Networks of the Old and New Elite: Castles, Gardens or Umbrellas

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1 Introduction

Turkey is at a crossroad. Currently dubbed as a 'hybrid regime' and an 'emerging market economy' Turkey can be at an important juncture to update its fundamental institutions and become a full-fledged democracy with a set of social and economic institutions required for a capitalist economy. The composition of the economic and the political elite is fundamental to the path that will be chosen for the medium to the long term.

The self acclaimed conservative democrat party, AKP (Justice and Development Party) of Turkey, has been in power for the last eight years. A major discussion both within the country and within international circles has emerged on the transformation of the Turkish economy. It has been argued that a new conservative elite group has risen. This new elite is based on the newly emerging capitalist class which is more pious and is grounded in Anatolian cities. This new elite acquired sufficient economic and political power to take over secular elite of TUSIAD. However, apart from some anecdotal and journalistic evidence there has been very few and very limited studies on this topic. In order to assess the validity of such a claim we undertake a network analysis.

The general perspective through which the discussions of the rising New Elite are embedded is based on a broad linkage of social transformation to political power. Sevket Pamuk (2008) is a generic viewpoint in this regard. "I intend to link the rise of AKP to export-oriented industrialization and the growing outward orientation of Turkey. I will also point to the rise of a new middle class during that process. I will argue this new class has

been influential in the transformation and moderation of AKP as well as its electoral success."

The emergent middle class and the New Elite are pointed out (by tracing the consumption patterns and the political successes of JDP) but the very material background and habitus (Bourdieu 1993) of the new emerging middle class have not been revealed in a convincing empirical way. A geographical shift from Marmara region to Anatolia with concomitant rise of income levels is to be claimed by the proponents of this view. However, the proponents could not prove their point, since as we have said there is hardly any empirical attempt in doing so. The only exemption is that of Bugra and Savaskan (2010) which precisely questions the validity of the widespread perspective.

In our analysis we will focus on the relations between the New Elite (NE) and Old Elite (OE) in two different scales. First we will compare and contrast their collective representation in terms of the umbrella organizations they have been organized under. TUSIAD will be on our focus on the one hand, and on the other hand we will examine MUSIAD and TUSKON as the collective identities of the NE.

Second, we will trace and map the ownership networks of OE firms and NE firms. The network analysis will reveal important viewpoints which can shed light on the nature the relationship of NE and OE.
(1) They might be rival: In that case corresponding ownership networks will be distinct, not overlapping. We expect two distant worlds within each sector.
(2) They might be friends: Then their networks will have a considerable common nodes and links.
(3) They might be strangers: Although they may share a few common spaces in the firm network topography, the main features of each subnetwork will be different and sectoral compositions may not look similar.

The evolution and the future of the relations among the NE and OE will be decisive in shaping the social, political and economic institutional frameworks of Turkey in coming decades. Conflictual relationship, without an apparent dominant side will endanger the attempts towards deepening democracy.

2 Related Literature

There are three strands of general literature that we are interested:
(1) on the relationship democracy and elites and (2) the emergence and reproduction of a New Elite and (3) the overall interactions of the Elites, the State, the global system.

(1) Unfortunately the studies are mostly descriptive in Turkey. The overwhelming opinion is that the Elites have been created and controlled by the State elite, which is represented by a curious united front of bureaucracy and military. Therefore, the capitalist class leading the Elite group could not really capture an autonomy until lately so to enhance the adequate 'democratic institutional settings' for the development of capitalism in Turkey (Ozbudun, Feyman,Pamuk 2008 etc.)

According to this conventional perspective, the 1980s were a critical period in which the Elites slowly could distance themselves as organized civil society from the state. The catalyst is the economic liberalization which led to the openness of the economy and society. The main trend can be observed via the exports. The ratio of the exports to GDP had increased from 3% in 1980 to 25% in 2007 (Pamuk 2008). The new (third) wave of industrialization based on Islamic Calvinists is said to be the driving force behind the surging exports. The main weakness of these thesis is again the lack of empirical support. *For example, what if the material matrices reproducing the middle classes rely more on real Estate and Trade than industry. Will such a new middle class still support democratization?*
[1]

Still, the supporters of the conventional viewpoint argue that it is very difficult to overcome the obstacles set by the State elite and institutionalize democracy. The civil society has to be vigilant and push forwards the New Elite project.

There are critiques of this conventional view (Boratav, Yalman, Keyder). Boratav and Yalman argue that state has been already subjugated to the demands of the capitalist class long ago, after the World War II. The capitalist elite simply does not find a deepened democracy conducive to its material and political interest. Keyder on the other hand relies more onto a world system perspective and claims that the international conjecture and positioning of Turkey on the core-periphery topography are major constraints on the demand for democracy in Turkey.

[1]Indeed, the first 500 largest exporters (most of them belonging to Old Elite and/or Foreign firms group)accounted for 63 % of the total exports in 2010

(2)The hypothesis of a New Elite supposedly already flourished and even ready to topple the Old Elite is more of an assertion than a substantiated reality. There are three interrelated but distinct elements to the accounts that have been used to make the assertion.[2]

First, the New Elite originated from the Anatolian SMEs. Second, the New Elite has almost full autonomy from the State as it did not depend on the discretionary rents and protection provided by the State. Third, the New Elite desires democracy as it is (presumably) conducive to its material and ideological interests. There is even an implicit claim that while the New Elite supports EU accession process, the Old Elite does not really, at least sincerely.

The problem with this group of studies is that they hardly ever give formal and substantive evidence. For instance, there is no comparison of the Old Elite and the New Elite in terms of total capital stocks they control, the employment they generate, the taxes they pay or even their relative benefits and costs in relation to State policies.

[3]

The only visible evidence pointing out to the existence of the New Elite is taken to be the great and continuous success of Justice and Development Party, which is supposedly backed b the New Elite (and of course by the new middle class created by the economic activities of the New Elite).

Bugra and Savaskan (2010) and Sonmez (2010)are among the few studies emphasizing the importance of empirical evidence to accept or refute the claim of the powerful New Elite. Sonmez (2010) directly downplays the claim arguing that the economic rise of the so-called New Elite depends on subcontracting relations with the Old Elite and rent-seeking from the State. Bugra and Savaskan (2010) delineate a more complicated picture. They emphasize the dynamic relationship between the business elites and the state. However, their conclusion is still that the burden of proof should be put on those claiming for the powerful and distinctively Anatolian New Elite.

[2]In fact there is a fourth element, but since this is so unsound that we leave this element out. According to this view, there has been a shift of axis in the overall economic activities from the old centers like Istanbul, Ankara, Izmir, Bursa, Kocaeli to new centers encompassing various cities in Anatolia. Almost all the empirical studies underline the reality of continuous dominance of old centers.

[3]Pamuk (2008) argues that the relative performances of some Anatolian cities (Group II and Group III) were better than the old center cities (Group I) during 1992-2001 period is hardly sufficient. The period is arbitrarily chosen. Furthermore, Pamuk (2008) also realizes that the relative export performance of these former group of cities is not decisive. The relative productivity performance may be originating from a base-effect, since most of the SMEs in these new centers start from very low productivity levels

Table 1: Business Organizations in Numbers

	Members	Firms	Value Added	Employment	Exports
TUSIAD	600	2500	50 % of non public (300 billion $)	50 % of non public 3,5 million	approx. 70% of EX (85 billion $)
MUSIAD	3000	15000	35 billion $	750000	10 billion $
MUSIAD2	5000	15000	90 billion $	1,2 million	17 billion $
TUSKON *	33260	? 100000	? (35-100 billion $)	? (500000-2 million)	? (10-20 billion)

(3) The lack of academic studies focusing on the relations between the Old and New Elite on the one hand and the relations of the Elites with the global system is also very disappointing.

Ishak Alaton (2011) claims that "TUSIAD will become more and more irrelevant. It looks like a giant but it gets more and more empty; it gets archaic. Since they live in the past, they no longer grasp the change of time, and they are bound to be left aside. Others, which are their competitors, TUSKON [Turkish Confederation of Businessmen and Industrialists], MUSIAD [Independent Industrialists and Businessmen's Association] , will take their place and represent Turkish business society".

However, Alaton did not leave TUSIAD to join the rival organizations.

3 Elites and the Organizations

The powers of organizations depend on the assets and people they command and control. TUSIAD, established long before the other two (in 1975), seems to be the most powerful one. MUSIAD was formed in 1990 and TUSKON entered the scene in 2005.

We have to be cautious about the intersection set of members in each organizational body. For instance, Boydak Holding or ULKER is both a member of TUSIAD and MUSIAD. Likewise, TOSCELIK or HES are both members of MUSIAD and TUSKON. There does not exist any study measuring the scale and scope of these intersection sets. Therefore we have to make some heroic assumptions, i.e. 5-30% of each set consists of the intersection set depending on the pairs we take into account. The intersection sets are expected to be smaller in TUSIAD, MUSIAD and TUSIAD, TUSKON sets but bigger in MUSIAD, TUSKON set.

* According to Mr. Meral (head of Tuskon); The numbers in parenthesis are our guestimates

Table 2: Relative Real Growth of Sectors, 1998-2007

	Change (1998-2007) real growth	Annual in GDP	2007 share
D: Manufacturing	-0,38	-0,04	21,76
I: Transport, storage and communication	31,71	3,17	15,38
G: Wholesale and retail trade repair	-6,13	-0,61	13,46
K: Real estate, renting and business activities	5,48	0,55	12,48
J: Financial intermediation	27,47	2,75	8,89
A: Agriculture, hunting and forestry	-29,60	-2,96	7,57
F: Construction	10,12	1,01	6,04
L: Public administration and defence; compulsory social security	-24,43	-2,44	3,54
M: Education	-12,16	-1,22	2,33
E: Electricity, gas and water supply	6,21	0,62	2,21
H: Hotels and restaurants	-24,74	-2,47	2,11
O: Other community, social and personal service activities	-0,42	-0,04	1,70
N: Health and social work	-1,28	-0,13	1,41
C: Mining and quarrying	-27,05	-2,70	0,87
B: Fishing	-3,04	-0,30	0,27
P: Private households with employed persons	28,74	2,87	0,17

MUSIAD2: From Mr. Vardan at Yeni Safak, 07.04.2010

Since we have almost none credible information on the value added, employment and export figures of TUSKON we have made some guess estimates.

The following table illustrate real growth performances of economic sectors in Turkey in the period of 1998-2007.

There are three sectors outstanding in the table. First, "Transport, Communication and Storage" had the highest real growth during 1998-2007 period. Second, "Financial Intermediation" followed with 27.41 percent growth rate. Third, "Construction" boomed. The base year 1998 was a peak for construction thus the growth rate of 10% may look small, in reality it signifies a substantial growth.

3.1 OLD ELITE: TUSIAD

The Republic of Turkey was resultant of an Independence War. There were no planned transition from Ottoman Empire to the new state. Unintended consequences of the powerful actors in the 1920s created a rather peculiar social, economic and political matrix.

Ilkay Sunar (2004) observes that "...the central bureaucracy, the commercial bourgeoise and the local elites, none of which was able to rule alone, had now established a coalition at the expense of the large population of peasantry and the small but emerging working class" (p. 50)

The 1930s witnessed the relative ascendancy of the bureaucracy, but still the ultimate controlling group were the bourgeoisie as the bureaucrats and the politicians were the partners with the economic elite in the newly established private firms, joint ventures with foreigners and private-public partnerships.

In the aftermath of the World War II, during which the economic elite accumulated wealth by leaps and bounds, the central bureaucracy had its biggest test. The first attempt was the Wealth Tax. It was a disaster. The second attempt was to please the economic elites and liberalize the economic policies. However, the commercial classes have already joined with the landlords under Democrat party and had come up with a program with a popular support of conservative peasantry.

The scene had radically changed as the military (reflecting a composite vector of central bureaucracy and industrial capitalists) carried out the 1960 coup. The planning period which emphasized import substitution under a social contract within the formal sector meant record levels of GDP growth during 1962-1976 period. However, the project was doomed to failure due to balance of payments bottlenecks. TUSIAD surely sensed the radical propositions of Ecevit government in terms of 'power sharing' and self-management. So, TUSIAD was instrumental in the toppling of the 1977 Ecevit government. Later on TUSIAD also backed the 1980 Coup.

TUSIAD consilated its power during 1980s and 1990s. Currently, TUSIAD firms pay 85% of all corporate taxes and generate half of non-state value added. The diversification of TUSIAD firms is well advanced.

Source: TUSIAD

3.2 NEW ELITE: MUSIAD and TUSKON

The dynamics of power accumulation rely on the differential growth of the New Elite firms. These dynamics involve three channels:

Table 3: Sectoral Distribution of TUSIAD Firms

Sectors	% Share
Manufacturing	35
Trade	13
Construction	11
Financial	11
Transportation	10
Energy	6
Food and Agro	4
Education	1
Mining	1
Other	8

1. The existing firms grow

2. There are new firms added to the existing stock of firms

3. There are switching firms from Old Elite to New Elite

Our understanding is very limited in each dynamics, due to lack of data. What we can compare is the expected rate of growth derived from a peculiar combination of (1) and (2) by extrapolating from the relevant data that we can get access to.

Three sectors, Construction (929), Services (704) and Food/Agricultural (475), contain 46% of all firms in MUSIAD database. Construction by itself hosts 20 % of all firms.

Bugra and Savaskan (2010) report that MUSIAD had 25 firms in the 500 Largest Industrial Firms database in 2008. The highest rank was 72th, held by ULKER CIKOLATA AS. In the second 500 Largest group, 30 firms belonged to MUSIAD. These numbers increased in 2009 and in 2010. Economic newspaper articles point to more than 30 firms in the first 500 group from MUSIAD and more than 40 from TUSKON. The problem is again the intersection set of these largest firms in MUSIAD and TUSKON. TOSCELIK, for instance, is counted for both MUSIAD and for TUSKON. There are at least 10-15 firms, that one should take care of.

In order to assess the comparative differential growth of MUSIAD firms, we first trace the sectoral distribution of MUSIAD firms.

4 Bipartite Affiliation Networks

We start with an introduction to the basic notion of network analysis. The *node* (or a vertex) is the basic unit of a network and an *edge* is the link connecting two nodes. The number of edges connected to a node is called the *degree*.

It is generally of interest to know the distance of a randomly chosen two nodes in a network. There are $n(n-1)/2$ unordered pairs of nodes in a network with n nodes. A *geodesic* is a shortest path that connects two nodes and the *distance* is between any given two nodes is the number of edges in a geodesic connecting them.

Clustering is a measure of how much a typical node's neighbours are also connected with each other. There are two commonly used methods to calculate clustering. They both takes values in the range 0 and 1. A clustering of 1 indicates that every neighbour of a given agent are also neighbour with each other, therefore, every component in the network is a complete graph. A clustering degree of 0 indicates there exists no triplets that are connected with each other. The first method we shall be employing is due to Watts and Strogatz in Watts (1999) where clustering coefficient for node j is defined by

$$\begin{aligned} C_j &= \frac{\text{actual number of links between neighbors of } j}{\text{potential number of links between neighbors of } j} \\ &= \frac{\text{actual number of links between neighbors of } j}{d_j(d_j-1)/2} \end{aligned}$$

where d_j is the degree of node j, i.e. number of neighbors of node j. Then we can calculate the clustering coefficient for the overall network by taking the average,

$$C_{WS} = \frac{1}{n}\sum_{j=1}^{n} C_j$$

The second measure we employ here is due to Wasserman (1994). where the clustering coefficient is defined as

$$C_T = \frac{3 \times \text{number of triangles in the graph}}{\text{number of connected triplets}}$$

This measure is generally referred to as *transitivity*.

Component is a subgraph (or a subnetwork) in which each and every node can be reached directly or indirectly through via edges. Components generally have high clustering characteristics.

A particular network class, bipartite network, is of interest for this paper. A network is bipartite if its nodes can be partitioned into two set such that

all edges are between the nodes in partitioned sets and there are no links between nodes within each set.

There are three networks we can construct given our data set. First consider the network where nodes are firms and shareholders. An edge (or a link) in this graph connects a shareholder to a firm, indicating that the a shareholder, be an individual, a firm or any organization, owns a share of a firm considered.

Note that this setting allows only links between shareholders and firms, but not between shareholder, or between firms. It is of course possible that a shareholder have multiple shares in different firms, thus have multiple links.

The raw data, which consists of firms and shareholders of the firms will lead to a bipartite network in which nodes are partitioned according to whether they are shareholders or firms. Degree distributions of nodes in this setting has specific meanings. The degree of a firm is the number of shareholders (reported, known publicly) of the firm. If the node is an shareholder, its degree represents the number of firms that the shareholder has shares of.

Following the literature we can construct two related networks from the bipartite network we defined.

In the *firm* network nodes represent only firms, and an edge between two nodes exists only if there is at least one common shareholder. A subset of firms that have links in this manner is referred as *connected*. In the *shareholder* network nodes represent shareholders, and a link between two nodes exists only if the two shareholders have shares at least in one common firm.

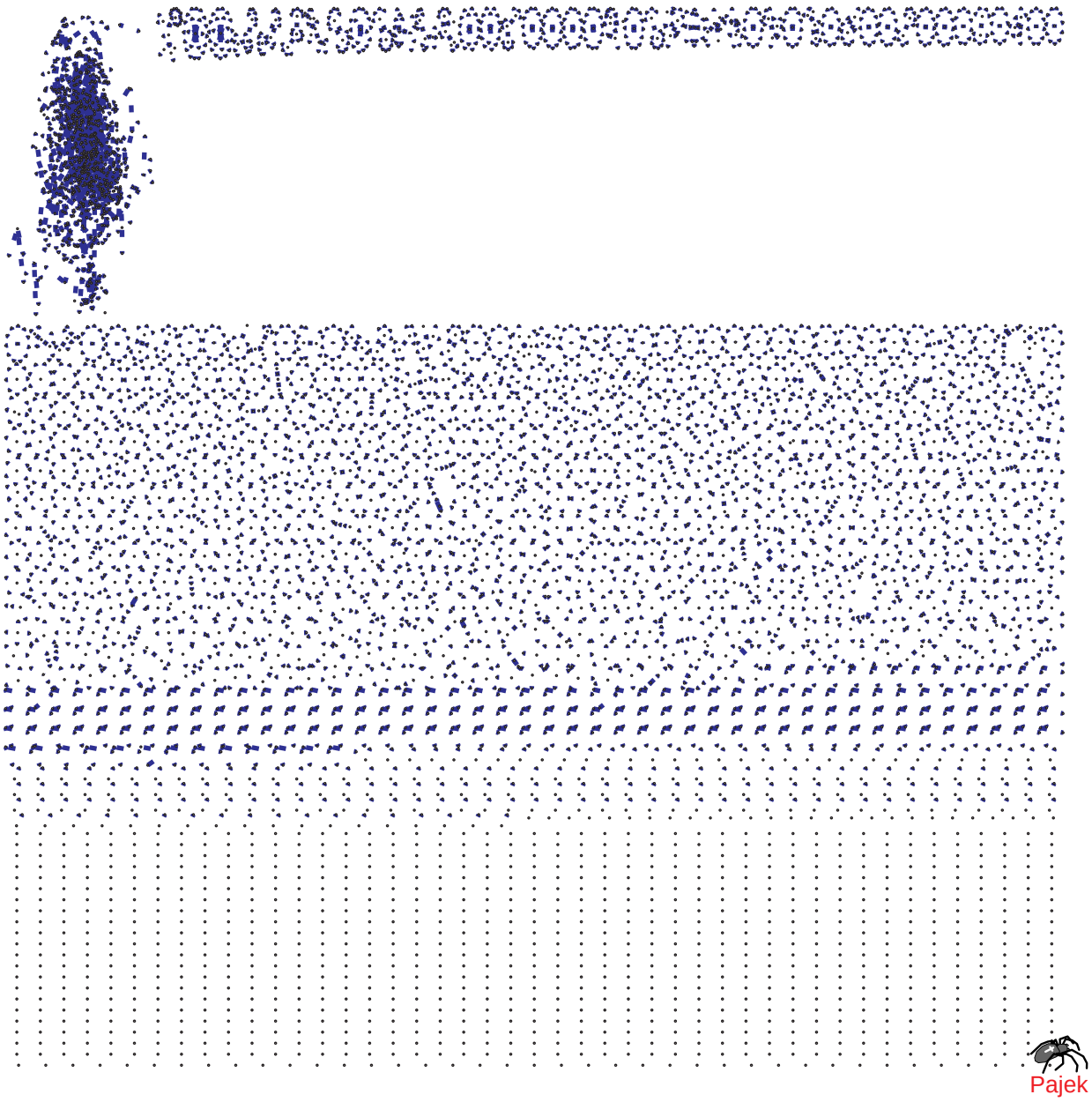
The firm network and shareholders network are one-mode projections of the bipartite network. The literature notes that studying these networks as independent structures will be wrong, since the degree distribution of the firms (i.e. the number of shareholders) together with the degree distribution of the shareholders (i.e. number of firms a shareholder has shares) in the bipartite network will directly affect the degree distribution of the one-mode projection shareholders network (i.e. number of connected shareholders) and the firm network (i.e. number of connected firms).

The below graph gives us the grand topology. The first observation is the vast number of unconnected nodes.

4.1 Characteristics of the Bipartite Network

All degree distribution for the nodes gives a general idea on the likelihood of the shareholders or firms to be connected. As the degree increases the

Figure 1: bipartite



probability of connection goes up.

Degree	Frequency
0	1011
1	4473
2	575
3	220
4	175
5	230
6	130
7	66
8	44
9	43
10	18
11	14
12	9
13	4
14	7
15	3
17	1
18	1
19	1
22	2
25	1

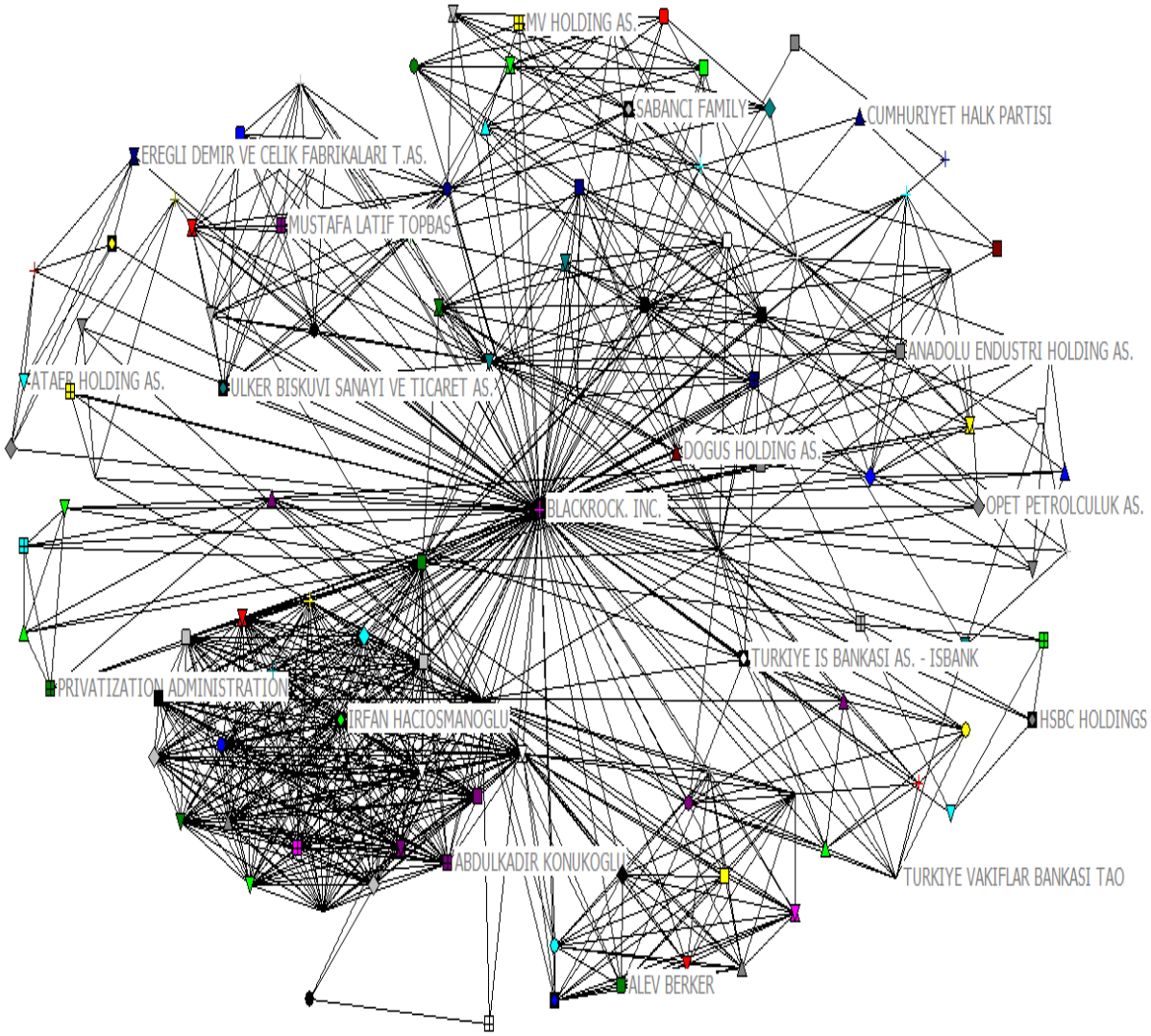
ASYA KATILIM BANKASI AS. has the highest degree, 25. UNAL SENTETIK DOKUMA SANAYI VE TICARET AS. and KALE OTO RADYATOR SANAYI VE TICARET AS. follow with 22 degrees.

- The longest shortest path from ASTER ELEKTRONIK BILGISAYAR VE ILET SIST MUH TAAH SAN VE TIC AS. (3231) to MELEKZAT OKTEM (5447). *Diameter is 20.* Note that the meaningful distance is defined for the giant component. The two unconnected nodes will have infinite distance.

- Density [no loops allowed] = 0.0002202
  Average Degree = 1.5472396

  2-Mode Network: Rows=5640, Cols=1388
  Density [2-Mode] = 0.0006945

Figure 2: Ego Network of BLACKROCK INC



In order to decrease the number of connected components we require a cut-off point of at least 16 nodes to exist in a sub-graph. This implies approximately three shareholder groups on average, considering that the average number of shareholder per firm is around 5.

We find that there are exactly 12 components above the cut-off point. The below graph illustrates these 12 components.

4.2 Financial Institutions and Global Actors

5 Firms Networks

The central financial institutions such as banks as well as the Private Equity Firms (BLACKROCK INC.) connect many number of firms.

The giant component host various types of firms belonging to different identity groups.

Identity	Firms	Share
State(Independent)	55	21.82
TUSIAD	114	45,2
MUSIAD/TUSKOn	71	28.17
TUSIAD and MUSIAD	12	4.76

5.1 Network Features

Most of the network features relate to the giant component of the firms. We also make use of ego networks.

- Considering the giant component:
  Number of unreachable pairs: 1861374. Average distance among reachable pairs: 3.49575. The most distant vertices: BOYCELIK METAL SANAYI VE TICARET AS. (166) and SASEL ELEKTROMEKANIK SANAYI VE TICARET AS. (1326). Distance is 9.

- The path distance from GOODYEAR LASTIK (Node 86) to BORCELIK (Node 1199) is only 5.

- Arithmetic mean of clustering coefficients CC2: 0.1804854
  Median: 0.0000000
  Standard deviation: 0.3591380

Figure 3: 12 Biggest Component

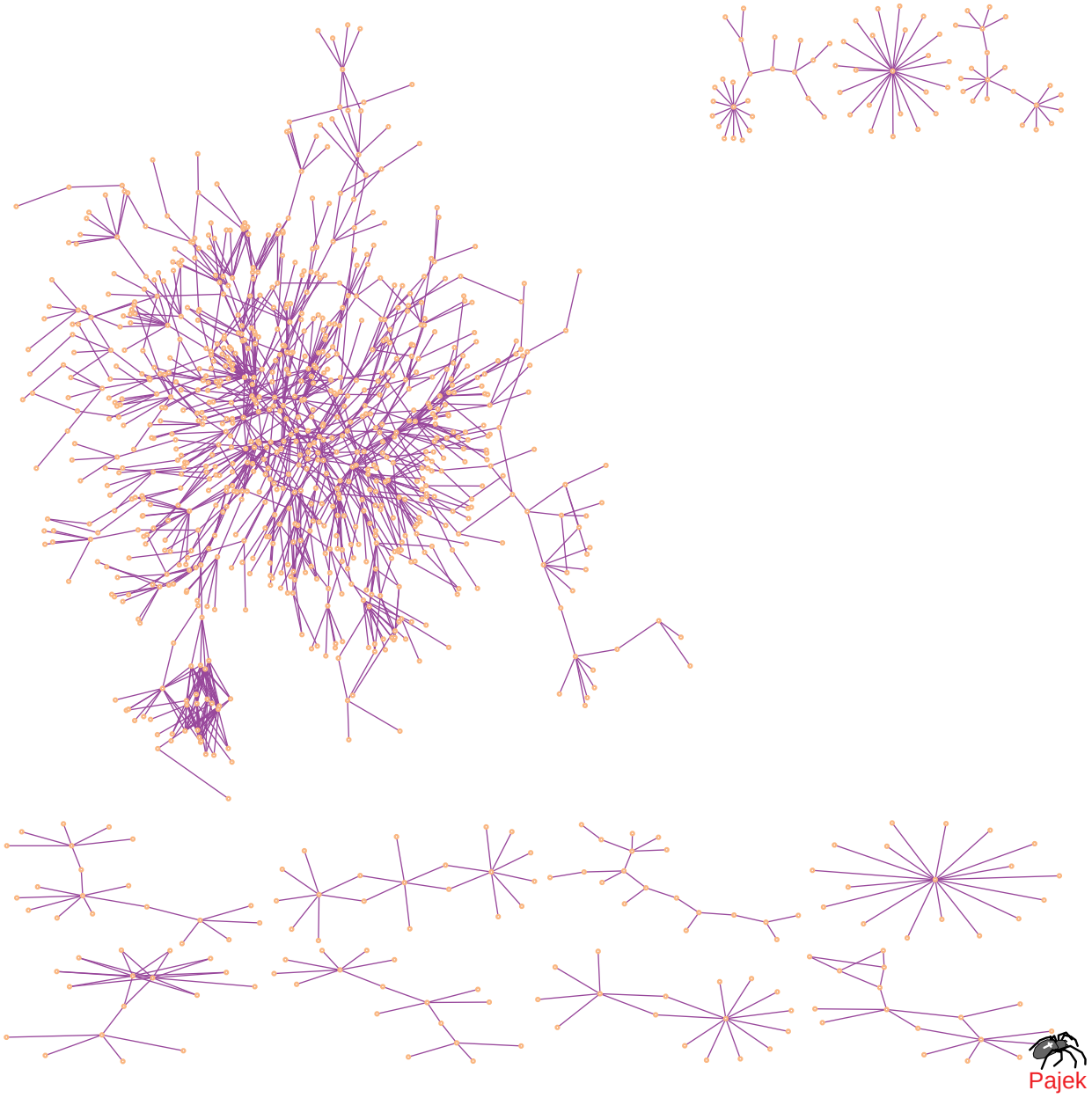


Figure 4: The Giant Component of Firms Network

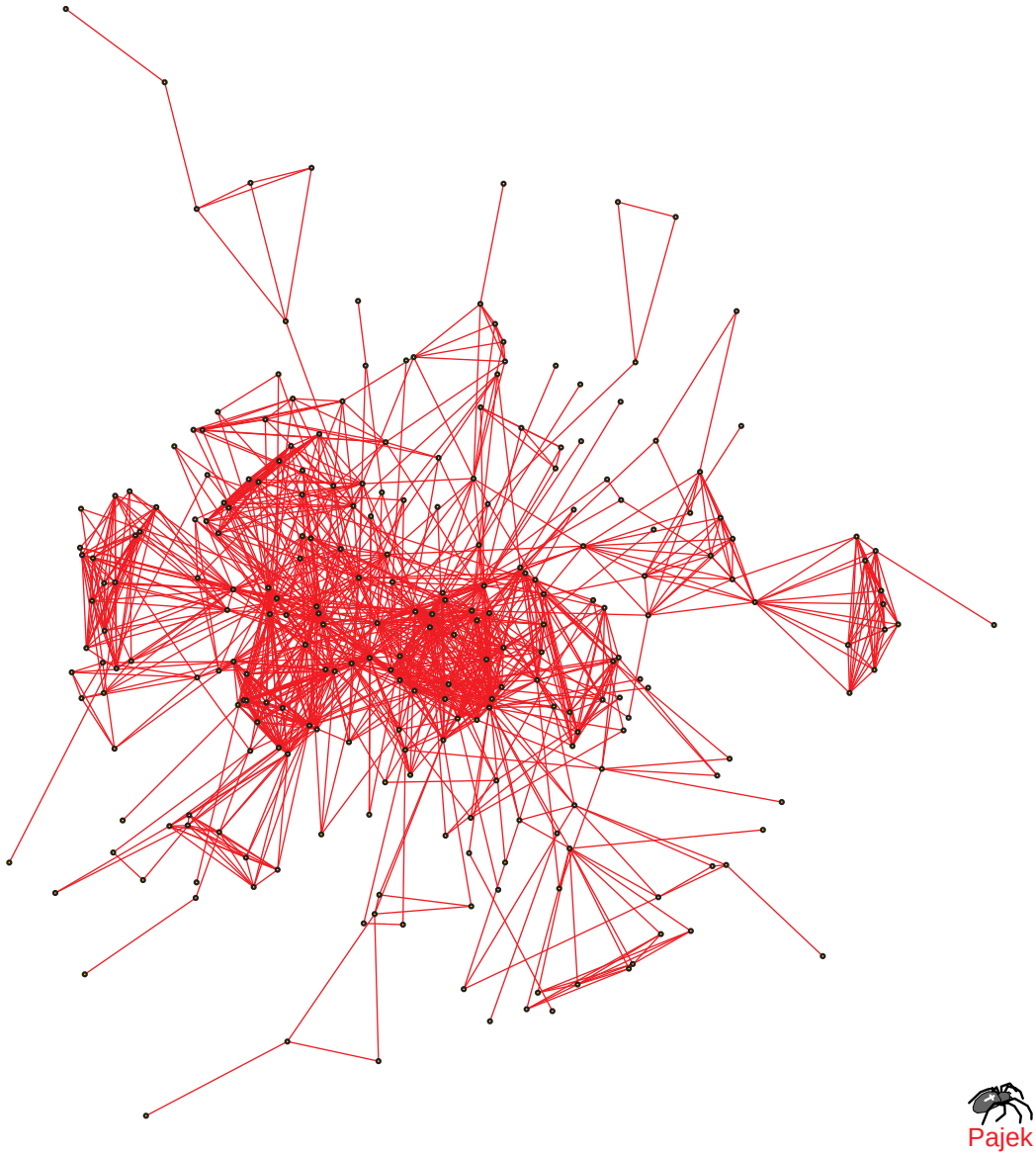
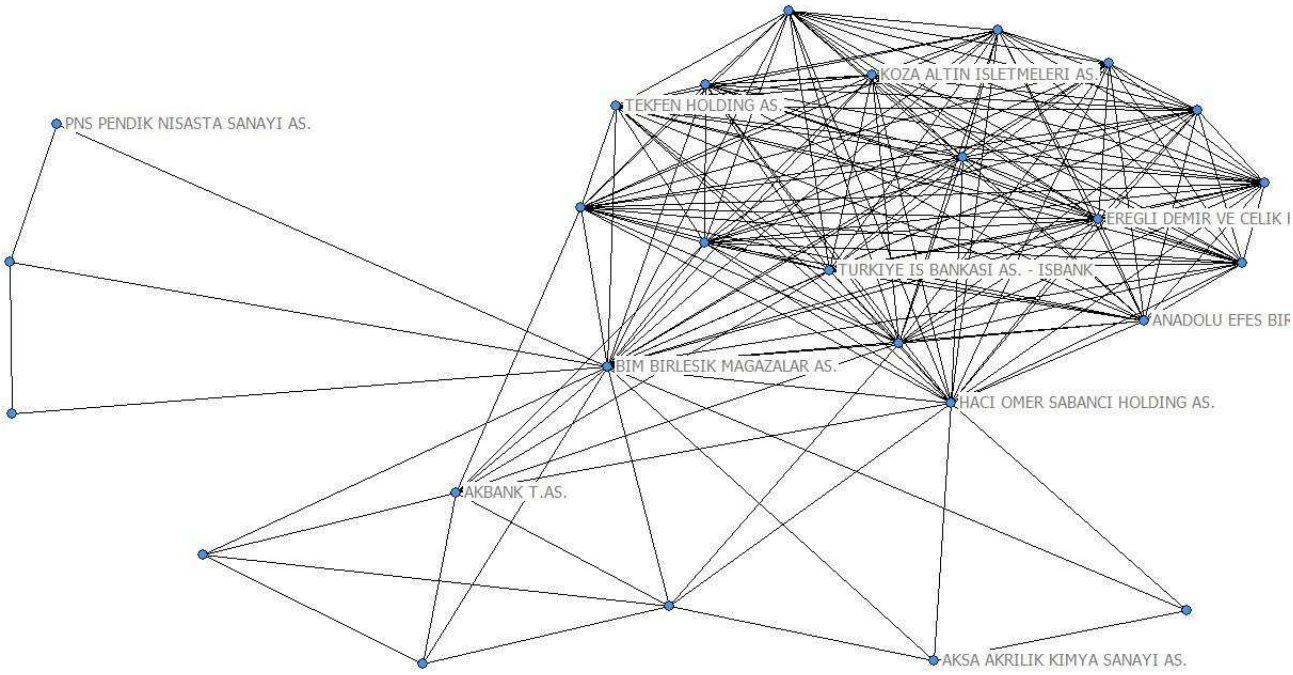


Figure 5: The Ego Network of BIM MAGAZICILIK



The data is very skewed since there are great number of isolate firms and two-node components. The clustering coefficient of the former will be obviously zero.

- If the firm network were to be formed randomly, the following statistics would be the outcome. Since the real CC2 figures above diverge substantially from the random network figures below, we confirm the social network structure of firms and shareholders connections.
  Arithmetic mean of CC2: 0.0002513 Median: 0.0000000 Standard deviation: 0.0032143

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5.2 Dynamics

6 Owners Networks

The social network characteristics derive from the decisions taken by the shareholders of these firms. The owners can be grouped into four distinct

categories:

1. Individuals (i.e. Murat Ulker)
2. Families or Foundations (Haci Omer Sabanci Vakfi)
3. Firms: In turn firms can be classified into (1) State, (2) Foreign, and (3) Private
4. Institutional Investors: (Blackrock Inc)

7 Future

8 Conclusion

Figure 6: 10 big components of owners