

The Nature of Lobbying and Regulation in Turkey

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Abstract

The policy-making and distributive effects of lobbying is a disturbing and highly debated issue in many developing countries. This study will provide a comparative analysis of the two biggest industrial-commercial interest groups in Turkey. The relationship between the policy suggestions of TUSIAD (Turkish Industry and Businessmen Association), and MUSIAD (Independent Industrialists and Businessmen's Association) and economic policies implemented both at micro and macro level after the 1990's has been placed under great scrutiny. In this paper, an overview of the positive theory of regulation along with the theory of collective action is provided in order to highlight the main discussions covered in existing literature. This paper claims that these two interest groups have conflicting incentives in terms of the regulatory process, arising from the characteristics of their members. Such a situation leads to a struggle to exert influence on governmental policies from which one group benefits, while the other is hurt. The model, adapted from Becker (1983) and partly Olson (1982) and later modified is an attempt to arrive at the optimum level of regulation which favors policies beneficial for each party. A general theory of lobbying and interest-groups in developing countries and specifically Turkey will therefore constitute the theoretical underpinning of this work while the absence of in-depth numeral indicators for the interest groups' lobbying power dictates that descriptive statistics play an important role. This study will aim at searching out the exact cost and benefit for the groups involved as well as additional hidden factors that might incorporate explanatory power in understanding the relevant dynamics in the case of Turkey.

Keywords: *Economic Policy, Growth, Development, Lobbying, Interest-group, Protectionism, Government Regulation.*

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Introduction

The relationship between lobbying and regulation policies has been long debated, however usually from a political standpoint. In its usual sense, the theory of interest groups refers to the political participation and the lobbying effects of the above on policy and decision making. Also true for the developing countries like Turkey, is a presumed strong relationship between the interests of lobbying groups and governmental policies. This paper, however, is an attempt to address such a relation in terms of economic policies, with particular focus on regulation or deregulation, based on Turkish experience, especially in the aftermath of the '80s. Becker's (1983) model on the theory of competition among pressure groups in their struggle for political influence will constitute a theoretical groundwork for the discussion. The second section is intended to provide a literature review on the theory of regulation and lobbying, which begins with the 'transactions cost' approach introduced by Coase (1960). In the third section, the likelihood of regulation in favor or against one of the two pressure groups in the case of Turkey will be pointed out in line with Becker's (1983) theoretical framework. Based on the available data however, our simple analysis will cover only 2007, and to a partial extent, 2011 figures. The section concludes the analysis of positive theories of regulation based on the Turkish experience, providing evidence supportive of Olson's (1982) theory of interest-groups with critical exceptions in the case of Turkey. The last section will provide concluding remarks on how well the Turkish experience fits with positive theories of regulation, based on lobbying influences on policy making and government decisions.

The theory of interest-groups is closely and foremost associated with the institutional and therefore the governmental base in a country. The regulative interventions in the business world are best observed in the formulation of economic policies. Therefore the problem of regulation and market effectiveness occupies a central position in the process since the degree of interventionist policies often leads to a growth in lobbying activities. Regarding the government's position, Coase (1960) proposes a market pricing mechanism (highest bidder rule, in most of the cases) to ensure self-regulation. He asserts that employing price mechanisms would allocate resources to users without the need for government regulation. He proposes the creation of well-defined property rights in order to avoid market failures. In order to increase the competition in such sectors he

says, there should be some limitations supplied by property rights organizations. As he again includes the costs of market operations in his analysis, Coase (1960) states if those were too high to make transactions then there should be some misallocation of resources by a regulatory organ. One important result he derives is that implementation of property rights would be much easier and less costly whenever the size of the population increases to make transactions possible and/or limit the excess of economic rents involved. In this light, he gives the example of users of the broadcasting industry since they use a small proportion of “spectrum space”. He argues that governmental departments will also be forced to use resources in a more efficient way since they will have to pay for the service they use in a freely-operating price mechanism. Such a pricing mechanism would allow positive revenues to flow to the government.

Becker (1983) discusses the most efficient way of regulation under the competition of pressure groups possessing lobbying power, in line with Coase’s (1960) arguments. Given the fact that most efficiently organized and small-sized groups possess more power in terms of lobbying and acquire certain privileges at the expense of the other groups, Becker’s (1983) argument fits well into what Coase (1960) had previously described as the ‘lowest transactions cost’. The least distortionary scheme of tax-subsidy equilibrium would be most preferential for the government to implement. Before concluding our arguments concerning this paper’s focus, we should however note that Grossman and Helpman (1994 and 2002) argue regarding the trade policies that the government might choose a non-distortionary way by ensuring direct transfers of funds to one group. Their works and a consequent vast body of literature constitute another line of research focusing on the game-theoretical explanation of trade policy-making based on protectionist lobbies and their relations with voting behaviors. The case of the Turkish Industry and Businessmen Association (hereafter, TUSIAD) and The Independent Industrialists and Businessmen’s Association (hereafter, MUSIAD) seems to best fit into Becker’s (1983) theory of competition among pressure groups for political influence although there are some missing elements in satisfactorily explaining the Turkish experience. The very reason that these two business associations are subject to comparative analysis is that they represent pure non-governmental capitalist motives with different interests from the outcomes of economic policies. Since, TUSIAD is proposed to be the more effective, although constituting a smaller size group while MUSIAD represents the second,

the paper will be assumed to draw the conclusion that TUSIAD –given its number of members and their sizes- exerts more influence on government policies compared to that of MUSIAD's. It is however quite contrary to the theory of collective action as well as Becker's model to observe that MUSIAD's has consistently been gaining more and more influence almost on every level of policy-making institutions while TUSIAD's initial advantage has been diminishing over time. Such a result could best be derived by the insertion of the motivation element into the model. The younger and more innovative the MUSIAD members are, the more devotion to their common interests seems to be created.

Literature Review

Positive Theories of Lobbying and Regulation

Government should only intervene in so as to provide low costs of transactions in the market according to Coase (1960). Depending on the government would allow the political influences to get involved in the regulation process. At this point, Coase refers to a mixture of transferable rights plus regulation. He treats intangible goods in the same way as tangible ones like land, labor or capital. Coase (1960) can be said to assume a positive and empirical position in the argument since he regards the economic implications of transactions and regulation process as the core point in his analysis through his use of empirical examples of court decisions, thus rendering his position extremely clear.

Stigler (1971) examines the demand and supply of regulation and cost/benefit analysis regarding the industry. One of the favors that the regulatory body can do for the industry is provide limitation on market entry which Kahn (1988) also describes as one of the conditions for having a regulated industry. Here, according to Stigler (1971) political benefits and limits come into play. Political decisions do not necessarily reflect the position of the majority of voters even though politicians at times have to maximize the votes subject to the constraint of total economic rents to be redistributed. He mentions the information, education and most importantly the organization costs for the lobbying group and, seen as a whole, the cost of gaining interest from regulation. Stigler (1971) treats political parties as natural monopolies through which regulatory decisions are given. Stigler's (1971) analysis places much emphasis on the relative group size.

Following the same line, Posner (1974) stresses the need for minimizing the opportunity cost stemming from the pressure groups' efforts to gain monopoly power while indicating the social welfare losses from a natural monopoly. After making a summary of Stigler's (1971) analysis, Peltzman (1976) states that the lower the group size, the greater the amount per member gained from lobbying and the higher the likelihood to obtain regulatory/deregulatory favors. Now the regulator's choice is not limited to the interest group size only but also the cost/benefit structure to be selected. If the consumer groups are large in size and inelastic in demand, then most likely the winning group will be the firms. In this sense, the political party should increase its probability of support from these competing groups. As the lobbying becomes less costly by implementing advanced means of technology, then the amount of tax to be imposed could become smaller. Thus, this will make the amount to be redistributed smaller as well. The amount of profit that is generated by regulation should remain in equilibrium with the majority's tax payments.

Coase (1960) advocated his property rights argument on the basis of the problem of efficient allocation and the inefficiency arising from government regulation in any industry. Starting with the analysis of deadweight loss from transfers made, Becker (1983) already treats the transactions non-costless. Coase (1960) therefore could be regarded as the mentor of Becker's (1983) model regarding the optimal cost of transfers to be possible. If the deadweight loss from the transfer is higher than the relative gains from the transaction as a whole, this transfer is then unlikely to occur. One similar point in both Coase (1960) and Becker's (1983) arguments is the marginal principle which implies the marginal impact of the expenditures on pressure to be greater than zero. The greater the pressure group size, the less effective the expenditure on lobbying since the amount increases significantly after a certain threshold. Per unit expenditure of a pressure group affects the amount of the aggregate amount to be redistributed in a positive direction. However this raises the amount of tax to be raised thus increasing the deadweight costs.

According to Becker's (1983) model; if the deadweight costs increase, then the equilibrium level of subsidy decreases. So, this implies that on a wide range of policies, those with lowest DW costs are more likely in equilibrium. Equilibrium implies that there is no less costlier way of transfers which is a result that Coase (1960) derives under the initial

delimitation of property rights and an analysis of freely-operating price mechanism conditions. One important result Becker (1983) shows is that the successful groups tend to be the small ones, implying the lower costs of organization and other procedures. As a conclusion, both Coase (1960) and Becker (1983) arrive at the result that an efficient pricing mechanism will generate an optimal equilibrium condition in which the costs are minimized and regardless of the initial condition, the allocation of resources will be the same because of efficient bargaining and organizational structures. However, the well-defined property rights should be created on a sound basis first.

The Political Economy of Lobbying

The theory of collective action provides intuitive methodology to approach the issue of public goods and externalities not only in tangible ones (i.e. pollution) but also abstract ones (i.e. tariff rates). The general incentive to 'free ride' is first analyzed by Olson (1965) and Hardin (1968). Factors such as group size, age, homogeneity and purpose are determinants of success in Olson's (1965, 1982) works that in turn yields the desired result in terms of policy-making via lobbying. Hardin (1968) on the other hand discusses the "tragedy of commons" in which he assesses the overuse or congestion in the use of public goods, creating problems in the absence of well-structured property rights. The neoclassical (and to an extent the new institutional economics') theories on the formation of groups to eliminate potential free-riding issues and provide efficient monitoring have evolved over time to create a vast body of literature on the effects of pressure groups in gaining political power. Needless to say, the policy-making institutions are operating in such an environment shaped by the type, number and the size of such organized groups, to some extent at least.

The emergence of political, economic or other social action groups deserves a multi-dimensional approach for analysis since it has simultaneously micro and macro foundations. In an effort to understand the formation process and the structure of interest groups, Olson's (1965) pioneering work; *The Logic of Collective Action* should be counted with Buchanan's (1965) leading paper on the Economic Theory of Clubs in order to provide some insight at structural level. In his dissertation thesis, Olson (1965) makes use of the basic postulates for individual action that presume self-interest maximizing behavior while answering the question of interest

group structures in a society. Accordingly, a successful and prolonged interest group should be smaller in size yielding a positive gain for its members that permit the group actions to create an average level of benefits exceeding the costs. The problem of 'free-riding' however may emerge under the condition that there is no selective incentive. The larger the group size, the more the number of "free-riders", implies the theory. This is mostly due to the misalignment of interests among the group members and the very trivial share of average benefit to the members in a very large group. Therefore, Olson (1982) argues that the smaller the group size, the more effective and successful the lobbying activity. The same is argued within the 'theory of clubs', introduced by Buchanan (1965), who puts forward the conclusion that given the set of adjustable property rights, the optimal group size tends to be smaller when the average real income increases. Such a mechanism however would only work if the goods provided by the group (i.e. privileges) are considered as exclusive in order to avoid the "free-rider" problem seen as very common in public good provision. Selective incentives, as Olson (1982) puts it are not always positive but sometimes occur at negative margins such as being excluded from the "club". Therefore, looking at the situation as a whole, there are five basic conditions for the formation and success of an interest group, according to Olson's (1982) theory:

- i) Positive gains from lobbying
- ii) Existence of selective incentives
- iii) Exclusive goods (i.e. perfect market information on the specific good) that create negative and/or positive externalities
- iv) Homogeneity of the group members/ alignment of interests
- v) Existence of a property rights regime or the low cost of bargaining for collective action

Olson's (1965, 1982); Buchanan's (1965); Peltzman (1976) and Becker's (1983) arguments all point to the theoretical fact that the smaller the size of and the bigger the net benefit to the pressure group, the more incentive that the individual has in joining and contributing to the group. Olson's interest-group formation mechanism is briefly included here:

$C=f(T)$ where (C) is the cost of collective action as a function of the level (T) at which the good is provided. $V=TS$ where V represents the value of the good to the group; while S is the “size” therefore number of the members of the group V_i value of the good to individual i while $F_i=v_i/v_g$ is the fraction. $A_i = V_i - C$ where A_i is the net benefit to the individual that depends on the level of individual expenditure.

$$dA_i / dT = dV_i / dT - dC / dT$$

Under the maximization assumptions, first-order conditions should yield the following:

$$dA_i / dT = 0$$

Since $V_i = F_i S_g T$, while F_i and S_g are constants. Replacing V_i into the preceding equation yields the following:

$$F_i \left(\frac{dV_g}{dT} \right) = \frac{dC}{dT}$$

Therefore, the smaller the individual share, F_i , the less the individual is eager to take part in the group as the average benefit gets smaller while the group size increases.

Olson (1982) argues that there will be no countries that attain symmetrical organization of all groups sharing a common interest and thereby attain optimal outcomes through comprehensive bargaining. Relatively more stable countries will tend to create more organizations for collective action over time while members of ‘small’ groups have incredibly higher organizational power, lowering the costs while that power is likely to diminish over time. And last but not least, he argues that the emergence and persistence of such interest groups overall reduces efficiency and aggregate income in the society since they are divisive in nature. Two basic points that both Tullock (1983) and North (1983) pay attention to are: the testing and refutability of Olson’s theoretical and semi-empirical conclusions in a wider range of countries; and the position of ‘statecraft’ as the main interest group.

As Olson (1982) states, the theories of the extent to which social classes and rigidities are effective for relative growth are debatable and the empirical facts vary over time and country whether they are in line with

the theories or not. The possibility of multi-causal cases is yet another concern regarding the relationship between growth and interest groups. Last but not least, the problem of testing is important as multi-causal diversity may imply the same empirical result while concealing different reasoning and interpretations. Murphy et al. (1991) however provide a different perspective on how easy a rent-seeking society could develop interest groups; and conclude that rent-seeking activity is subject to very natural increasing returns, thus having more returns at higher levels. Accordingly, it could afflict innovative activity in the society and therefore hinder economic growth.

Providing a business perspective on the issue, in another work focusing on East Asian countries, Doner and Schneider (2000) find that business associations contribute to economic growth in several ways such as macroeconomic stabilization and reform; horizontal coordination (like quota allocation and capacity reduction); vertical coordination (upstream-downstream); lowering information costs; setting standards and quality upgrading. According to their study, business groups contribute to the economy mainly or under certain conditions solely by pursuing their own interests. Two broad categories of contribution are described as 'market-supporting' and 'market complementing' activities in the sense of interest groups' contribution. Doner and Schneider (2000) conclude that the well-functioning and contributing interest groups are the ones with higher member densities; those that provide valuable resources to their members and have adequate internal mechanisms for mediating member interests.

Mork's (1993) argument on the impact of lobbyists however may even be positive compared to the non-lobbyist case. His basic intuition is that the growth rate would be higher in the case of lobbying compared to the situation where lobbying activities are strictly banned such as in the case of former-Soviet countries. In line with Olson's (1982) arguments, Mork (1993) notes that lobbying activities have bigger marginal effects at lower levels (i.e. # of the groups) and are subject to diminishing returns over time. Murphy et al. (1991) however provide a different perspective on how easily a rent-seeking society could develop interest groups and conclude that rent-seeking activity is subject to very natural increasing returns thus rendering greater returns at higher levels and second could inhibit innovative activity in the society and therefore hinder economic growth. Maitland (1985) on the other hand concludes that Olson's (1982) theory tested by the effects of business and labor groups is empirically true under

relevant circumstances such as the higher correlation between the overall direction of the group and the members' incentives.

Lobbying and Regulation: Picturing Turkey's Experience

In all the positive theories of regulation introduced by Stigler (1971), Peltzman (1976) and Becker (1983), the gap between the regulatory decisive bodies and the economic implementations is seemingly filled in the example of the developed country, for example, the US. The important factor that is seemingly absent in Kahn's (1988) analysis for instance is the political incentives and decisions of the regulatory organs in the government. The questions, rather than economic, are almost all political although economically driven. The amount of regulation, the firms' costs and/or benefits from the regulation, the impact on consumers and the whole society and the political influence between groups are important factors determining the resulted equilibrium in the economy since regulation indirectly means a transfer of resources.

The political decision should create equilibrium at the lowest dead-weight cost of transfers. This argument comes from Becker (1983) which is consistent with Kahn's (1988) arguments that if regulation that maintains the natural monopoly is less efficient and much costlier, then we should simply employ competition and market price mechanisms. To conclude, it may be asserted that the positive theories of regulation introduced by all these economists and the empirical evidence provided by Kahn (1988) fit just as well and fill the normative decisive unit in the analysis. The political organization is unique in the sense of whether it creates or not a natural monopoly regarding both decision and regulation processes. The competition to acquire the benefits of regulation should create an optimal equilibrium of total welfare for the whole society. The need for regulation should be analyzed in details taking the product itself (i.e. the "nature") into account, the industry's conditions and the consumers' benefits. The environment that creates the institutions that acquire a certain degree of lobbying power over time should also be a major question as Persson (1998) puts it regarding the possible suggestions of diluting the roles of such institutions: "why do we observe these particular institutions?"

Turkish experience of business lobbying groups has not been that much subject to either theoretical or empirical analysis, as much of the literature on lobbying and regulation suggests so far. Therefore, this study

constitutes an attempt to apply Becker's (1983) theory of interest groups and his model to Turkish pressure groups (if so) which exert a significant effect on industrial and thus development policies. The model adapted from Becker (1983) is therefore intended to provide an analytical framework in conflicting interests in terms of regulation and economic incentives by government. Such a framework implies that one interest group takes advantage of certain economic liberalization policies at the expense of the other, under the assumption that the members of each group differentiate in size, production scale, export or domestic orientation etc.

MUSIAD and TUSIAD, for instance, depart from each other at micro level while the two move together towards less regulation overall. TUSIAD favors policies that ease the obstacles which foreign investors and financial agents face in their decision-making processes, as their overriding priority, while MUSIAD favors policies that help accountability, managerial skills and financial issues of smaller entrepreneurs. The paper thus focuses on TUSIAD and MUSIAD, and effectively divides these two interest groups (or lobbying powers) in terms of their members' incentives and attempts to build up a theoretical framework to describe the misalignment of interests and struggle for influence at the political level. The contrast between the two associations is clear enough that the focus of our study can easily be justified. According to Öniş and Türem (2001) for instance, TUSIAD represents relatively bigger industrialists and conglomerates while MUSIAD heavily represents small and medium-sized enterprises. The first is highly concentrated in Istanbul, the commercial and financial capital of Turkey, while the latter is dispersed over the whole country. Despite the higher number of members, MUSIAD reflects around 10% of the total GDP (approx. 15% as of 2011), while TUSIAD members produce around 50% of gross national income.

Even a simple analysis should indicate first that TUSIAD differs from MUSIAD in many ways, including its position on regulation over time. As Shambayati (1994) puts it correctly, during the formation process of a 'renter state' in Turkey, TUSIAD was in favor of strong regulatory bodies incorporated in the statecraft. Over most of the 1970s, after its foundation in 1971, TUSIAD members enjoyed high surpluses created by protectionist policies, such as exchange rate or import restrictions. However, that situation began to change gradually following the new wave of deregulation in the emerging economies after the '80s in line with the general tendency of the last three decades. The report on the economic

development of Turkey, published by TUSIAD and the Organization for Economic Co-operation and Development (2005a) for instance, starts with the statement that weak regulatory systems are preferable for strong economic growth [pp. 13]. Again TUSIAD (2005b) regards weak economic regulation and small governmental involvement in economic activity as key factors leading to higher growth rates. For instance, in the US, the share of industries under government regulation decreased from 17% in 1977 to 6.6% in 1988 which had also seen a period of rapid economic growth (TUSIAD, 2005a:32-34). Therefore, certain interest groups, such as TUSIAD and MUSIAD are in theory said to favor positive or limited regulation, in line with the theory.

Becker's (1983) model for the theory of competition among pressure groups will be used to provide some ground for lobbying effectiveness, with some modifications however. Assuming only two homogenous groups in society, with t used (for TUSIAD members) and m (for MUSIAD members), the redistribution mechanism leads to following allocations (resources away from t and redistribution to each m):

$$R_m = Z_m - Z_m^0 \text{ and } R_t = Z_t^0 - Z_t \quad (1)$$

Z^0 's indicate per agent income levels prior to transfer, while Z 's imply the levels of per agent income after transfer. In such a context, all political activities (i.e. developmental incentives and policies) that raise the income of a group are considered as a subsidy, and all activities that lower incomes is regarded as a tax. The amount raised by all taxes on the group t can be written as follows:

$$S = n_t F(R_t) \quad (2)$$

Where n_t is the number of members of t , and R_t is the taxes paid by each member.

$$F(R_t) \leq R_t, \quad F' \leq 1, \quad F'' \leq 0 \quad (3)$$

Where $F(R_t) = R_t, \quad F' = 1, \quad F'' = 0$ when taxes do not distort income, meaning "lump sum" taxation.

$$n_m G(R_m) = S = n_t F(R_t), \quad (4)$$

where, n_m is the number of members and R_m is the subsidy to each member. G is the cost of providing R_m and incorporates the dead-weight costs from the distorting effects of subsidies on hours worked, investments,

and other choices by recipients. Properties of G are:

$$G(R_m) \geq R_m, G' \geq 1 \text{ and } G'' \geq 0. \tag{5}$$

Following the same logic above, $G(R_m) = R_m$, $G' = 1$, and $G = 0$ when subsidies do not distort; or put differently, are “lump sum”. Equation (4) gives the budget constraint of amount paid in taxes and the amount received as subsidies.

The amount t which is collected as taxes is determined by an influence function that depends on the pressure (p) exerted by m and t and other variables (x):

$$n_t F(R_t) = -I^t(p_m, p_t, x) \text{ and by the same token:} \tag{6}$$

$$n_m F(R_m) = -I^m(p_m, p_t, x) \tag{7}$$

Equation (4) obviously implies that these two functions are dependent which yields a zero sum of the tax revenues and the amount spent for the subsidies:

$$n_t F(R_t) = -I^t \equiv n_m G(R_m) = I^m \text{ or } I^m + I^t \equiv 0 \tag{8}$$

Differentiating equation (8) by any other variable y gives:

$$\frac{\partial I^m}{\partial y} \equiv I_y^m \equiv -\frac{\partial I^t}{\partial y} \equiv -I_y^t \tag{9}$$

Therefore, when increased pressure by t raises its influence (and thereby lowers its taxes), increased pressure by t would lower the influence (and subsidy) of m :

$$I_t^t > 0 \Rightarrow I_t^m < 0 \tag{10}$$

Based on the fact that, one should also note that if any change in characteristics of a group, such as the occupation or ages of members happens to raise its influence, these characteristics would serve to lower the influence of the other group. Based on the simple characteristics of the above model adapted from Becker (1983), we will now present basic facts on the two business groups, TUSIAD and MUSIAD.

As of December 2007, TUSIAD, Turkey’s largest private business group in terms of economic value, has 576 members. The membership scheme exhibits a composition of owners and managers of individual firms, group companies and holding companies operating in the Turkish manufacturing and service sectors. The number of companies, represented

by these members, totaled approximately 1300 by the year 2007. In its own words, the companies represented by TUSIAD’s membership occupy prominent positions in the Turkish economy. According to TUSIAD’s 2007 membership profile, member companies’ total sales volume is around USD 156.1bn. This sales volume amounts to USD 68.7bn of value added. The number of people employed in those companies reaches 626,000. According to its own figures, TUSIAD members produce 37.6% of Turkey’s value- added, in the industry, financial and the construction sector.

The volume of exports and imports generated by TUSIAD members is 47.7 billion US dollars and USD 44.4 billion dollars, respectively. As of 2007 TUSIAD members generate 44.5% of Turkish exports and 26.1% of Turkish imports in terms of goods and services. Below, sectoral decomposition of the members is provided, given the industries that each representative member is placed in accordance with the companies’ fields of operation:

Table 1. TUSIAD Members’ Sectoral Distribution, 2007

Sector	Number of Members (w/ duplicates)
Ads-Publishing	27
Finance	107
Energy	67
Construction	97
Textiles	79
Packaging	14
Metals	59
Automotive	45
Machinery	27
Mechanical app	17
Electrical app	30
Food	69
Durable goods	24
Furniture	17
Service	144
IT	36
Chemicals	39
Chemistry	15
Health	33
TOTAL	946

Source: Own surveys findings

Table 2. TUSIAD's Contribution to the Turkish Economy, 2007

Production								
(USD bn)	2004		2005		2006		2007	
	sales revenue	value added*	sales revenue	value added*	sales revenue	value added*	sales revenue	value added*
TUSIAD (1)	94.1	41.4	97.3	42.8	114	50.2	156.1	68.7
Total of Sectoral Value Added** (2)		110.4		133.2		147.1		182.6
Share of TUSIAD (1/2)		37.5		32.1		34.1		37.6
*The long-term value added value is assumed to be 44% in the included sectors								
**The total value added of the industry, financial institutions and the construction sector								
Exports								
(USD bn)		1998	1999	2000	2004	2005	2006	2007
TUSIAD (1)		11.8	12.5	13.1	22.2	28.1	35.2	47.7
Total exports of Turkey (2)		27	26.6	27.8	63.2	73.5	85.5	107.2
Share of TUSIAD (1/2)		43.7	46.8	47.2	35.2	38.2	41.2	44.5
Imports								
(USD bn)		1998	1999	2000	2004	2005	2006	2007
TUSIAD		7.9	8.9	9.9	19.3	26.7	33.9	44.4
Total imports of Turkey	-2	45.9	40.7	54.5	97.5	116.8	139.5	170
Share of TUSIAD	(1/2)	17.2	21.9	18.2	19.8	22.9	24.3	26.1

Source: Official data

TUSIAD has now around 600 members with some 2,500 firms as of the year-end figures in 2011. According to the association’s own figures, it also produces some 50% of Turkey’s value-added (excluding the public sector); makes 65% of the total industrial production; creates around 80% of Turkish foreign trade (excluding the energy sector) and employs half of the non-public working population. The distribution of TUSIAD member companies with respect to their sectors is as follows: 35% manufacturing industry, 13% retail, 11% construction, 11% financial intermediaries, 10% transportation and 8% other. Some 12% of the companies are operating in the agriculture, education, energy and mining sectors.

MUSIAD, on the other hand, assumes the position of the second lobbying group with smaller average firm size and higher number of firms in total. According to the provisional data gathered from MUSIAD sources, there are approximately 3,000 members, representing some 10,000 firms by 2007.

Table 3. MUSIAD Members Sectoral Distribution, 2007 and 2011

MUSIAD Member Distribution (Sectoral- by MUSIAD definitions)	Number of Companies (by members)	
	2007	2011
Chemistry-Metal and Mining	419	518
Construction and Building Materials	824	1088
Durable Consumer Goods and Furniture	366	440
Energy	104	162
Food	445	566
Health	118	128
Impression, Publication, Packing and Advertisement	205	254
Information Technologies	143	199
Machinery and Automotive	433	510
Service (incl. Logistics)	604	991
Textiles and Leather	447	496
Total	4108	5352

Sources: Own findings

According to MUSIAD’s own figures however, the number of the companies and their sectoral division –as of 2007- are as follows:

Table 4. MUSIAD Members, 2007 and 2011

MUSIAD Member Profile (General)	Number of Companies	
	2007	2011
Sectoral Distribution		
Textiles and Leather	446	496
Construction and Building Materials	813	1088
IT	143	199
Machinery and Automotive	425	510
Chemistry-Metals and Mining	415	518
Energy	101	162
Food	441	566
Publishing Packing Ads	205	254
Service	598	856
Durable Goods and Furniture	361	440
Health	177	128
Logistics	-	135
Total	4065	5352

Table 5. MUSIAD Employment data and Overview, 2007

Firm Size	Number of Companies	Number of Employees
1-10	202	1207
11-50	254	6673
51-	153	34062
Total*	609	41942
*Istanbul branch only		
Total Number of Members:	3000	
Estimated number of Companies:	10000	
MUSIAD Number of Branches:	29 (as of 2007)	33 (as of 2011)

Conclusion

In this paper, the theory of collective action is tested employing the case of Turkey via an extended model of Becker (1983) while simultaneously introducing Olson's (1982) insights. The mechanism through which

interest-groups exert pressure on policy-making institutions is proven to be fitting for examples such as the US or other developed nations. The success of the model in making it fit into the story of a developing country such as Turkey becomes questionable on account of the lack of detailed data at first. Despite the possible failures in fitting the model into the real observations in the developing world, Amelung (1989) for instance argues that Olson's (1982) interest-group model for explaining the choices for protectionist policies would better fit into the developing countries' experience since the protection benefits small groups of producers against large group of consumers. Secondly, he asserts the more democratic the political regime becomes in a country, the less relevant the political influence exerted by small while powerful interest-group organizations becomes. Therefore, search for the effects of interest-groups on the political institutions and policy-making processes becomes essential for the case of Turkey as well.

It is true that the formation of business interest-groups and their relations to government decisions in Turkey are studied from a political economy standpoint by distinct scholars since late 1980s. Although the last three decades of Turkey's industrialization and outward-oriented development process have been subject to in-depth analyzes from different perspectives, a positive theory of lobbying and regulation is not that common. Bugra (1998) for instance compares the two business associations, TUSIAD and MUSIAD on the grounds of their representative social class and ideologies where she concludes that the latter's organizational structure that allows the members to share experiences as well as increase their capacity through the association's creative activities is bolstering its solidarity, especially through the inclusion of Islamic cultural elements. Bugra (1998, 2002) suggests that "Islam can act as such a binding force, especially because it appears to be consistent with certain trends in global production and trade patterns that are emphasized by MUSIAD's administration". She also cites the importance of facilitating the intermediary role between the members of MUSIAD and the global business environment, technology efficient business techniques and all other means of network.

According to Özdemir (2005) on the other hand, MUSIAD's interaction with competitive global markets, especially the ones in Europe has enabled the association to become more flexible while ethically and professionally more systematic and successful. Despite its long-term relations

with the business world in Europe, TUSIAD has been hesitant to reach further markets and sectors for many years. Moreover, Yankaya (2009) refers to MUSIAD as a spillover agent for the Europeanization of Turkish small and medium-sized enterprises (SME's) at the organizational and technical levels. Accordingly, the association also helps members to gain access to European funds for innovative projects as well as encouraging them to open up to foreign markets thus integrating them into the European business world.

As Öniş and Webb (1992) state, despite its longer institutional past and experience, TUSIAD has failed to assert influence over economic policies and changes after the 1980s, in Turkey. They argue in a sense that TUSIAD has always preferred the shortest and easiest way to achieve its goals, even though such decisions often contradicted to their long-term interests. Most TUSIAD members, previous industrialists in the import-substitution period during 1970's, emerged as the principal or leading exporters of the post-1980 period. Therefore, in the absence of no actual rival on their racetrack, TUSIAD became the champion of free trade and anti-regulative policies (Öniş and Webb, 1992). The emerging MUSIAD however has challenged TUSIAD in many ways, most strikingly however on the grounds of advocating market-friendly economic policies. The effectiveness of MUSIAD during the last decade has mainly been a result of its political orientation as most political economy analysts would argue. There is however a missing part in the story, according to our study. Despite all the indicators listed under the Becker (1983) type model suggest TUSIAD's incomparable superiority regarding its lobbying power, the "missing" factor being group motivation and promotion of common values among group members.

Lobbying and regulation in Turkey therefore needs to be put in a theoretical (may be a game theoretic in advanced levels of analysis) framework, before any attempt to enumerate or quantify the relationship between the two phenomena is to be made. Therefore, taking two of the biggest interest groups at the industrial and business world in Turkey, TUSIAD and MUSIAD as primary objects of the analysis, this paper constitutes a modest proposal of a theoretical input based on Becker's (1983) model. An overview of the positive theory of regulation is provided in order to highlight the main discussions in the literature so far. This paper claims that these two interest groups have conflicting incentives in terms of the deregulatory process, arising from the characteristics of their

members. TUSIAD and MUSIAD are also assumed to be complementary in terms of their member sizes and fields of operation. The policy option on behalf of government therefore is limited so that any choice preferred to another is to lead to losses for one association and gain for the other. Such a situation leads to a struggle to gain influence over governmental policies which one group benefits from while the other is hurt. The model, adapted from Becker (1983) is an attempt to reach the optimum level of regulation which favors policies beneficial for each party. This modest attempt however needs to be backed by further empirical evidence with several robustness checks at different periods. The relative growth performances of TUSIAD and MUSIAD could not only be reflected via number of member companies through years but also by inspection of their sizes in terms of annual revenues etc. To sum up, positive theories of interest-groups are not always perfect instruments to measure the relative efficiency of rival pressure groups. Lobbying power has many dimensions to it, as is evident in the case of Turkey where this paper has highlighted two of the biggest private business associations, TUSIAD and MUSIAD. Unless those hidden dimensions were prevalent, MUSIAD's raising power as a lobbying institution with influence on economic policies could not be understood given the application of the positive theory of regulation and interest-groups in the case of a simple TUSIAD-MUSIAD comparison.

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