase the power and discretion of the economic technocrats

.....

Creating political and economic institutions that enable politicians to withstand the temptation to employ distributive political strategies and that give power over economic policy making to technocrats.” (Bates and Krueger, 1993: 467).

One should be very cautious, however, not to formulate a mistaken argument that neoliberalism *inherently* brings about centralization of decision-making in the executive and the reducing role of the parliament. Centralization, in the phase of market reforms of neoliberalism, facilitates a rapid transformation which is desirable for the implementation of reforms, but neoliberal strategies may change through a learning process and take new shapes. Williams’ argument about the Argentinean case is very instructive in that sense. Williams explains Cavallo’s abandonment of Menem’s earlier strategy to bypass congressional control over divestiture decisions and his adoption of a different strategy based on a shared decision-making process – where those skeptical Peronist members of the Congress pretended to have an important role- with regards to his eventual success of transforming “an important opponent of change into a stakeholder in the reform process” (Williams, 2002: 406).

Apart from the strengthening of the executive and the weakening of the parliamentary control over decision-making, the role of the judiciary was important as part of the institutional framework. In some countries the fact that judges lost their independence has played an important role in the implementation of market reforms both in a top-down manner and in a way to allow corrupt

practices, because the reported crimes of corruption would remain without punishment or any administrative irregularities would be ignored. For example Menem removed state attorney for administrative inquiries (charged with prosecuting irregularities in public administration) (Manzetti and Blake, 1996). The fact that independent judges were “close” to the government (in the case of Argentina and Venezuela, Manzetti and Blake, 1996) the absence of congressional or parliamentary control facilitated the implementation of reforms.²⁶ As Little reports, for the case of Venezuela,

as everyone knows, the judges of the Supreme Court and Supreme Judicial Council are appointed by the top leaders (quoted from Capriles, 1992: 660-1 by Little, 1996: 68).

In what sense did the changing institutional setting make possible and easier corrupt activities, rent-seeking and cronyism? According to Jones,

.....the *current style of economic reform carries its own opportunities for corruption*: First, through the reemergence of private monopoly in sectors long reserved to the state because of their public sensitivity; second and more subtly, by *placing excessive power in the hands of small bands of technocratic reformers*; confident that their fine ends justify dubious constitutional means, or worse (Jones, 1996:71, emphasis is mine).

In three areas (public sector, finance and trade) it is possible to see this possibility.

In the **public sector**, privatizations and public procurement are the most common means to benefit from this relationship, though public procurement was not a new opportunity for corruption in neoliberalism. Public procurement was characterized by lack of transparency and regulation. The selling of secret information, taking of

²⁶ In fact, the reforms were more difficult to implement in those countries where the judiciary assumed a more active role against the inappropriate implementation of market reforms like

commissions for preferential treatment were common practices. As Manzetti and Blake state for the case of Argentina, sometimes neither the names of the tenders, nor the winners and the content of the contract were officially declared (Manzetti and Blake, 1996: 678). With regards to the Turkish case, Seçkin Doğaner argues that the type of procurement has a direct impact on corruption and rent-seeking. According to Doğaner restricted selective bidding allows the public officials to use a high discretionary power to select those businessmen and companies which will be called to the bidding (1999: 81). Baran explains, for the same case, how the party of Turgut Özal became the “party of contractors” since during his rule the businessmen “close to the party were awarded tenders and in return gave a percentage back to the bureaucrats” (Baran, 2000: 134).

However privatization, contrary to public procurement is new, because the formerly state owned assets were being sold to the private sector, as a requirement of deregulation. The nature, pace and kind of privatization changes according to different countries ²⁷, the way in which they were implemented exhibited some similar characteristics in terms of the institutional framework. The deliberate involvement of the politicians and top bureaucrats in privatization process was quite common. There were also allegations of the bribe taken for making preferential treatments for a given company. In Argentina, in the privatization of ENTEL (the national telephone company) the French/Spanish tender was

privatization as I will discuss below with reference to the case of Constitutional Court in Turkey.

²⁷ For instance in Argentina, by the time the crisis occurred, almost all the public enterprises had been sold, while in Turkey there is still a long way to go for completing the privatization process.

supported by Menem (Manzetti and Blake, 1996: 675); in the Turkish nuclear energy auction in 1997, the Energy Minister Cumhur Ersümer who was a member of the Motherland Party put pressure so that the Canadian company be awarded the contract (Şener, 2001). In Venezuela, the institution which was charged with the privatization of VIASA airline supported the international firm IBERIA (Manzetti and Blake, 1996). Again without the discretionary power obtained by politicians and bureaucrats this would not be so easy. Teichman explains this relationship between discretionary and concentrated power and corruption for the case of Argentina, in the following way:

the process became one in which kick-backs and commissions were given in return for rigging bids and selling privileged information to entrepreneurs. Two of Menem's closest public enterprise interveners (Jorge Triaca who became the intervener for the steel company Somisa and Maria Alsogaray who took over the telephone company Entel and Somisa) charged with corruption as a consequence of their actions in privatization process. Menem himself intervened directly, modifying the original terms of tenders after bids had been asked for in two of the most controversial cases widely believed to have involved irregularities, Entel and Aerolinas Argentinas. *Wide discretionary powers and attendant irregularities were integral to the rapidity of the process since officials had no need to spend time securing approval for their decisions or justifying them before higher authorities* (Teichman, 2002: 496-497, emphasis is mine).

However, politicians do not always derive their force from a legally defined discretionary power; they may by-pass informally the existing rules and regulations as well. The way in which the High Council for Privatization in Turkey used its authority is very illustrative in that sense. The composition of the Council is made up of politicians and bureaucrats. Though it has only the right to approve divestiture, privatization, it bypasses the authority of the Presidency of the Administration of Privatization (ÖİB) (which is responsible for the monitoring

of the payment, production, investment and employment) and allows the winner firms who directly apply to the Council to delay the payment (TBMM Commission Report, 2003).²⁸ In that case the politicians and bureaucrats abuse their rights and permit the companies which are awarded the contract to delay the payment.

Other informal relations which draw the framework of privatization are complex mafiosi relations in which the government and business are involved. These relations were important tools to be awarded in a bid for instance. As Nedim Şener (2001) reports, in Turkey, in the Türkbank auction, the other bidding companies were threatened by Alaatin Çakıcı, a mafia agent, so that Korkmaz Yiğit, who has close ties with some politicians be awarded the contract. This was just one case among others.²⁹

The creation of new institutional structures is very functional for facilitating privatization. Sometimes such structures are formed within the existing bureaucracy like the Office of Privatization in Mexico which was set up in 1990 as separate and autonomous body within the Finance Ministry. This Office, which was designed by the Minister of Finance Pedro Aspe, would be directed by

²⁸ The Commission accepts the request and permission for delay of the payment as a type of corruption which damages the competition, because the other bidders had offered prices on the basis of the initial, publicly announced plan of payment, which is then violated by the winner company. This latter is in a situation to have misused the public resources for private gain, which is included in the definition of corruption and the High Council allows this corrupt activity to happen.

²⁹ I will not be explaining all the aspects of corrupt relations within the scope of the thesis. For a detailed account of the corruption scandals and cases in Turkey in diverse areas see Saner (2000), Kelkitlioğlu (2001), Şener (2001), Doğaner (1999). The language of these books is rather journalistic and descriptive, yet it is possible to find out useful information on corruption cases.

specialists working full-time on privatization issues and would avoid challenges to divestment inside the state and would allow, in a period of three years, to privatize a wide range of state assets (Williams, 2002: 401). In Turkey, the Board of Mass Housing and Public Participation Fund, established in 1984 had the responsibility for the management and transfer of those state economic enterprises selected for the divestiture to private hands. This board was only responsible to the prime minister and the cabinet and was independent from other bureaucratic branches (Öniş, 1998a: 153). As Williams puts it, “the result of such rule-changing, instrument-creating and strategizing behavior was more efficient procedures with a higher degree of technocratic control” (2002: 401).

The use of extra-budgetary funds was another tool for the public sector to disguise spending and transfer of resources. These funds were not only solving the revenue problem in Turkey, but also could provide the prime ministry with discretionary powers, for they could be spent without parliamentary approval (Öniş, 1998c: 188). Their number was 33 before 1980, 24 new ones were created between 1980-1983 and 48 more between 1984-1990 (Öniş and Webb, 1998). Ayşe Buğra reports the allegations concerning the transfer of these funds to a few firms (Buğra, 1994: 219). As Oktar Türel explains (1987: 122-123) the use of these resources, after 1983, are no longer submitted to the legal procedures of the General Accounting, Court of Accounts and State Procurement and the authority of transfer between funds was delegated to a quasi-political, quasi-bureaucratic council, where the prime minister and its vice assume the role of arbiter between

the institutions and persons who compete for these funds. Similarly in Venezuela, there is no legal supervision over discretionary funds (Manzetti and Blake, 1996).

There are also changes in the institutional rules regulating **trade and finance** which are the other two areas where corrupt relations between business groups and government can be observed. I have already depicted above that the centralization of decision-making with regards to economic policy-making in the developing countries was highly functional for business groups who had access to these central units. To give more concrete examples with regards to trade and finance, in the initial phase of liberalization in Turkey, during the early 1980s, a new council of coordination in the Undersecretariat of the Prime Ministry was established in order to determine quotas related to foreign trade regime (Sönmez, 1980: 69). Moreover “the Division of Incentives and Implementation, which was charged with the implementation of policies designed to stimulate investments and exports, was taken away from the Ministry of Industry and technology and brought under a new division established within the prime ministry” (Krueger and Turan, 1993: 355). So a few persons were in direct charge with the distribution of subsidies and incentives. In the finance sector in Turkey the newly established and not properly regulated stock market where 90% of assets belonged to the state, enabled the individuals who had close ties with the government and who had access to secret information could make considerable gains in the stock market as Ayşe Buğra (1994: 220) explains.

If institutions refer not only to formal organizations, but to the rules and regulations, then it can be said the new institutional settings aim also to bring

about new rules of conduct. In Turkey, on 12th January 1984, a decree was issued to the effect that “no auditing council or unit may be involved in a practice damaging the commercial reputation, production, export and selling of a foreign trade company, without the permission of The Directorate for Subsidies of the Prime Ministry.” Not surprisingly such a practice is expected to eliminate the fear of sanctions and accusations on the part of companies in case they are involved in illegal, corrupt activities. A similar attempt, though not successful, was made by Menem in Argentina:

In 1995 Mr Menem was forced to withdraw a proposal for a press law approved by the Senate which wanted to introduce penalties of up to six years’ imprisonment for journalists publishing investigative articles or statements about government corruption....to create new categories of offences such as calumny, divulgence and harming the honour of a moral person (the government for example) (Gabetta, 1997).

The new institutional regulations facilitating market reforms and the corresponding forms of corruption and rent-seeking constitute a real empirical challenge to the argument of “institutional persistence”. It may be true, for some cases like the Turkish case, that institutions are not subject to an abrupt change and institutional reforms are not realized in a very easy manner, but this situation does not emerge from their inherent characteristic of resisting change, it is rather due to various conflicts and tensions between different bureaucratic branches and between different interests. For instance Teichman (1997) reports, for the case of Argentina and Mexico, the conflict between more state-oriented bureaucrats and those who have strong ties with international lending institutions like IMF and who are advocates of a neoliberal programme. However how the very politicians and bureaucrats, who are accused of inherently being resistant to neoliberal

reforms by the new political economy perspective, were able to design a range of new institutional settings remains unanswered. All the reforms aimed at changing the institutional structure to be more flexible to handle with the market reforms are deliberate political strategies of the neoliberal governments and an answer to the so-called orthodox paradox and the argument of negative politics: Neoliberalism is constituted *thanks to* politics and state, *not despite* them.

This point also justifies Paul Cammack's criticism of new institutionalism on the grounds that the latter is not able to explain the institutional change with its insistence on the argument of persistence. Cammack, for the case of Britain, criticizes those who ascribe the economic failure of Britain to a "particular institutional configuration" which is against economic success and then asks how it would be possible to explain, then, "Thatcherism breaking with the pattern of policy imposed with an iron force by institutional rigidities in the past?" (Cammack, 1992: 417).

However the refutation of the argument of institutional persistence does not indicate the refutation of the arguments of institutional and historical variations which leave their imprint on the specific way in which market reforms are implemented. If institutions are both part of social relations and have an effect on them, once established, their effect is still important, as historical institutionalists suggest. A good example could be the judicial system and its effect on the feasibility of some market reforms and on corruption. While the Supreme Court in some Latin American countries does not have a real function that the opposition can benefit from, due to the fact most judges are close to the government

(Manzetti and Blake, 1996), in Turkey, the Constitutional Court has a distinctive role in nullifying many decisions concerning the privatization of state owned enterprise in case they are not properly conducted or in case the sale of some state assets were found to contradict the public good. It was the Constitutional Court which nullified the legal amendment concerning the submission of the public contracts to the rules of the private law. The Council of State had a similar role of checking and finding out irregularities, for it was charged with examining the public procurement contracts.

But, institutions are also arenas of power relations and constant struggle, as Colin Hay put it. Though in the 1980's and early 1990s the administrative and judicial system had a checking and controlling mechanism for market reforms as the examples given in the previous paragraph suggests, in the late 1990s in Turkey, public procurement contracts became private and cease to be subject to the rules of the administrative agreements.³⁰ Moreover the duty of the Council of the State was reduced to the "affirmation of opinion"³¹. So the power of these institutions which are normally charged with the supervision and control of public regulations were curbed down, for they are seen as obstacles to market reforms, though much later than some Latin American countries. These changes can not be considered as simple technical changes, they are the outcome of a long-standing struggle by the neoliberals to facilitate their reforms and to defeat the tendencies which did counteract them. The fact that the conflict and tensions within the bureaucracy as

³⁰ See TBMM Commission Report (2003) for the relevant legal article.

³¹ See TBMM Commission Report (2003) for the relevant legal code.

pointed out by Teichman was neutralized in the 1990's in Mexico and Argentina, in favor of the strong advocates of a radical neoliberalism illustrate a similar point.³²

The analysis of the creation of the new institutional settings allows us to observe how the new right undermines its own premises: though technocratic discourse does most of the time justify the creation of technocratic councils to be economic decision-making easier, it undermines its own rationale by delegating authority to a few politicians and technocrats, the latter being in close alliance with the former. These technical councils openly or implicitly favored some companies, persons or institutions in the access to funds or contracts. As indoctrinated agents of the neoliberal transformation, these new technocrats, most of whom were educated in the North American universities, while trying to curb down the power of those bureaucrats with whom they were in conflict with, as already mentioned, assumed a highly political role as Williams argues and their “actions transcended the instrumental (policy formulation) to include the political (persuasion, politicking and tactical actions to secure institutional change)” (Williams, 2002: 396).

In fact, the relationship between neoliberal politics, technocrats and politicians is interesting to look into. I tried to show in this section that the personalization and centralization of power assumed an important role in the implementation of market reforms. I therefore agree with the statement that “the successful initiation

³² Again, it is worth noting the differences between the countries. Counter-tendencies for bureaucratic reform are stronger in some countries than in others; correspondingly governments' strategies also differ.

of reform depends on rulers who have personal control over economic decision-making, the security to recruit and back a cohesive 'reform team' and the political authority to override bureaucratic and political opposition to policy change" (quoted from Haggard and Kaufman, by Remmer, 1997: 57-58). However I would disagree with Haggard and Kaufman when they say "Reform initiatives are more likely where and when political institutions insulate politicians and their technocratic allies from particular interest group constraints, at least in the short run" (quoted from Haggard and Kaufman by Remmer, 1997: 57-58). It is highly difficult to argue that neoliberal leaders were "political outsiders" and that technocrats were "politically insulated" in reality and more importantly that they should be so for the success of reforms. Rather they had to pretend to be "insulated", in order to legitimize themselves, though, paradoxically they needed politics to make viable their project. Hence persuasion, politicking and tactical actions as put by Williams were not only necessary for institutional change, but also for the neoliberal project which requires bargaining, compromise, persuasion with different groups in society. Moreover the very origins of the neoliberal policies themselves are not the technocrats per se, but social forces played a key role in the reform process. As Schneider argues:

More disaggregated statist approaches argue that the source of reform lies less in overall state characteristics and more in small autonomous groups of technocrats, what Waterbury (1992) dubbed change teams (see also Stallings and Kaufman 1989). True, most reforms can be traced back to small groups of powerful, independent technocrats, but again a full explanation needs to show how they got their power. In appointive bureaucracies, the question remains as to why the neoliberals were appointed in the first place (see Schneider 1991b; 1996) (Schneider, 1997: 93).

It is one of the most important actors who is behind the viability of the neoliberal project that I shall now turn to, namely the business groups.

3.2.4. Corruption, Rent Seeking, Cronyism and Consolidation of Business Groups: Do Personalistic Links and Cronyism (Contrary to Institutionalized Relations) Between the Government and Business Groups Impede Market Reforms?

In the neoliberal period what is striking at first glance, concerning the relationship between the government and business groups is that, on the one hand political leaders began to openly support the private sector and on the other hand businessmen began to have bureaucratic positions or bureaucrats took places in companies' administrative boards. In Argentina the economic policy-making posts – especially Ministry of Economy- were filled by the executive member of Bunge y Born (Gibson, 1997; Schamis, 1999); hence the so-called captains of the industry had a more formal power in decision-making. In Mexico, the large business groups gained easy Access to policy-making positions (Gibson, 1997). Salinas for instance appointed Claudio X. Gonzales (director of stockbroker of CCE, the liberal-minded organization of few firms operating in finance, insurance and brokerage) as presidential advisor for foreign investment. In Chile, in 1984, Pinochet appointed Modesto Collados, the former president of the Construction Chamber as minister of economy (Silva, 1993: 552). Juan Delano who replaced Collados later on was vice president of the national chamber of commerce at the

date of his appointment (Silva, 1993: 552).³³ In Turkey the holdings gave some important positions to former bureaucrats or politicians (Buğra, 1996). This situation continued with increasing intensity in the late 1990's in some countries. Teichman gives a very detailed account of the representation of the private sector in government under Fox presidency in Mexico in 2000:

An unprecedented number of cabinet appointments (nine) went to individuals with experience in the private sector: Pedro Cerisola Weber, formerly the head of TELMEX in the federal district and Fox's campaign manager, was appointed minister of communications and transport. Ernesto Martens Rebelledo, a strong proponent of private investment in the energy sector and a former executive of Union Carbide was given the energy portfolio, while the Minister of Agriculture, Javier Usabiaga is owner of an agricultural export company. Francisco Gil Diaz, architect of Mexico's trade liberalization drive and later director general of Avantel, a subsidiary of the BANAMEX-ACCIVAL group was appointed finance minister, while Mario Laborin, director general of BBV BANCOMER was appointed head of the country's most important development bank, Nacional Financiera. The new director of the state petroleum company PEMEX is a former executive of Du Pont and member of the board of directors of a variety of important private companies. Fox's appointment of four powerful members of the private sector to the board of PEMEX brought about accusations that these appointments were payoffs for campaigns contributions. One of these appointees was Carlos Slim, the owner of TELMEX; the other were Lorenzo Zambrano Trevino, head of CEMEX, Rogelio Rebolledo Rojas, of PEPSICO, and Alfonso Romo Garza (agribusiness Group Savia and chairman of grupo PULSAR). Slim, Lorenzo Zambrano and Roma Graza are among the top 10 richest men in the country (Teichman, 2002: 505, emphasis is mine).

However, the question is to what extent this symbiotic relationship between the government and business groups is novel and refers to a real qualitative change, for in different historical periods the businessmen were in the government or

³³ Indeed, such relationships could be observed in Chile even before the 1980's. Fernando Leniz (minister of economy in 1973) and Roberto Kelly (director of the government planning agency) were businessmen with close ties to the large conglomerates like Edwards which had increasing power in the neoliberal restructuring (Silva, 1993: 541).

politicians and bureaucrats were involved in the private sector. It would be then appropriate to argue that there was more a quantitative increase in those relations, an *unprecedented* increase if one uses Teichman's words. But still the question remains whether or not we could read this quantitative increase as a proof of the fact that neoliberal leaders' favoring business interests more. Or to ask the question inversely, even if the neoliberal leaders had not appointed private sector representatives to governmental positions, would this show us that the neoliberal policies were not favoring business interests? My answer is that the existence of businessmen at the government per se is not a direct sign of neoliberals' favoring of business groups,³⁴ but the open and vocal favoring of these groups by the neoliberal leaders (see Manzetti and Blake, 1996) had a significance with regards to the fact that business confidence was crucial to the proper implementation of the market reforms. As Schneider argues,

Some authors trace the adoption of neoliberal reform to the deep-seated beliefs of political leaders. Others see the delegation of authority to technocrats and the building of insulated institutions as a resolution of the 'politicians' dilemma' of how to keep from spending themselves out of power (Bates and Krueger 1993a: 464-65). These motives may be present but the selection of neoliberalism and the delegation of authority to insulated groups of foreign trained economists can not be divorced from attempts to *maintain credibility and restore business confidence* (see Schneider 1996) (Schneider, 1997: 213).

Rational choice institutionalism would call the intertwining of the government and business in such a way as a situation against what ought to be, because they would

³⁴ This point refers to the argument of Poulantzas (against Miliband) on the fact that the class belonging of the state officials do not explain the class character of the state (see Leys, 1996) It can also be derived from the argument of Marx on the fact that the class who holds the power does not necessarily indicate the dominant relations of production of society.

promote a government with distance to the interest groups. However, as some historical institutionalists argue, such relations could have some positive effects as well:

The movement of retiring bureaucrats to private firms enhances trust when it strengthens personal ties between bureaucrats and the new managers, reduces monitoring costs and gives sitting bureaucrats incentives not to betray future employers (Schneider and Maxfield, 1997:

As I have already pointed out, the lack of institutionalized links between the private sector and government as well as the environment of uncertainty accompanied by the unwillingness of the bureaucrats to consult the private sector organizations on policy-making processes government were criticized. However in some cases lack of consultation of the private sector is found to be facilitating the top-down policies of the governments, even by the business leaders themselves in some countries. It is quite ironic that in the context of Argentina and Mexico, business leaders complain about the authoritarian nature of the process³⁵ but also approve it to some extent, given the fact that consultation could become an obstacle to the reforms (Teichman, 1997), probably because of the potential conflicts over policy issues. This shows that the existing tensions between the business leaders and the government can not provide us with the conclusion that state policies were against the business interests. Indeed, the fact that in Argentina the consultative mechanism which is supposed to be a discussion council between the social actors does not work and the government does “communicate policies it had already decided upon” (Teichman, 2002), the fact

that in Mexico Salinas administration only “informs” of its policies (Teichman, 1997) rather than compromises them, the famous motto of Tansu Çiller, Turkish former prime minister as “We first implement decisions then announce them” (Saybaşıllı) should not be seen as the lack of business influence on policy-making. As Yalman points it out,

The complaints about the lack of institutional mechanisms of interest aggregation should not be read as a proof of the bourgeoisie’s lack of influence on the policy-making process, as it has been contended by a variety of anti-state, though state-centred literature in general, about the Turkish case in particular (cf. Grindle, 1991; Heper, 1976b; 1985: 104; Öniş, 1995: 42). For it is worth remembering that most of TÜSİAD’s and TİSK’s key demands at the end of the 1970’s turned out to be policy outcomes during the 1980’s (Yalman, 1997: 244).

The argument on lack of consultation, which could be true to some extent has also its limits, because the lack of an idealized “institutionalized”³⁶ consultation does not mean that technocrats and politicians did not consult business groups at all. Schneider gives the definition of “concertation” as a regular meeting with the representatives of business associations and considers it as “a useful means for shaping business preferences and building consensus in favor of reform (which in turn also enhances the credibility of reform)” (Schneider, 1997: 201), even though, as in the case of Brazil, concertation is not institutionalized “on an industry or economy-wide basis” (1997: 207). In Mexico, on the other hand, concertation is regularly held with peak associations like Consejo Coordinador

³⁵ Business leaders interviewed in Argentina by Teichman (2002: 495) stated that Cavallo was “difficult to deal with.

³⁶ There is a problem with the term “institutionalized” (as opposed to personalistic) here, because the personal links do also refer to a specific type of institutional relations, for institutions do not refer only to formal organizations but also informal norms, patterns of behaviour...etc. Here by “institutionalized” the authors mean those relations with “organized interest groups” rather than with “individuals”, but I had to keep the terminology.

Empresarial, which contributes to the building of support for the reforms and ensuring mutual flow of information and reciprocal policy proposals (Schneider, 1997: 201, 205). This comparative example indicates once again how important is differences between developing countries' state-business relations. It is important to note that government's strategies and relations with the business groups may change also over time. Silva argues, for the Chilean case, that after 1982,

The ministers maintained fluid channels of communication with cohesive and highly representative business peak associations at two levels. First, the umbrella organization of large-scale business associations, the Confederation for Production and Commerce (CPC), routinely discussed exchange-rate, interest-rate and general monetary policy with the minister of finance and the central bankers. According to Jorge Fontaine, president of the CPC in the mid 1980's, 'we had excellent access to ministers, even the president himself. The ministers were much more receptive to our point of view once the Chicago boys were no longer in charge.' Second, sector-specific peak associations participated in the formulation and implementation stages of the policy process in close contact with the ministries in charge of their sector.....At both the general and sector-specific levels, then, the public and private sectors for most part negotiated on the basis of technical criteria rather than personal favours, clientelism or political threats (Silva, 1997: 167).

The so-called "personalistic and cronyistic" type of relations, which are supposed to distort implementation of market reforms could assume an important role in consolidating the support base of the market reforms. Some institutionalist critique of new political economy argues that "when individual bureaucrats and industrialists interact over long periods of time and expect to continue doing so, they become predictable to one another and the cost of defection increases." (Schneider and Maxfield, 1997: 14) and that "the trust between business and government elites can reduce transaction and monitoring costs, diminishes uncertainty, lengthen time horizons and increase investments" (Schneider and

Maxfield, 1997). Such a critique is undoubtedly helpful but one has to go further, because this does not explain why some specific business groups, rather than some others. In our case only the powerful big business groups had access to such personalistic links which gave them an additional power³⁷, it is possible to recognize that such links could be seen as a sign of power rather than the lack of it. Thus it is not appropriate to show institutionalized relations as enhancing and personalistic ones as impeding. As Teichman explains, with regards to the case of Argentina and Mexico,

the executives and owners of powerful conglomerates maintained direct and personal access to the policy reform process-an access and an impact unmatched by any other societal group. Their ability to play such a privileged role in the market reform process was a consequence of preexisting economic concentration and political practices, factors which *placed these business groups in the best position to take advantage of the opportunities afforded by the new economic model* (Teichman, 2002: 492, emphasis is mine).

Eduardo Silva makes a similar comment for the case of Venezuela under Perez and Chile under Pinochet. Silva depicts how “policy-makers with close links to specific conglomerates churned out liberalizing process without significant participation from other business groups” (1997: 179) and that “a core economic team in close contact with a core of top capitalists from a select number of multisectoral conglomerates that could take advantage of rapid change”(1997: 183).

³⁷ For instance in Argentina it is argued that only the Council of Argentine Business (CEA), not small and medium size firms, had access to Menem and the minister of economy (Teichman, 2002).

It is interesting to observe how the case of South Korea is presented as an ideal case on the one hand for state-business relations and how it is presented as a negative example on the other hand. As can be remembered, South Korean case was shown as an example where state-business relations are institutionalized and do not degenerate into clientelism and corruption (Evans, 1992). However other studies reveal personalistic, clientelistic relations by reporting that “major chaebol such as Daewoo and Hyundai have now been implicated in massive transfers to state bureaucrats as a routine part of Korean industrial policy”, that “a small number of chaebol received very particular assistance in building up specialization in specific sectors” (Khan, 1996: 13-14) and that some chaebol owners “enjoyed direct access to the presidential office (quoted from Chu by Fields, 1997: 139). According to Park chaebol owners relied on “personal relationships, power brokering, outright corruption and political contributions” (quoted from Park, 1987 by Fields, 1997: 140). Corruption was also part of state-business relations:

Even more widespread, although less well documented, is the common corporate practice of giving ‘gifts’ (chongji), or bribes to political leaders and economic policy makers. Since the Rhee regime, entrepreneurs have used these bribes and kickbacks to assure political favors (Fields, 1997: 140).

These characteristics do not correspond to the area of market reforms solely but are told to be the legacy of the Korean development process. The point is that while some studies consider these features of Korean capitalism as a very specific to Korea and defines Asian capitalism as “crony capitalism”, distorting market reforms, some others attribute a positive meaning to them like Fields, because it is believed that such contacts facilitate flow of information and ensure trust between

state and business. However, as Fields indicates, “the increasing strength and financial autonomy of the big business sector have significantly altered the nature of state-big business relations and the mutuality of benefits” (1997: 149) showing that state-business relations may change over time as already emphasized.

If one remembers the discussion on the functionality or dysfunctionality of an institution, one can argue that it would be misleading to attribute an inherently dysfunctional or negative meaning to the personalistic relations. It would be equally wrong to assume that personalistic links always produce the same beneficial results. It is important to look at under what conditions these relations assume a role to strengthen, in this case, the power of some big business groups. Otherwise it would not be possible to understand how over time these relations, in some countries change and assume different forms (like institutionalized concertation with business associations).

In the initial phase of reforms, the groups which mostly benefited from personal links were big capital groups and these links allowed concentration of capital in a few hands. These big capital groups were, most of the time, diversified groups or holdings which operated in a variety of sectors, controlling different moments (financial, industrial and commercial) of the total circuit of capital (Ercan, 1998). In fact, the developing countries under consideration are usually characterized by the “dominance of the private sector by a handful of diversified business groups”

(Haggard, Maxfield and Schneider, 1997: 44).³⁸ These groups were “the most diversified and internationally competitive sectors of the business” in Mexico and Argentina (Gibson, 1997). Schamis (1999) finds out sectoral integration and concentration in Mexico where “ownership is shared by stockbrokers and large exporting manufacturing firms” and in Argentina where the “patriacontratista”, diversified economic conglomerates rose to power. The situation is very similar in Chile where a few diversified economic conglomerates operating in export-mining-agriculture, manufacturing and finance/insurance gained increasing significance. Manzetti and Blake (1996) also justify that argument with regards to Argentina, Brazil and Venezuela where the big capital groups operate in diverse sectors from media to telecommunications.

If corruption does not only refer to illegal activities carried out by some business groups, politicians and bureaucrats, but has rather a broader meaning including selling information, rent-seeking, nepotism, clientelism..etc. as outlined in the previous section, then it is possible to argue that the implementation of market reforms in three areas under review were characterized by corrupt activities. I will now turn to these three areas and will show the consolidation of business groups in them.

These three areas are not only important because of the fact that they allow us to observe corruption, cronyism and rent-seeking, but because of the very fact that they have undergone a transformation, along with the role of the state in these

³⁸ The implications and effects of that situation are excluded from the thesis. For a detailed

areas. It is due to this transformation that new types of corruption could emerge in these areas: privatization of state owned enterprises and assets in the public sector, liberalization of trade and liberalization of finance respectively.

In the **public sector** there are many ways for corruption. Public procurement offers high profits, because by this way the government buys goods and services (e.g. construction projects like highways and airports, the cleansing of the public hospitals..etc.) from the private sector which considers public procurement as an area of profit (see Strombom, 1998 and Doğaner, 1999). Hence the private sector creates very subtle and varied ways for bribes, kickbacks and payoffs, for benefiting from the opportunities offered by public procurement: Before the procurement bribery can be given for including a firm in the list of bidders. The officials or agency charged with procurement and who have discretionary power may favour one bidder by manipulating bidding (Maranhao, 1998). They can do that by either directly awarding the contract or by preparing a list of selection criteria which could be only met by some specific groups. However corruption may also occur “among competing firms, through collusion and bid-rigging, without the client being involved or even aware it is happening. Firms may agree in advance who will submit competitive bids and at what prices who will win and how the profits will be shared” (Strombom, 1998). After the awarding of the contract, the businessmen try to recover bribery costs in diverse means: overinvoicing the goods and services, reducing the quality of the materials used (Strombom, 1998) or sometimes stopping the project like in the construction

analysis see Maxfield and Schneider (1997).

sector (Doğaner, 1999). It is interesting to see how some companies monopolize the public procurement. Maranhao reports, for the Brazilian case, that 70% of the billing for construction projects were “submitted by only seven major contractors” before 1993 (Maranhao, 1998).

Yet, as I already argued, corruption in public procurement is not new, though it intensified and its opportunities increased with the increasing role of the private sector in public services. But privatization is the new very profitable area for corruption and clientelism in market reforms. In privatization preferential treatment is obtained by bribery. In Argentina in the sale of aerolinas flagship to IBERIA (which would also buy VIASA, the Venezuelan airline) there were “80 million expenses” recorded as “costs associated with sale” (Manzetti and Blake, 1996: 678). Undervaluation of assets in privatization is another means of corruption. In Venezuela Banco Occidental and Descuenta could be sold at a very low price thanks to the bribes taken by some bureaucrats and president Perez (Manzetti and Blake, 1996). In Mexico many state assets were sold similarly without need for a sufficient assessment of values to some rich families who could control banks, food and telecommunication sectors (Shelley, 2001) to support the argument on the consolidation of capital groups who are operating in diversified sectors.

There were two concomitant trends in that process. On the one hand such personalistic and corrupt relationships were creating monopolies, rather than competition. Jones gives the example of the postal services in Argentina to justify that point:

An alliance of radical and Peronist members of the Senate, far from opening postal services to competition promised to create a virtual monopoly in private hands, setting up high barriers to entry and leaving government with little right to inspect the privatized services....Yabran, the head of a group whose ostensible business centred on delivery services, was alleged to have employed *bribery, threats and violence in his bid to convert the national postal airport and customs services into a personal fiefdom* (Jones, 1996: 76).

On the other hand, they were strengthening those powerful business groups supported by the government, thanks to the personal links between the government and business as well as to the discretionary power of a few officials, to justify my argument on the link between centralized decision-making, corruption and consolidation of some business groups. As Teichman puts it,

it is widely believed that a number of privatizations, such as those of the state telephone company (TELMEX), highways and banks was carried out in a highly discretionary fashion by the president and a few top officials in a process that privileged the president's close business friends. The case of TELMEX, which at sale provided for monopoly control of the country's telecommunications industry until 1997, to close presidential confident Carlos Slim is the most well known example of cronyism in the Mexican privatization process (Teichman, 2002: 501).

In **trade**, exports offered similar rent opportunities for some business groups and empowered them. In the trade sector governments have offered tax reductions, credit and subsidies for exports, allowing these tools to become arenas of corruption. According to Öniş, the creation of foreign trade companies in Turkey has “encouraged export-oriented rent-seeking. The companies concerned competed for obtaining an additional share of tax rebates” (Öniş, 1998c: 187). Other opportunities from which these companies benefited were the use of credits from Central bank rediscount facilities, the allocation of FX by the Export Promotion Fund to import raw materials, permission to import investment goods

and spare parts...etc. (Öniş, 1999d: 220; Sönmez, 1992: 55). It is important to note the organic link between foreign trade companies and domestic large conglomerates since the former were “established as the marketing outlets of domestic corporations” (Öniş, 1999d: 221) and that the big industrialists of the 1960’s and 1970’s benefited from the liberalized trade. Sönmez argues that in Turkey, half of the exports is realized by 40 or 50 companies which were themselves the extensions of the big holding groups (1992: 57), giving way to concentration of capital.³⁹ Similarly 30 companies were realizing half of Argentina’s exports by 1995 (Teichman, 2002: 496). In fact, as the Mexican case suggests, only big firms were able to cope with the costs of trade liberalization (Schamis, 1999).

In Turkey, apart from the legally defined subsidies which were at the advantage of a few companies which could abide by the requirements of being a foreign trade company according to the government decree of July 18, 1980 (Öniş, 1998d: 219), there were also illegal practices which were aimed at making profit in the trade sector. Sönmez reports how some companies have resorted to corruption for getting tax rebates. The companies were either pretending to sell exports or they were officially reporting some exported goods which were different from the ones they were actually selling and whose tax rebates were higher (Sönmez, 1992: 58). Sönmez explains how many of these corrupt export activities remain without investigation or unknown. In Brazil, the case of a government official who

³⁹ Among these foreign trade companies can one cite RAM (from KOÇ Holding), ÇUKUROVA Dış Ticaret (from ÇUKUROVA Holding), ENKA Pazarlama (from ENKA

“logged phantom exports into the system’s computer using the passwords of retired employees”, resulting in the fact that “the firms credited with these fictitious exports then received very real tax rebates” is considered only one among many others (Schneider and Maxfield, 1997: 3).

Equally important was the role of the **financial** sector in the emergence of new forms of corruption. Just as in the case of privatization and trade liberalization, financial liberalization favors large firms in the developing countries. In Chile those financial intermediaries associated with in large financieras had access to credit in FX (Schamis, 1999). In Mexico deregulation of domestic capital market resulted in the concentration of assets in private banks like BANAMEX, CAMAMEX, SOMEX (Schamis, 1999).

One of the most important aspect of liberalization was the domestic public borrowing mechanism. The interest payments made by the government to the private sector had a crucial role in the accumulation of wealth in those banks and their owners. Kessler explains how the 18 banks sold by the government in 1991-1992 under Salinas administration were bought by those “financial holding companies and brokerage firms which had made their fortunes in the 1980’s from the profitability of public lending and the stock-market boom bought fourteen of them” (Kessler, 1998: 46). Yeldan and Köse report, for the Turkish case, that when private banks were allowed to lend to the public sector this has been a revenue transfer mechanism from the public sector to the capital groups thanks to the interest payments (1997).

The proliferation of the banks brought about multiplying and uncontrolled opportunities for corruption. Corruption was seen in that the banks could lend to their related companies in holdings. In Chile Schamis argues that banks lent to those companies regardless of whether or not they were undercapitalized or indebted. Similarly the Turkish banking history of the 1980's is full of the records of those banks which lend to undercapitalized or non-existing pseudo firms. A very illustrative case is EGE BANK where Nedim Şener explains how non-existing firms were given credits and deposits of clients are transferred to offshore accounts which were then transferred to the account of the owner of the bank, Murat Demirel who was the nephew of the president.

As stated before, politicians and bureaucrats are not only accused of developing close links with businessmen, but also they are criticized of implementing populist policies which are said to reside partly in the failure of market reforms. Hence a contradictory relationship between populist policies and neoliberal market reforms is posed, which is an assumption open to challenge. In fact, there are some existing studies which reconsider the relationship between neoliberalism and populism. Kurt Weyland (1996) in his article devoted to find out the affinities between neoliberalism and populism, argues that neoliberalism is not in contradiction with populism but it is complementary to it, because of their similarities on the following grounds: The ability to appeal to poor people and attack the political class, a top-down approach by the strengthening of the personal leader and finally the imposing of the costs on the organized groups in civil society (Weyland, 1996). Weyland attempts at showing how Menem in

Argentina, Collor in Brazil and Fujimori in Peru “used political populism to impose economic liberalism” (1996).

However populist policies as referred to in the thesis correspond to fiscally irresponsible policies pursued by the governments to distribute benefits to their clientele. Rather than considering the so-called “populist” policies as contradictory to neoliberalism like rational choice institutionalists would do, it is important to explore the ways in which the governments cope with different conflicting interests in society. It is also necessary to acknowledge the fact that the policies governments pursue are not simply dictated by dominant classes. Hence I will use the Gramscian concept of hegemony and claim that the viability of the neoliberal project depends on the articulation of different interests, since any state policy is shaped by these conflictual interests.

Though reaching a totally different conclusion than mine, Kessler’s analysis of Mexican financial policy under Salinas administration could give with useful insights on that point. According to Kessler (1998: 42), the financial policy “represents a resource that the state can manipulate to address the interests of those domestic groups on which it depends for political survival”. Kessler argues that the basic reason behind Salinas’ insistence to keep peso overvalued, implying that he was manipulating exchange rate rather than leaving it to the forces of the market, was that “all of the economic interests that exercised influence over the PRI’s political future were united, either implicitly or explicitly, in support of the status quo” (1998: 60). These interests were middle classes who wanted to maintain their purchasing power high enough, workers who wanted that prices be

controlled and business groups who wanted easy and cheap access to the global markets.

The manipulation of the economic policy tools by the government need not necessarily be beneficial to all social groups at once all the time. For instance wage increases or agricultural subsidies may serve the interests of the civil servants and peasants respectively but may be opposed by the business groups. Ziya Öniş (1998) calls such policies as the sign of a political irrationality which impedes long-term economic growth. Though it might be technically correct that some of these policies are not desirable for the neoliberal market reforms and their advocates, they are necessary for the continuation of the neoliberal project as a whole.

Interestingly enough, such populist and irrational politics could be valid as far as government's attitude to businessmen. While it is expected from a government not to favour any national capital groups in the context of globalization, Salinas' initial favoring of domestic banks was to "cement the PRI's partnership and alliance with Mexico's wealthiest and most powerful capitalists-precisely those who had bought the banks" (Kessler, 1998: 49). Similarly, in the Turkish experience of privatization, TÜSİAD, the major businessmen association had opposed the sale of two major state economic enterprises, namely SÜMERBANK (textiles) and PETKİM (petrochemicals) to foreign investors in 1989, though they had advocated privatization in general (Öniş, 1998b: 177). Hence what seems as technically irrational for the neoliberal discourse gain meaning through the lenses of a political strategy to perpetuate the neoliberal project while coping with the

different conflictual interests in society. Galip Yalman uses the concept of hegemonic strategy to account for the Turkish case of market reforms and argues that

measures which reinforced clientelistic relationships provided compensatory mechanisms for those living in working class neighbourhoods.....the political significance of these measures was to enhance the success of hegemonic strategy, one again without necessitating any short-terms sacrifices on the part of the Turkish bourgeoisie (Yalman, 1997: 237).

CHAPTER IV

THE ROLE AND DISCOURSE OF CORRUPTION IN THE CONTEXT OF SECOND-GENERATION OF STRUCTURAL AND INSTITUTIONAL REFORMS

4.1. Fight Against Corruption in the Late 1990s and Early 2000s as a Means to Legitimize Second-Generation of Structural Reforms by the Neoliberal Governments and International Agencies

In the late 1990's and early 2000's, the governments and international agencies initiated a series of measures against corruption in developing countries. These measures were supported by popular protests whose main slogan was anti-corruption and whose target was corrupt politicians. Similarly to other historical periods, corruption, which indicates a broader and very complex range of relations where not only bureaucrats and politicians, but also the businessmen have a prominent role to play, has turned out to imply an exclusively "political" meaning and has been associated with "corrupt politicians", whose links with the private

sector were disguised behind a highly personalized, greedy attitude to maximize wealth by bureaucrats and political leaders.

Politicians and bureaucrats who played a pro-active role in the implementation of market reforms, were condemned by the public opinion because of corruption scandals, arrested, impeached or forced to go to foreign countries. The accusation charged against Hong In-Gil, member of the parliament and against Chung Jae-Chul, official of the New Korea Party because of receiving millions of dollars from Hanbo, steel company, to bail out the almost bankrupt company in South Korea by putting pressures on bank to secure loans (www.cnn.com, 11 February 1997; 31 January 1997); the association of organized crimes and corruption with Salinas administration between the years 1988 and 1994 in Mexico (Shelley, 2001); the corruption scandals that enforced Peruvian leader Fujimori to go to Japan (www.bbc.co.uk); the arresting of Menem for six months in 2001 in Argentina and of Domingo Cavallo, the minister of economy in 2002, because of the illegal sale of arms despite international embargoes and of money laundering (Gray, 2001; Valente, 2003); the sending of a former prime minister Mesut Yılmaz and his minister of energy Cumhur Ersümer to “Yüce Divan” (www.ntv.com) in Turkey, because of their involvement in a corruption scandal which found out a preferential treatment in a public procurement, in exchange for a huge amount of bribe; the impeachment of and resignation of Brazilian president Fernando Collor after the largest political demonstration in the history of Sao Paulo in 1992 (Bosque, 1996), are just some examples to illustrate how politicians and bureaucrats are the main actors charged with corruption. Perhaps not

surprisingly, businessmen accuse the public officials and politicians as the major actors responsible for corruption. In a recent survey conducted by TESEV, the Turkish businessmen who were interviewed have shown the public sector as the source of problems related to corruption (customs, public banks, municipalities, public bids) (Evrensel, 19.02.2002). Yet, businessmen's role was major in all this process.

The newly elected leaders' main promise was the fight against corruption. Vincente Fox, while ending the 70 year-dominance of the PRI told that he would eliminate corruption (Shelley, 2001) and took anti-corruption measures (Valente, 2003); Alejandro Toledo in Peru came to office with the promise of carrying out a very extended anti-corruption investigation (Forero, 2004); Kim Young Sam in South Korea launched himself as the advocate of a clean government deprived of corruption (Yang, 1996: 52). In Turkey the AKP (Justice and Development Party) government became the advocate of anti-corruption, formed a parliamentary committee to investigate sources and types of corruption and drafted legislation to introduce new rules for prosecuting criminals charged with corruption (www.akparti.org.tr).

Ironically, just as in the 1970's and early 1980's where the neoliberal leaders had promised to combat against corrupt bureaucrats, politicians and businessmen as well as against rent-seeking which they saw as the primary sources of the economic problems of the developing world and had legitimized their own policy agendas with reference to the inseparable couple of corruption and state intervention as stated in the previous parts, the new leaders were now promising

“more” and “better” neoliberalism against the politicized and inefficient policies of their predecessors. Such an attitude is in fact quite in line with a new institutionalist account of the early failure of market reforms in the developing countries. As already stated in the previous chapter new political economy explains the paradox of the coexistence of market reforms and corruption not with reference to the implementation of neoliberalism but to the lack of it.¹ In other words corruption and rent-seeking persisted in the neoliberal period, this is because of the ongoing state intervention in the economy, politicians’ desire to keep their support base and their links with some vested interests..etc. So the new political leaders who promised the elimination of corruption did not give up neoliberal policies, on the contrary they did stick to these policies. This does not mean, however, that the paradigm concerning the state and economy remained all the same. “More” and “better” neoliberalism, without corruption required a different conceptualization of the relationship between state and economy, as will be discussed below.

World Bank assumed a direct role in the fight against corruption and assisted developing countries in this fight. In 1997, the same year where it published its famous report on the State in a Changing World as mentioned above, World Bank inaugurated its anti-corruption strategy. This time corresponded to one year after James Wolfenshon, the president of the World Bank warned against the dangers of the “cancer of corruption” and called to fight against it (World Bank, 2003). In

¹ In fact, in some contexts like the East Asian countries, neoliberal arguments stated that corruption, along with other Asian values like cronyism was one of the causes of the crisis.

the same year, the Bank published its report called *Helping Countries Combat Corruption: The Role of the World Bank* where it launched its basic strategy on the basis of four points:

- Preventing fraud and corruption within Bank-Financed project
- Helping countries that request Bank support in their efforts to reduce corruption, both through the reform of economic and sector policies as well as through the strengthening of institutions.
- Taking corruption more explicitly into account in country assistance strategies, country lending considerations, policy dialogue, analytical work and the choice and design of projects.
- Adding the Bank's voice and support to international efforts to reduce corruption" (World Bank, 1998).

Why did anti-corruption gain significance again? My point is that the implication of "corruption" is two fold in the context of the second stage of reforms: On the one hand the existence of corruption is used as a main cause for the implementation of second stage of reforms, because the basic argument is that it is because of the lack of institutional, regulatory reforms that rent-seeking and corruption emerge easily. Yet, on the other hand the very motivation behind these institutional reforms is not corruption per se, but a new neoliberal strategy to ensure the institutional integration with the global capitalism as Ercan (2003) puts it and to cope with the crises and problems emerged during the implementation of

According to Burkett and Hart-Landsberg these arguments miss the positive role played by

first generation market reforms. Therefore the anti-corruption measures are part of these reforms designed for this integration. I will now discuss the conditions which gave way both to the emergence of the second generation of structural reforms and to the changing attitude towards corruption.

4.2. Second-Stage of Reforms, the New Role Attributed to the State and the Changing Attitude Towards Corruption

To better analyze the relationship between the second stage of reforms and corruption, it is firstly necessary to define these reforms. While the first generation of reforms are defined by deregulation and liberalization, second-generation of reforms are characterized by institution-building. According to Naim reforms are designed to create the institutions of capitalism so as to integrate with the world economy, change the type of production and provision of public services, with priorities to improve social conditions, increase international competition, ensure macroeconomic stability (Naim, 1999). The basic components of the reforms are to set up a proper legal framework and property rights structure so as to decrease costs of transaction and uncertainties (competition law, independent regulatory bodies, job contracts ensuring labour market flexibility), to make a fiscal reform (through a more efficient distribution of resources and social security reform so as to decrease fiscal burden on the state), to open banking sector to global competition and privatize inefficient banks, to decentralize public administration by making public sector reform, to invest in human capital (by ensuring competition between private and public

sector in education). (quoted from Acuna and Tomassi, 1999 by Ercan, 2003). Teichman (2002) defines the reforms as “privatization of companies remaining in state hands, regulatory reforms, especially those governing monopolies, measures to combat poverty and improve governance including decentralization”.

Table 1: Two Stages of Economic Liberalization

	Stage 1	Stage 2
Priorities	-Reduce inflation -Restore growth	-Improve social conditions -Increase international competitiveness
Reform strategy	-Change macroeconomic rules -Reduce size and scope of the state -Dismantle institutions of protectionism and statism	-Create and rehabilitate institutions -Boost competitiveness of the private sector -Reform production, financing and delivery of health care, education and other public services -Create “economic institutions of capitalism” -Build new “international economic insertion”
Typical instruments	-Drastic budget cuts and tax reform -Price liberalization -Trade and foreign investment liberalization -Private sector deregulation -Creation of social “emergency funds” bypassing social ministries -“Easier” privatizations	-Reform of labor legislation and practices -Civil service reform -Restructuring of government, especially social ministries -Overhaul of administration of justice -Upgrade of regulatory capacities -Improvement of tax collection capabilities -Sectoral conversion and restructuring -“Complex” privatizations -Building of export promotion capacities -Restructuring relations between states and federal government
Principal actors	-Presidency -Economic cabinet -Central banks -World bank and IMF -Private financial groups and foreign portfolio investment	-Presidency and cabinet -Congress -Public bureaucracy -Judiciary -Unions -Political parties -Media -State and local governments -Private sector
Public impact of reforms	-Immediate -High visibility	-Medium and long term -Low public visibility
Administrativ	-Moderate to low	-Very high

e complexity of reforms		
Nature of political costs	-“Temporary corrections” widely distributed among population	-Permanent elimination of special advantages for specific groups
Main governmental challenge	-Macroeconomic management by insulated technocratic elites	-Institutional development highly - dependent on midlevel public sector management

Source: Naim (1999)

Teichman explains how a group of Latin American intellectuals and politicians WHO who want the “eventual success of the neoliberal model” (2002: 492) but who are suspicious about Washington Consensus have recognized the failure of the market model and have contributed to the design of a set of new policies based on the combination of an efficient government and achievement of social goals.² Indeed this latter is the second aspect of the second-generation of structural reforms as pointed out also by Michel Camdessus, the former chief of IMF: “Social goals, especially poverty reduction, must be an integral part of the overall policy agenda and a key objective of second generation reforms” (Camdessus, 1997: 5).³ The words of the former president of the World Bank, James Wolfenshohn complete Camdessus:

² According to Naim, “Reforming countries were discovering that.....a booming stock market could be very dangerous if the domestic equivalent of the Securities and Exchange Commission was ineffectual. A competitive exchange rate could not do much to bolster exports if inefficiency and corruption paralyzed the ports and fiscal reform did not matter much if taxes could not be collected. The elimination of restrictions on foreign investment, while indispensable to attract foreign capital, was far from sufficient to make a country internationally competitive in the race to attract long-term foreign investment.....In short, it became apparent that stronger, more effective institutions were urgently needed to complement macroeconomic policy changes” (Naim, 1999).

³ As far as the scope and objective of the thesis are concerned, I will focus on the institution-building rather than the social goals. Yet, it is important to distinguish that the social goals in question do not indicate the goal of a social welfare and the elimination of social wastefulness as put by the approach of new political economy. In the former case the term social refers to the need to take into account the increasing problems of poverty and social policy in order to cope with the inequalities and poor access to services and resources; while in the latter case social waste refers to the misuse of resources so that only a limited group of rent-seekers would be beneficiaries, rather than the society as a whole.

We can not adopt a system in which the macroeconomic and financial is considered apart from the structural, social and human aspects and vice versa....We need a consolidated package of specific requirements that include honest governments, open legislative and transparent regulatory systems, properly trained and remunerated officials and a vigorous commitment by leaders to fight corruption at all levels. We also needed an effective and impartial legal justice system (quoted from Wolfenshon by Naim, 1999).

From a similar perspective Carol Wise underlines three basic components of the second-generation of reforms: Market completing measures to bring the first phase of market reforms to “fuller fruition” (like fiscal modernization, restructuring of the banking sector..etc.), equity-oriented programs which are made up of both short-terms social safety net programs and longer-term distributional strategies to fight against poverty and finally institution-building which target transparency, accountability and citizen participation in policy-making issues (Wise, 2004).

What is the relationship between second-generation of structural reforms and anti-corruption? Firstly, corrupt activities which characterized market reforms became unsustainable in the context of the 1990s, because the areas of corruption and rental heavens were restrained by the conditions of crisis. The 1990s witnessed many fiscal and financial crises. The state’s internal borrowing mechanism, which functioned as a revenue transfer mechanism to the bourgeoisie (Yeldan and Köse, 1997) increased public debt, making the sustainability of the public sector borrowing requirement more and more difficult, requiring the restructuring of the public sector. Moreover financial crises brought about the need for the reform of the banking sector, which was one of the areas of corruption. Corruption now

became to be perceived as a “threat” rather than an “opportunity” especially for the establishment of the second-generation of structural reforms.⁴ According to Sönmez the new global anti-corruption strategy is related to the fact that the degree of corruption is now creating serious obstacles to accumulation rather than helping it (Sönmez, 2001).⁵

Secondly anti-corruption strategy and new institutional reforms were considered as strictly associated. The former was legitimizing the latter and both of them required each other. As the president of World Bank puts it,

In too many developing countries today however government institutions that provide the essential regulatory foundation for a healthy economy are either weak or missing altogether. Deficiencies in banking and financial regulation, corporate governance, tax collection, judicial system, auditing controls and a number of other areas that create transparency in economic affairs erode investor confidence and mitigate against long-term stable investment. *Anti-corruption strategies must begin with strengthening these institutions* (Wolfenshon, 1998).

According to the World Development Report 1999-2000, the failures of some countries in their experience of privatization, liberalization and stabilization have indicated “the importance of institutional structures, competition and control of corruption” (quoted from WB, 2000: 17 by Burkett and Hart-Landsberg, 2003).

⁴ According to Fuat Ercan, in that new context, some capital groups who are not able to compete and not able to articulate with the international capital are unlikely to survive (Ercan, 2003). Therefore it is possible to argue that these anti-corruption reforms are more likely to be beneficial for the the international capital and those local capital groups which are being internationalized. Yet, the scope of the study does not enable us to explore the real support base and groups behind these reforms as well as the anti-corruption measures, as it did for the case of first-generation of market reforms. But, it is important to indicate to the need for further research on this subject.

⁵ It is very interesting to see that the major corruption scandals and the operations of police forces to reveal them (like Beyaz Şahin, Beyaz Tilki, Beyaz Benzin, Beyaz Enerji, Balina, Paraşüt) were in the years 2000s, in the context of second-generation of reforms, though there were reports of such cases in the previous years. See Şener (2001) in Turkey for a detailed list of these operations.

Since corruption and rents are seen in many areas, there will be diverse policies to tackle with corruption, but the most important reform is considered as state reform and administrative reform which is defined by Little as

public service training, improved public sector wages and pensions and greater wage differentiation, ministerial watchdog units, codes of ethics, enhanced disciplinary measures, integrated task forces, rewards for whistle-blowing, ombudsmen and more simplified administration (Little, 1996: 69).

The coming of these reforms to the agenda was accompanied with a re-conceptualization of the role of the state, though at first glance the new measures may seem to repeat the predicaments of the 1980's, during the implementation of the first market reforms. In fact, there is still the belief that state intervention and the so-called "politicization" of the market should be eliminated. This is in line with public choice's belief that the only remedy to rent-seeking and corruption is not less but more liberalization and a limited government.⁶ The following three quotations, from different authors are all talking about the solutions for eliminating corruption:

If the state has no authority to restrict exports or license businesses, there is no opportunity for bribes. If a subsidy program is eliminated the associated bribes will also disappear. If price controls are lifted market prices will express scarcity values not bribes. If a parastatal that is locus of corrupt payoffs is moved into the private sector those payoffs will end (Rose-Ackerman, 1996).

To reduce corruption we should not look to national culture but to the incentives facing bureaucratic agents engaged in it. The most common solution for reducing corruption is to curtail the discretionary power of state agents. For example rather than let a bureaucratic grant a license to export a

⁶ It is one of the solutions to corruption suggested by the parliamentary commission to investigate sources and effects of corruption in Turkey (TBMM, 2003). Similarly for USAID, reducing government control in the economy is still important, because the control mechanisms like licenses, tariffs, quotas, subsidies, public procurement are open to abuse and hence "deregulation, delicensing, privatization and competitive bidding" are needed (see Atwood, 1998).

product (and allow him to accept a bribe for doing so) states should abolish export licenses and thereby *allow economic factors to decide* whether or not to export (Frye, 1998, emphasis is mine).

There is still substantial room for further reforms by reducing levels of protection, eliminating privileges and inequalities in trade and tax regimes, simplifying rules, reducing, where possible, the discretion of public officials, and further privatizing state-owned firms (WB; 1998).

So, these words are in line with the neoliberal ideology of the early 1980s, namely the elimination of state intervention in the market. However, the picture has not been completed yet. In the following part of their argumentation all the authors acknowledge the need for state's role.

But deregulation and privatization must be carried out with care. Deregulating in one area may increase corruption elsewhere.....privatization process can itself be corrupted as can new regulatory institutions. Rather than bribing the parastatal to obtain contracts and favorable treatment bidders bribe officials in the privatization authority....Of course *many regulatory and spending programs have strong justifications and ought to be reformed, not eliminated* (Rose-Ackerman, 1996, emphasis is mine).

But this can provide only a partial solution since many important social functions can not be left to the market. Moreover it is often *not politically feasible to assign some functions to the market rather than the state*. Thus, if corruption is to be kept in check, public sector reform that makes the state more organized must operate in tandem with economic reform (Frye, 1998, emphasis is mine).

In some areas of the market *governments must regulate* or help maintain consistent standards (in banking supervision or natural monopolies, for instance) if markets are to be effective (World Bank, 1998, emphasis is mine).

The words of Rose Ackerman, quoted from a *Note* written for the World Bank indicate a factual acknowledgement of the possibility of corruption in market reforms such as privatization, and of the inadequacy of liberalization *per se* in the elimination of corruption. Secondly the words of Frye underline the role of the state not only in terms of social functions, but in terms of *some other functions*

which can not be left to the market alone. Finally World Bank argues that markets must be regulated in order to be effective. In what sense is this role for the the state important for the second-generation of structural reforms? And what kind of theoretical premises support such a conceptualization of the state?

The language of the second-generation of reforms is new economic institutionalism which is also a proper methodological tool to attribute new role to the state. Indeed, IMF and World Bank officers refer several times to Douglass North to justify their diagnosis of the problems and their corresponding solutions. If one remembers the discussion of the third chapter, according to the new political economy approach, the basic problem is an inefficient property rights structure, transaction costs and lack of efficient institutions. Hence the solution lies in an efficient state, a state which has moved from “service provider to market regulator” (Jacobs, 1999:23).

For the World Bank the emphasis has shifted from the promotion of the non-intervention by the state to a limited role of the state for the implementation of the institutional reforms designed to the better functioning of the market (World Bank, 1997). According to Jacobs there has been a “move beyond the ideologies of the small state that often underlie deregulation policies toward a more positive and pro-active view of the state in cooperation with civil society” (1999: 11). The concepts of good governance and bad governance were introduced thus to distinguish what a state should do and should not do. But still the separation of the economic from the political was preserved since the problem concerned when the state (as a separate entity) should intervene in the economy (as a separate field).

OECD's new regulatory reform programme (see Bayramoğlu, 2003) suggests that the state now should be a regulatory state, for the regulation of the financial sector and of the markets.

4.3. Anti-Corruption Measures as Part of Second-Generation of Structural Reforms

Of course, as the examples of corruption discussed in the previous parts suggest, the existence of formal rules do not bring about, by themselves, the elimination of corruption. The sealed bids or the publicly announced terms and conditions of the bids did not stop, in the Turkish case, preferential treatment or corruption, by informal practices like the threatening of some bidders by the mafia so as to favour one specific company. That is why governments are expected to take additional measures to tackle corruption.

The World Bank, taking an active role in the fight against corruption, organized seminars, prepared reports on the subject and assisted a series of action for the governments to undertake in order to fight against corruption. These include transparency in the public sector, efficient and competent civil service, good governance, judicial reform, precautions against state capture by some interest groups..etc. However it considers its influence limited in some areas like political and social contexts of the countries (World Bank, 2003).

Eizanstat (1998) summarizes reform areas of corruption as economic policy reform, transparency reforms, public sector reforms, public finance reforms, judicial reforms, commercial law reforms. Indeed, corruption is posed as a multi-

dimensional problem which should be dealt with in legislative, judicial and institutional terms. The role of the parliaments is put as making anti-corruption legislation which would criminalize corruption and introduce necessary penalties (IPU, 2001); while the need for an independent judiciary is emphasized for the impartial practice of the laws. Since one of the causes behind corruption is seen as the politicization of the economic activities and transactions, then the fight against corruption should also be de-politicized, in other words should be monitored by watchdog mechanisms like ombudsmen (IPU, 2001) and independent boards:

A small investigative and monitoring unit with appropriate authority and independence from politicians (*where much the problem can lie*) may be much better placed to ensure that effective preventive steps are identified and taken (Pope, 2004, emphasis is mine).

World Bank acknowledges the limits of the formal precautions and argues that statutes should not only outlaw different corrupt acts, but also should “help bring corruption to light”. It also states that

those who draft anticorruption legislation should ask several questions: What is the capacity of the institutions that will enforce the law? Are the police, prosecutors, courts and other enforcement agencies staffed by honest technically competent professionals? Are they independent of the executive in theory? To whom, and in what ways are they accountable? (WB, 2001a).

World Bank is also paying a special attention to the role of social capital in the fight against corruption. According to the World Development Report 1997, social capital is defined by “the informal rules, norms and long-term relationships that facilitate coordinated action and enables people to undertake cooperative ventures for mutual advantage” (quoted from WB, 1997: 114 by Burkett and Hart-Landsberg, 2003: 155). In what sense is social capital important for reducing corruption? According to the Bank, if all the citizens are able to express their

opinions and demands freely this avoids state capture by a minority and hence corruption while popular collective action might also reduce transaction and information costs, where markets are absent (Hart-Landsberg, 2003: 155). This point is very interesting, because different from a public choice perspective which would attribute a negative meaning to collective action, it opens the way for a positive connotation of collective action, which could be helpful for the functioning of the markets and for avoiding corruption. Such a view is based on the new institutionalist economics according to which both formal and informal rules and norms play a key role in the development of the markets.

As stated in the previous parts, corruption emerges in those areas where the relationship between the government and business is reshaped in a way to allow the rapid enrichment of some capital groups, namely public sector, trade and finance. Hence, it is inevitable that in these spheres there will be anti-corruption measures taken by the governments, though their pace and form may change. The most striking anti-corruption measures are observed in the **public sector reforms**.

A series of laws and regulations are geared to avoid and prosecute crimes of corruption in the public sector, notably in public procurement, privatizations. World Bank, in its effort to close the avenues of corruption in the public sector, is promoting the purchasing of services from the private sector by the state, decentralization of responsibilities and resources to the local and regional governments, the inauguration of integrated and sound financial management systems and strengthening of audit institutions in order to improve accountability

and transparency in public expenditure, developing new rules concerning public procurement and contracting (WB, 1998).

Public procurement as the most profitable means for corruption are submitted to new rules and regulations. The Integrity Pact prepared by OECD is an agreement between governments and companies participating in a bid, according to which the government promises transparency in the preparing and announcing the terms and conditions of the bid and guarantees that no public official will accept bribe, while companies promise not to offer bribes and denounce those officials who demand one (Gruenberg, ; Wiehen and Mohn, 1998).

According to Gruenberg, IP “regulates the rights and obligations of the participants and modifies the incentives to act corruptly. Each competitor will be aware that there are clear rules to the game based on clean competition and will be controlled by the other players.” Moreover IP “helps break the complex scheme of political and economic interests found in societies where corruption is a structural phenomenon. It also allows for the *creation of a new scheme of interests*, in this case, *in favour of integrity and transparency*.” Similarly Schneider and Maxfield argue that “if capitalists know that unproductive rent-seekers will be exposed, then they will not worry about the potential competitive disadvantage of not seeking rents” (Schneider and Maxfield, 1997: 9). This argument about the effect of a new institutional design in changing the interests in society and in business groups immediately recalls the institutionalist explanation of how institutions, as rules of the game shape the behaviours of social actors. In fact, if we remember how corruption and other forms of preferential treatments (export subsidies,

credits.etc) assumed an important function in the creation and consolidation of some interest groups who would back up the earlier market reforms, this argument has a significance. it is also true that new institutional regulations would aim at creating change, including the formation of interests which support the new situation. However to what extent institutional regulations so by themselves bring about change is open to debate. Hence, the argument is stil insufficient, because the very design of the institutions themselves can not be severed from the social relations of which they are a part. Hence the design of the new institutonal and legal rules does respond to the demands of some groups, including capital groups. Business groups play an active role in the design of anti-corruption measures just as they play a similar role in the implementation of second stage of reforms as depicted above. The Colombian Confederation of Commerce (Confecamaras) published a declaration of corporate governance principles; The National Association of Entrepreneurs (ANDE) in Ecuador complain about the contradictory laws which “create an environment of legal chaos” (CIPE, www.cipe.org). TÜSIAD (2002) in Turkey promotes anti-corruption, administrative reforms, a regulatory state.

Other means for avoiding corruption in public procurement are the public notification of the bidding conditions, requiring sealed bids that would only be opened in the presence of all bidders, awarding the contract to the one who offered the best price and who complied with all the publicly announced criteria (Strombom, 1998). Also, it is suggested to establish a commisison which would enforce those tendering for public contracts to make disclosure of commissions

paid in respect of the bid (Pope, 2004) as well to adopt a code of ethics in public contracts (Peus).

Not surprisingly, those who design policy tools for transparency in procurement inspire from new institutional economics as put by CIPE (2001). According to CIPE the project prepared by the Liberal Institute of Rio de Janeiro in Brazil, called “Reducing Transaction Costs in Brazil” is based on NEI ideas: “better dissemination of bidding rules, reduction of discretionary power of bureaucrats, of decision-making authority, more competition among contract bidders, broader criteria for evaluating and waiving bidding requirements only in urgent cases” (CIPE, 2001). This is ascribed to the fact that “corruption and insufficient transparency and accountability within public procurement procedures contributed to higher transaction costs” (Maranhao, 1998). Similarly a World Bank Report attributes the problems in public procurement to the lack of an efficient legislation and auditing mechanism, body to check, supervise and monitor the bidding process, of a “well-structured and expedient complaint mechanism” for the bidders who feel that their bid has not received a fair treatment and of transparency in bidding (WB, 2001b).⁷

If corruption has a global dimension, the fight against corruption should be necessarily global as well. One of aspect of this is the fact that international organizations attempt to introduce global measures against corruption in order to

⁷ The private sector representatives interviewed by the World Bank in Turkey have a similar perception with regards to the problems concerning public procurement. Moreover they think that “it is necessary to bribe public officials to conduct business”, because “before the bidding is started the result is already fixed” (WB, 2001). So they attribute the problems to the lack of an institutional framework and to the government solely.

protect the penetration of foreign capital in the developing countries. OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions is an example of that. WTO is pursuing a similar policy of transparency in government procurement. As a *World Bank Policy Research Working Paper* suggests,

The current focus of in the Doha Round is an effort to launch discussions on agreeing principles of transparency in procurement. While transparency will not constrain the ability of governments to discriminate in favor of domestic firms, it could nonetheless improve market access by reducing corruption (Evenett and Hoekman, 2004).

However laws and regulations on public procurement do not simply and directly reflect a government's deliberate and decisive commitment to the fight against corruption. On the contrary, their necessity does not exclude the fact that they are open to contestation between different vested and their relationship between the governments. The Law on Public Procurement in Turkey is a very good example of that point, given that the government changed the initial draft in a way to favor some small and medium size business groups.⁸

A very important component of the administrative reform, the changing working conditions and wage system of the **public officials** is also launched as a part of anti-corruption measures. The unchanged belief since the 1980's was that a reduction in the discretionary power of the bureaucrats could reduce corruption. Though such a belief is still preserving its importance, it is also widely recognized

⁸ Indeed state regulations, as already mentioned, can not be severed from the tensions between different social forces. The process by which the Law on Public Procurement has been drafted is very illustrative in that sense. However the specific analysis of these tensions and conflicts in national contexts of the selected countries in the thesis and the way in which they find their repercussions in public policies, are excluded from the thesis.

that in an independent board or at a governmental agency, public officials have inevitably some decision-making power and hence there is need for competition between these officials within the government in order to reduce, as Rose-Ackerman (1996) puts it, “the bargaining power of officials”, just as Levi would define it. Moreover in Argentina Fernando de la Rúa administration established an Anti-Corruption Office to investigate the corrupt activities made by the public officials.

According to Rose-Ackerman (1996) the adoption of market principles and the introduction of user fees in the provision of **public services** could be another means to tackle corruption, because such legally paid fees could then replace illegal bribes. Such a view is in line with the continuing belief in privatization which is expected to decrease corruption.

Transparency and regulation as a means to eliminate corruption can also be observed in the **financial sector**, which was also one of the most important areas of rent-seeking and corruption in the neoliberal period. Banking reform is a key element of the restructuring of the financial sector. The foundation of an independent board for auditing and regulating the banking sector in Turkey is a good example.

A World Bank document on transparency in finance attributes the problems in the finance sector of the developing countries to lack of transparency and identifies the problems common to those countries as: lack of adequate rules to prevent banks from hiding the ratio of non-performing loans, lack of penalties for

publishing false information, lack of information systems to evaluate the creditworthiness, inadequacy of supervision and auditing (WB, 1999: 11-12).

In **public finance** it is suggested that effective monitoring, auditing and accounting agencies should be established (Eizenstat, 1998). Moreover it is emphasized that citizens' access to the information concerning public expenditures is necessary. Since 2001, some governments have drafted and made legislation ensuring access to information by the public like in Panama and Paraguay as reported by the Transparency International (2001). The laws cover the right to access to information in many areas like learning decisions, files, expenditures concerning the public. IMF Code on Fiscal Transparency states that there should be public availability of information, that the budget preparation, execution and reporting should be open and that fiscal information should be subject to public scrutiny (WB, 1999).

The integration of transparency with **trade** and business transactions requires new commercial laws and competition laws. The former implies that shareholder rights, real estate, intellectual property should be protected (Eizenstat, 1998) and the latter indicates that there should be no monopoly which would damage unfair competition.

The second-generation of structural reforms are considered as restoring the so-called "unsuccessful" attempt at separating the economic from the political, because the reforms in question legitimize themselves on the grounds that the sources of "economic" problems continued to be "political" during the implementation of market reforms. Elimination of corruption is equated with

abolition of any “political opportunities” to distort economic forces to operate. But the reformers do not let simply “market forces operate”; they aim to create a “new set of political and economic interests” to support their reforms and build institutions for the market reforms to be successful.

To turn to an issue already raised in the very beginning of the introduction, what would be the political implications of attributing the economic problems, failures of the market reforms to the “political”, to corruption in the context of second-generation of reforms, even though, for this time, the state, as opposed to the period of the first stage of market reforms, is not ascribed inherently a negative meaning and given an enhancing role for the market? My point is that the political implications of making such a discourse of corruption as the pathological feature of the third world countries is to legitimize all the grounds for separating the economic from the political. The public sector and administrative reform in the developing countries present as their grounds the long standing corruption in the public sector.⁹ The independent authorities to manage the economy, the independence of the Central Bank are in fact, measures to separate the economic from the political.

However if corruption itself is not the source of economic problems, but an apparent form of it, if the real problem lies at the core of the unequal power relations characterizing capitalism, resulting in inter-class and intra-class conflicts, then eliminating corruption would not be a solution in itself for the

⁹ The legal draft on public administration in Turkey, in the first part, justifies the reform on corruption see Sönmez and Dinler (2004).

majority of the population. Quite the contrary, if this separation brings about the institutionalization of neoliberalism thanks to the second generation of structural reforms then the power relations would not disappear but deepen, become sedimented and anchored, sharpening the social conflicts. The discourse of corruption distorts the direction of the real source of economic and political problems and hence tries to repress, through a hegemonic way, any opposition to new structural reforms whose negative social effects will be tremendous.

CHAPTER V

CONCLUSION

This thesis has been an attempt to challenge the arguments which attribute to corruption, rent-seeking and cronyism an explanatory power for understanding the economic problems faced by the developing countries and the failure of market reforms. It tried to undermine the approaches which pose the relationship between market reforms and corruption as mutually exclusive and attempted to show in what sense corruption and rent-seeking assumed important roles in the very implementation of the first generation of market reforms. It then asked why anti-corruption has obtained a very strong emphasis and became a priority in the public policy agenda in the context of second-generation of structural reforms. Although the fight against corruption is presented as a natural component of any neoliberal reform package, it was not a coincidence that it gained such a significance in the late 1990's and 2000's, while, previously, it was not attached such an importance in the period of the first stage of reforms (except for the discursive level). The study argued that it is only in the logic of the second-generation of structural reforms that the promotion of anti-corruption could be understood.

Finding out the methodological roots of the dominant paradigm concerning corruption, rent-seeking and market reforms has been a good starting point for the study, because it enabled me to ground my critique on a more solid basis. I found out that dominant methodological approach in the literature, namely the new political economy, were inadequate to conceptualize relations of corruption and rent-seeking, because they tended to be based on an a-historical and individualistic accounts of social reality. I therefore resorted to some critical historical institutionalists and to Marxist scholars in order to examine and analyze the complex relationships between market reforms, corruption and institutional change. The problem of institutional change was especially important, because in the literature the failure of market reforms and the emergence of corruption were discussed with regards to the resistance of some institutional rules (be it formal or informal, observable organizations or norms). So I had to show in what way institutions influenced and in what way they were influenced by the reform process itself.

In the developing countries analyzed (selected Latin American countries and Turkey) market reforms do not operate in a vacuum, but are implemented in a given institutional framework. Yet, the existing framework alone does not determine in a unilateral manner the way in which the reforms are implemented. Rather the political struggles are shaped in such a way that new institutions are being formed. In this study the changing institutional settings refer to the transformation of the internal structure of the state apparatus, especially with regards to the decision-making process and to the supervision and control of these

decisions. The relevance of the institutional framework for the object of study of the thesis is that centralization of decision-making in a few hands and agencies facilitated corruption and rent-seeking by allowing business groups and the government to bypass the bureaucratic control mechanisms and to establish corrupt links. They also rendered easier the close relationships between some top bureaucrats and some business groups and the favoring of the latter by the former. In privatizations, public procurement, export subsidies...etc. many developing countries' neoliberal leaders and technocrats explicitly or implicitly favored some companies. It is important to note that this argument, in no way, attributes to the institutional framework by itself a causal explanation in the emergence of corruption; it rather means that institutional changes had an impact on facilitating the specific relationship between the bureaucrats, politicians and business groups.

The study excluded the institutional differences between countries out of the analysis, though it recognized those differences emerging from the variations in the historical and social contexts, because variation finding with regards to the institutional settings would require a more empirical-oriented case study, which is not within the scope of the thesis. Hence I did note, through some examples, the importance of these differences (like the difference between the role of the judiciary in some Latin American countries and Turkey) but did not attempt at analyzing them and finding out the causal mechanisms giving rise to them.

In constructing these arguments, I was critical towards the understanding of institution developed by the new political economy as well as to the idea of "institutional persistence", which does not allow to make sense of institutional

change; but I benefited from the insights elaborated by some historical institutionalists like Hay and Wincott, Steinmo and Thelen in order to reach the conclusion that institutions can not be severed from the power struggles in which they are located, as well as from the critiques made by some Marxist scholars like Cammack. I have argued that policy decisions were the outcome of a long standing struggle between different social groups and actors and that the rising significance and/or losing importance of some institutions could not be understood without that point. I have given the example of the institutions like Council of State in Turkey whose role vis-à-vis the administrative monitoring of the market reforms has changed in a period of two decades. I also underlined the dynamic aspect of the institutional change. For instance I have shown that in Argentina Menem firstly centralized decision-making in some agencies and especially Domingo Cavallo who then adopted a different strategy and transformed this top-down decision-making which excludes congress approval to a shared decision-making with the parliament in order to make congress members stakeholders in the reforms process as Williams (2002) put it. I tried to illustrate, with this example, how the changing institutional frameworks can not be separated from the changing political strategies.

The literature review that I made revealed that the belief that market reforms would eliminate corruption and rent-seeking does no longer have proponents, at least at the empirical level. Many scholars from different methodological approaches recognized the fallacy of the simplistic positive correlation between market reforms and elimination of corruption/rent-seeking. But, what is still

lacking in the literature, though with a few innovative exceptions, is in what sense corruption, rent-seeking and cronyism assume an important role in the very implementation of the market reforms. So the problem is less to investigate why corruption persisted in market reforms and to find reasons totally external to market reforms (like politicians' dilemma, cultural traditions..etc.), than to look into the new forms taken by corruption in market reforms and to question what kind of a role these new forms assumed in the neoliberal context. So, my aim was not limited to give the empirical evidence of the existence of corruption and rent-seeking, a task that could be realized from within the methodological perspectives that have been criticized in the thesis. Indeed, those who accept the persistence of corruption in the market reforms do still consider the relation between the two as mutually exclusive. This study, on the other hand, revealed that corruption and rent-seeking were important in the gaining power of some groups, who would be the supporters of the neoliberalism (The new political economy literature calls these groups as the "winners coalition" for instance). These groups were usually the diversified big business groups in the developing countries and they benefited from market reforms such as privatizations, trade liberalization, export subsidies, financial liberalization and access to credits. The literature review on Mexico, Argentina, Brazil, Peru, Chile, Venezuela and Turkey justified the increasing power of these few conglomerates operating in diverse sectors and also concentration of capital in these sectors.

I did not argue that big business groups were enriched simply by corruption. I gave definitions of corruption, rent-seeking and cronyism in the second chapter

and thus meant that not only an “illegal” bribery but close relations with a bureaucrat could be sufficient for a business group to be favored. Sometimes in order to benefit from the opportunities of the export sector, a business groups need not sell fictitious exports but it should have the necessary capital and investment to cope with the costs of trade liberalization in order to survive in the market. Hence the strengthening of the business groups were not simply due to corruption, rent-seeking, but to market reforms themselves where corruption and rent-seeking had a mediating role to accumulate capital in a few hands in a very rapid manner. They were also useful for the governments’ political strategy to realize the neoliberal reforms from a top-down manner in order to bypass the existing institutional mechanisms and so that there would be strong supporters of these reforms.

The fact that big business groups have been the major beneficiaries of the market reforms does not mean that the neoliberal governments were in fact pursuing policies exclusively to favor some business groups or that business groups were dictating their policy preferences to the governments. Indeed, though considered to be successful as long as they dismantled the institutional structures of the previous period and implemented market reforms rapid and top-down manner, neoliberal governments were many times accused of diverting from their ideal policy path. Moreover business groups complained about governments’ policies in different occasions and some market reforms were told to “fail”, to use the neoliberal jargon. Different approaches from the perspective of new political economy ascribed these so-called “failures” to the vote-maximizing tendencies of

the politicians which would contradict the technical rationality of the macroeconomic goals; to rent-seeking behavior of interest-groups in the 1980's and later, in the context of the second-generation of structural reforms, to the lack of strong institutions to create and support efficient markets. All of these arguments had the common ground of attributing the politicians the tendency to implement some "populist" policies, that is fiscally irresponsible and macroeconomically damaging policies to get popular support. It was claimed that clientelistic ties played a key role in the distribution of benefits and resources by the politicians. This attitude is again posed in contradiction to market reforms. I tried to show that this apparent contradiction does disguise behind it a necessity which derives not simply from politicians' selfish and rational behaviour: The neoliberal project, in order to survive, needs to articulate different conflicting interests popular aspirations around itself. This articulation is not solely on ideological and cultural terms but also economic and political ones. Therefore I benefited from Gramsci's notion of hegemony to make sense of these so-called "populist" policies, which should not be called as "rational for politicians and irrational for market reforms". The use of the concept of hegemony is not new in the literature, so I benefited from those authors who used this concept and located it in the context of my study. I also used the concept of "state as the site of struggle" from Poulantzas, because this concept is operational in making sense of the conflicting interests and struggles between different social forces which take place in the state and according to which the concrete policies take shape. Therefore, I conceptualized the "populist policies" as a means by the governments to cope with these conflicting interests in society.

Of course there is no one moment of hegemony which is not contested. The impetus and motive behind the case of second-generation of structural reforms illustrate that point: Not only economic crises in the developing countries which created instabilities and which led the proponents of market reforms that there could be also “market failures”, but also the growing discontent with the inequalities created by neoliberalism pushed the neoliberals to design new tools and reforms to cope with the problems of crisis and legitimation. As I argued in the chapter on second-generation of reforms, these reforms are the by-product of a desire to make regulations in the market and to gain more support for market reforms in the face of the growing discontent. What is the relevance of corruption in that context then? I stated that corruption had a dual significance: Firstly, corruption, for a second time, emerged as a legitimating mechanism to justify the second stage of reforms and the separation of the economic from the political, because the proponents of the reforms argued that the failure of the earlier reforms resided in the dominance of the political over the economic. Corruption has been one popular symbol to embody the “political” source of the “economic” problem, to the extent that in the popular protests of the late 1990’s and early 2000’s, to which the study referred, corruption has been conceptualized as a “purely political” phenomenon, related only to the politicians and their bureaucratic companions, by ignoring the major role of the businessmen in corruption and rent-seeking. It is very interesting to see a similar phenomenon in the first stage of reforms, how the neoliberal leaders justified their reforms with regards to a picture of the past where corrupt politicians, bureaucrats, rent-seeking by some powerful interest groups, state intervention and populism were shown as the major

sources of the economic and social problems. Given these facts, it would not be wrong to conclude that corruption has been a component of the hegemonic discourse of neoliberalism in both the first generation of market and second generation of structural reforms. In the context of the first-generation of market reforms, though some reforms are called as “failures”, the neoliberal project as a whole was not, because the belief that state and economy should be separated, that the government should give up populist policies became common sense arguments. As the thesis has already referred to, “very few today question that past fiscal irresponsibility and the stifling persistence of the state had to be checked. The interventionist state was perceived as the source of the widespread inefficiency and corruption that characterized economic mismanagement for almost half a century” (Szusterman, 2000). This corresponds indeed to what Galip Yalman (2002) called a “hegemonic discourse”.

The second significance of corruption was that the new institutional reforms in the context of second-generation of structural reforms required transparent, efficient and regulated markets which should not allow corruption and rent-seeking. Hence anti-corruption has been an inseparable component of the institutional reforms: Administrative reform, judicial reform, fiscal reform, banking reform, commercial reform, public procurement reform put on their agendas fight against corruption as a priority. In the first generation of market reforms, new forms of corruption could be observed in the public sector, trade sector and financial sector, because these sectors were restructured with neoliberal policies, namely deregulation and liberalization, allowing new set of corrupt relations between different actors. In

the context of institutional reforms, then, these three sectors were once again restructured, in order to, this time, not allow corrupt practices. Many business groups supported these new policies, though some of them would be condemned with the eruption of corruption scandals. Corruption was no longer considered as an opportunity, but as a threat to the perpetuation of the neoliberal reforms.

This thesis attempted at undermining those neoliberal and institutionalist arguments on market reforms and corruption by showing the connections of the corruption, rent-seeking, cronyism with the very implementation and consolidation of market reforms. It also tried to locate anti-corruption measures within the context of second-generation of structural reforms and to show in what sense they were functional in the redefinition of the relationship between the economic and the political. Yet, there is still need for further studies to make empirical and historical investigations related to the following questions: In what way did neoliberal market reforms which consolidated the big business groups in the developing countries create tensions within the capital groups and what were the political strategies to deal with these tensions? What have been the historically specific reasons behind the institutional differences in the implementation of market reforms between different developing countries? In what sense will the demands and interests of the conflicting social groups shape the agenda of the second-generation of institutional reforms which are relatively new reforms for developing countries and far from being complete? But these questions should be grounded on a methodological critique of the existing explanations of state-market

and state-business relations in developing countries, which has been the basic objective of the thesis.

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