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Abstract

Iran and Turkey historically had outwardly similar politoconomic experiences. Particularly after the World War I there were both similar institutional reform programs on the two countries' agendas and convergence in their economic growth and development levels. However, this convergence came to a standstill with their picking of totally diverse economic institutions in 1980s. This study attempts to provide an analysis of this diverse transformation of economic institutions in Iran and Turkey. It is generally assumed in the paper that institutions are not typically chosen for the general benefit of the society, but are rather imposed by groups with political power for their economic consequences. It is proposed that the establishment, reformation and transformation of economic institutional structures in different countries are endogenous to two important determinants. First, diverse political institutional structures that determine formal constraints on political power relations and second, diverse mental models that societies adopt that create informal constraints on cognitive and relational patterns. The 'formal' and the 'informal' constraints are argued to evolve in interaction with external institutional paths that a country's path clashes with. They are thus analyzed in light of the new approach proposed: The Clash of Paths (CoP). In the study we also construct a simple bargaining game to integrate macro aspects of institutional evolution drawn under CoP to a micro-level explanation of the emergence and change of institutions. Given above-mentioned macro-level dynamics, the micro-level analysis suggests that if domestic hegemonic classes solve the problem of credibility in order for their commitments or threats to be strategically effective, they usually shape and reshape economic institutions in accordance with their interests.

ملخص

تهدف هذه الدراسة إلى تقديم تحليل للمؤسسات الاقتصادية التي تشكلت بشكل كبير في كلا من تركيا وإيران عشية 1980. وبشكل عام يفترض في هذه الورقة أنه لم يتم اختيار المؤسسات عادة من أجل المنفعة العامة للمجتمع ككل، بل فرضته الجماعات ذات النفوذ السياسي لعواقبها الاقتصادية. لذلك، يكمن القول بأن فهم المؤسسات يتطلب فهم ديناميكيات موازين القوى السياسية. ومع ذلك، لا يمكن القول بأن توازنات السلطة السياسية في كل بلد تبدأ من الصفر: وفي هذه الدراسة، يتم توضيح أصول موازين القوى في ضوء المقاربة الجديدة المقترحة: من صراع المسارات. لذا يقترح أن إنشاء وإصلاح وتحول هياكل المؤسسات الاقتصادية في مختلف البلدان يعود إلى محددتين هامتين: أولاً، هياكل المؤسسات السياسية المختلفة التي تحدد القيود الرسمية على علاقات القوى السياسية، و ثانياً، تنوع النماذج البديهية المختلفة التي تتبناها المجتمعات التي تخلق قيود غير رسمية على الأنماط المعرفية والعلائقية. وفي هذه الدراسة أيضاً، نحاول دمج البديهيات الرئيسية لصالح التطور المؤسسي على المستوى الكلي مع الإشارة إلى المستوى الجزئي لظهور وتغير المؤسسات. وتشير نتائج تطبيق هذه المحاولة على الحالات التركيبية والإيرانية إلى أنه على الرغم من وجود العديد من العوامل الفعالة في التطور المؤسسي للبلدين، إذا حلت الطبقات المحلية المهيمنة مشكلة المصادقية حتى تكون التزاماتها أو تهديداتها فعالة استراتيجياً، فإنها عادة ما تشكل وتعيد تشكيل المؤسسات الاقتصادية وفقاً لمصالحها.

1. Introduction

This study aims to provide an analysis of the diverse formation of economic institutions in Turkey and Iran at the beginning of the 1980s. Despite being at totally different ends in terms of political institutional structures today, there are indeed historical similarities between both. For example, two of the major ancient civilizations originated in Turkey and Iran. They both contributed to the formation of Islamic society and culture. Moreover, in both countries, the period immediately after World War I was marked by the rise of leaders with military origins, Reza Khan the commander of the Cossack Brigades and Mustafa Kemal Pasha the leader of the Turkish War of Independence. Under their reign, both states were characterized by military-based modern state bureaucracy and state patronage. In the course of capital accumulation, both the Iranian and Turkish states played an effective role not only in redistributing incomes but also in creating totally new economic classes. Moreover, they both had institutional transformation programs on their agendas.

The central focus in this paper is institutions and institutional building. We assume that institutions are human choices made in line with the demands of hegemonic groups and classes. Accordingly, institutional building means converting from one hegemonic project to another. In turn, understanding institutions requires understanding the dynamics of political power balances. Thus we propose that the establishment, reformation and transformation of economic institutional structures in different countries are endogenous to two important determinants: First, the diverse political institutional structures that impose formal constraints on political power relations and second, the diverse mental models adopted by different societies that create informal constraints on cognitive and relational patterns. These two determinants, on the other hand, are shaped by the evolution of external institutional paths that the country's own path clashes with.

The time interval that the study focuses is the period between World War II and 1980. World War II appears to be a critical juncture because after the War, the two countries diverged in their selection of political institutional pathways. Such a divergence is important because we particularly focus on the inexorable inseparability of economic and political institutions in the course of formation of prosperity-enhancing and prosperity-retarding systems. However, the divergent pathways did not develop from scratch; they all had roots. Yet, this does not mean that institutional structures are simply dictated by history. Some institutional structures were the unintentional macro outcomes of rational micro decisions made in the interim. Therefore, in the current paper we allow for individual actors and their strategies—subject to the abovementioned formal and informal constraints—to play a significant role in the evolution of particular paths.

Accordingly, the rest of the paper is organized as follows. In section 2 some stylized facts reflecting similarities and differences between both countries are presented, along with historical data. In section 3 selected approaches that attempt to explain the existence of different institutional structures in different countries are succinctly explored. In section 4 the Clash of Paths (CoP) approach as a new dimension to the approaches explaining institutional divergence across countries is proposed. In the fifth section we construct a simple bargaining game in order to integrate macro aspects of institutional evolution drawn under CoP to a micro-level explanation of the emergence and change of institutions. The sixth section is devoted to applying the framework to Turkey and Iran by dividing the main period of analysis to specific stages in accordance with the framework drawn. The last section summarizes the main findings and concludes. Representations of the stages of institutional building in each country can be found in appendix.

2. Stylized Facts

This section briefly summarizes some stylized facts that reflect economic and political similarities and differences in both countries.

Historically, Iran and Turkey show roughly the same population and approximately equal per capita income levels (Tables 1 and 2). Iran and Turkey also had many similar features regarding their ‘politoeconomic’ structures and experienced many similar events in terms of their economic and political institutional organizations. For instance, both countries experienced constitutional revolution in exactly the same period; Iran’s Mesrutah of 1906 and Turkey’s Mesrutiyet of 1908. The similar trends in the concomitant qualities of their governing institutions of the two countries are demonstrated in Figure 1 below that compares the POLITY2 indices of Turkey and Iran for the 1800-1945 period¹. The figure shows quite similar political environment up to World War II in terms of the authoritarian features of the governing bodies. Their similarity becomes even clearer when we include the polity index of the United Kingdom, which is generally classified as the country with the most effectively functioning democratic political institutions.

In terms of economic growth Iran first caught up with Turkey by 1960s and then outpaced her in the 1970s in terms of GDP levels.² Figure 2 shows that by 1975 Iran’s level of GDP per capita was almost double that of Turkey. However, this progress was interrupted in Iran due to the interruption of the institutional development process, which resulted in relative isolation from the world economic order. Turkey on the other hand experienced an institutional shift in which ideas of global capitalism, global economic integration and market economy were embraced. Thus, since the late 1970s, income per capita in Iran had declined by half, almost down to the levels prevalent in the early 1960s, and had fallen behind that of Turkey. On top of these, the volume of trade in Iran fell behind that of Turkey, in spite of the rising world oil demand and Iran’s gigantic oil reserves.

What then do these indicators point to? It appears that several apparently similar reorganizations made with the start of the twentieth century (e.g. parallel institutional reform movements during the 1920s and 1930s), resulted in notably different outcomes by the last quarter of the century. There has to be some important dynamics that provided the basis for implementing economic liberalization policies in the 1980s in one country and a completely different economic transformation in the other.

One account suggested for the divergent paths is the differences in religion and sect in the two countries. Indeed, the role of religion and ideology in determining institutional structuring in different countries is underlined in the institutional economics literature (North 1990; Kuran 2008). Religious differences, particularly the different sects of Shiism and Sunni Islam, seem to play a role in the different institutional settings of Turkey and Iran. However, detailed comparative research demonstrates that the extent of this effect was indeed

¹The conceptual polity scheme examines concomitant qualities of democratic and autocratic authority in governing institutions. It envisions a spectrum of governing authority that spans from fully institutionalized autocracies to fully institutionalized democracies. The competition between democratic and autocratic authority systems is reflected in a focus on transitions from one mode of authority to another in particular countries and in the concomitant problem of “incomplete transitions” and the appearance of incoherent polities, or anocracies, in which odd combinations of democratic and autocratic authority patterns are observed. The polity score captures a regime’s authority spectrum on a 21-point scale ranging from -10 (hereditary monarchy) to +10 (consolidated democracy). The polity scores are converted to regime categories in line with a three-part categorization of -10 to -6 for autocracies, -5 to +5 for anocracies and +6 to +10 for democracies. There are also special polity scores of -66, -77 and -88 for the cases of foreign interruption, of interregnum or anarchy, and of transition, respectively. For more details on the POLITY2 dataset, refer to <http://www.systemicpeace.org/polity/polity4.html>

² Angus Maddison, 2007, World Population, GDP and Per Capita GDP

determined by certain features, the most important being the dissimilar state structures of the two countries. Therefore we argue that limiting the causes of the transformation experiences in both countries to religious beliefs alone does not provide us with a complete explanation of institutional divergence.

Resource endowments (i.e. oil) that offered plenty of resources for investment and growth appear to play an important role in occurrence of divergent outcomes via shaping mental models on the necessity of global economic integration. Yet this does not mean that oil is the sole reason behind the different institutional outcomes that took place in Iran and Turkey in 1979 and 1980 respectively. If resource endowments account could provide us with complete rationalization of totally divergent outcomes, then it could also elucidate the underlying reasons why easy access to external resources in Norway or more comparably Botswana did not produce similar outcomes. The reason is evident: The impact of oil revenues on the process of growth and structural change could not be analyzed in abstraction from the institutional framework of the economy. Thus, the analysis of the effect of oil on the long term economic outcomes become more meaningful when it is examined in terms of whether it has contributed to institutional development or compensated for persistent inferior institutions.

3. Why do Institutions Differ across Countries? Different Approaches to Institutional Divergence and their Explanatory Power

Why don't economic institutions in different countries follow a common pattern, one that has proved its success in enhancing growth and distribution? There are different approaches in the framework of institutional economics, ranging between the efficiency considerations from a utilitarian point of view and path dependency arguments from a structuralist stance. They can be classified as:

- Sociological Institutionalism
- The Structuralist Stance
- Utilitarian Perspective, and
- Political Institutionalism

3.1 Beliefs and ideologies view under sociological institutionalism

The beliefs and ideologies view asserts that the underlying reason behind the formation of dissimilar institutional structures in various countries is the different ideologies that societies and/or their leaders internalize. The reason why ideologies are considered essential in institutional structuring is put forward by North and Denzau (1994): the existence of uncertainty stemming from different situations influences the choice-making at both the individual and institutional levels. The relationship between uncertainty and ideologies, on the other hand, is explained in terms of mental models (i.e. belief systems such as myths, dogmas, and taboos in primitive societies and religions and ideologies in civilized societies). Such models are constructed by individuals in order to interpret the world around them and make decisions in the face of uncertainty. Ideologies, in effect, evolve from such constructions. In the face of uncertainty, *belief systems* serve as the basis for decision making, though the consequences are not always what individuals predict

In the development of beliefs and ideologies the key factor is *shared mental models*, which are related to *learning*, but have a deeper effect than one usually assumes. As Zucker (1977) points out, dominant behavioral norms in societies become entrenched due to positive feedback effect. Once they are internalized as taken for granted routines they are no longer questioned. Thus, a new institutional mix with higher estimated social benefits than the sunk costs related to establishing it, may not easily spread among the society if it significantly differs from the entrenched patterns and proves unattractive to the majority of the population.

What is more, when beliefs reinforce into ideologies, societies tend to question the persistence or creation of bad institutional structures to a lesser extent.

3.2 The structuralist stance

The second approach to institutional diversity is more like an application of the strong version of path dependency theory to institutional formation. Accordingly, this structuralist stance—through excluding individual actors and their strategies—argues that small historical events grow big, and lead to substantial consequences in the future (Arthur 1989). Such an approach, with its common terms of explaining institutional evolution (i.e. self-reinforcing processes, lock-in or irreversibility) thus rules out even gradual adjustments to an institution that may be necessary for its long-term survival.

In this paper, we follow a broader and more flexible definition of path dependence as in Crouch and Farrel (2004) who point out that path dependence appears as the evolutionary outcome of multi-actor collective interaction, due to which, an inefficient macro-level outcome can well be the unintended consequence of the interaction of rational micro-level decisions made by individuals.

3.3 The utilitarian perspective

The utilitarian perspective maintains that growth-enhancing and efficiency-enhancing policies are more likely to triumph over the growth-retarding and efficiency-retarding ones. This is likely to happen since societies—though may be not in the short-run—choose the economic institutions that are socially efficient. Such a view however leaves us with the following question: Why then do many societies end up with some certain economic institutions that are not in their best interest? The answer to this question is not as difficult as it may appear. As long as certain economic institutions make some part of the society better off, then efficiency considerations cannot be separated from distributional conflicts. As North (1994, 360-61) explicitly states:

Institutions are not necessarily or even usually created to be socially efficient; rather they, or at least the formal rules, are created to serve the interests of those with the bargaining power to create new rules. In a world of zero transaction costs, bargaining strength does not affect the efficiency of outcomes; but in a world of positive transaction costs it does.

Furthermore, given that political power is crucial in overcoming distributional conflicts, inefficient institutions may well be created and preserved if they happen to benefit some politically powerful groups. Robinson (1998, 29-30) writes:

If growth is not Pareto improving, and if market participants have political power to oppose changes which adversely affect them, development may not occur. Without political institutions to generate compensation, coalitions with a vested interest in old technologies, types of capital, or institutions, will attempt to block change...

This finding of the inevitable inseparability of efficiency and distribution brings us to the fourth approach for analyzing institutional variance across countries: Political institutionalism.

3.4 The political power balances view

The political power balances approach is first systematically structured in the economics literature by Douglass North (1981) and further developed by Acemoglu, Johnson and Robinson (2005). In contrast with the utilitarian point of view this approach puts great emphasis on the discriminating effects of institutions. That is, “because commitment problems seem so endemic in collective choice and politics, it seems natural to believe that institutional change has significant distributional consequences and as a result there will be conflict over the set of institutions in society” (Acemoglu, Johnson and Robinson 2005: 48).

Hence, in order to guarantee the outcomes of new economic institutions, change or restructuring in existing political institutions appears necessary in the eyes of the hegemonic classes.

Thus, the framework develops as follows. Given that economic institutions determine the incentives of and the constraints on economic actors and shape economic outcomes, and hence different groups and individuals typically benefit from different economic institutions, there is generally a conflict over these social choices, ultimately resolved in favor of groups with greater political power. The distribution of political power in society is in turn determined by political institutions and the distribution of resources. Political institutions allocate de jure political power, while groups with greater economic might typically possess greater de facto political power. These variables, however, are not static; they may change over time due to prevailing economic institutions affecting the distribution of resources. Additionally, groups with de facto political power today may strive to change political institutions in order to increase their de jure political power in the future.

It is important to note that although economic institutions have a substantial effect on economic performance—as underlined by the overwhelming literature on institutional economics—they are to a large extent correlated with prevailing political institutions and the distribution of resources in society.

However, this view, though essential to the current analysis, fails to grasp the pivotal aspects required to fully explore the two countries under study.

To begin with, the state variables—political institutions and distribution of resources—which are considered as sources of institutional diversity across countries, are analyzed on the grounds of colonial origins by the authors. Specifically, Acemoglu, Johnson and Robinson (2001, 2005) propose that in countries where colonial powers settled, political institutions were established in a different manner than in countries where the colonial powers' aim was only the extraction of these countries' resources. However, neither Turkey nor Iran was colonized partly because of the rivalry over them by global powers (Great Britain and Russia over Iran and Great Britain, France and Germany over the Ottoman Empire) (Pamuk, 2007). As a result, institutional evolution in terms of pace and structure in both countries was not as easy as it was in the official colonies. Rather the rulers of the two countries had a larger area to maneuver in their formation and reformation of political institutions, and hence the distribution of resources.

In addition, the framework, though acknowledges the importance of ideologies in directing institutional compositions in the short-run, does not put much emphasis on this factor in shaping institutional structures in the long-run. This standpoint is appropriate, since it would be a naive approach to attribute the great diversity between for example North and South Korean or pre and post-revolutionary Iranian economic policies and institutions to their leaders' ideologies. However, what Acemoglu, Johnson and Robinson (2005) overlook is the importance of the complex interdependence and interaction among external factors and internal structures. Shared mental models (belief structures) in many instances feed back upon ideologies on a widespread base within society. This in turn leads some societies to perceive misrepresent policy makings of leaders of particular ideologies as legitimate. As a result, possible path switches towards socially more beneficial institutions are in many cases impeded.

Furthermore, the authors only implicitly point to the importance of interest group formation. That is, on one hand, government decisions affect transaction and information costs of different economic interest groups. On the other hand different economic factions can organize themselves in such a way so as to influence government policies in accordance with

their interests. Given that any institutional arrangement and its distributional implications are products of specific state policies, an appraisal of interest group formations (what type of groups are formed and why are they formed in the specific nature they have) and sources of their power along with various rent-seeking processes should also be included in the analysis. Both the Iranian and the Turkish states were involved not only in redistributing incomes but also in creating new property rights and even entirely new economic classes.

The current paper, therefore, proposes a broader concept of institutional emergence and change with a new dimension called Clash of Paths.

4. The Clash of Paths (CoP)

This new approach adopts the open system view (Djelic and Quack 2007) in which possible evolutionary interactions among different nations' institutional constructions provide societal leaders, interest groups and other powerful classes with more than one road with several branching pathways, leading to long periods of conflict among countervailing forces. In such a mechanism, power is understood as institutionally embedded given that different institutional settings, in both political and economic spheres, provide societal actors with access to different types of power resources (Djelic and Quack 2007).

Accordingly, in this framework, structural factors affect the establishment, reformation and persistence of institutions through a path dependent process. However, the path of a country can well be affected by the outsider's paths (usually the superior paths of global powers). The attempt of the widely accepted superior path to change the inferior one is, in effect, determined by its own path-dependent restructuring. That is, the transformed would push the untransformed towards a change similar to his experience, due to psychological, philosophical and political reasons. Consequently, the inferior path can be maintained, shifted or totally switched. However, it can only do so to the extent that its path-dependent structures, ideologies and power balances permit. This practice, needless to say, is a cyclical process.

Subsequently, an institution emerges at the critical juncture at which collective actors establish new rules. The pathway selection is the result of political conflicts and power relations (Knight 1992). Then, a process of entrenchment starts due to positive feedback effects, similar to that illustrated in David (1985) and Arthur (1989). In addition to this internal formation, however, external environment also has a profound impact on this restructuring.

What follows is deciding among alternatives. The process depends on the interaction of internal and external factors vis-à-vis internal and external power balances of the country. The one that overcomes the other becomes the more influential in the new restructuring. As should be clear, more fundamental changes come apparently at higher costs, when the pre-existing institutions are severely entrenched due to the transaction costs associated with replacing them. However, since the CoP approach also includes the effect of collision among different institutional paths on country's power balances, there is a need to dig deep into the process between the decision to act and the outcome at the micro level. This is because emergence, change or persistence of some institutions may well be the unintended macro-level outcomes of the amalgamation of various rational micro-level decisions. What we have in this process are then the actors who are left with only the doable action sets. The remaining possible action sets are on the other hand suppressed due to either internal factors (mental models/belief structures/ideologies) or external dynamics (inter/transnational power balances). That is to say, the whole process of institutional emergence, persistence and change has several stages starting from macro origins and the co-evolutionary interaction of institutional paths to micro grounds on which interaction of hegemonic actors determine the strength and the pace of evolution.

What then limits certain groups and classes from using their hegemony in a society? It is again the CoP effect that determines the formal constraints (what is lawful) and the informal ones (what is legitimate) through its pressure over political institutional structures and through its influence on different mental models that different societies adopt. Consequently any transformative push stemming from the CoP effect at different critical junctures leads to shifts and alterations in domestic power balances. However, deep transformations in societal power balances are relatively less likely, due to the enduring appeal of some certain institutional structures. In view of that, as illustrated in Figure 5, a phase of institutional building from macro to micro grounds can be as shown.

5. The Roots of Politically Powerful Groups and Classes in Iran and Turkey: State Structure as a Vital Source

The origin of domestic power balances is derived from historical institutional roots and the CoP effect. Changes in domestic power balances on the other hand are strongly related to changes in formal and informal constraints with which the actors are faced. In effect these constraints are again prompted by the co-evolutionary interaction of different institutional paths. Thus, there is no direct way of reaching the roots. On the contrary, as mentioned earlier, we consider institutions the outcomes of multi-actor interaction at the level of self-interest and hence analyze institutional formation, reformation or persistence within this context.

The twentieth century began with major political events for both Iran and Turkey. The constitutional revolutions—Mesrutah of Iran (1906) and Mesrutiyet of Turkey (1908)—were the most important and contemporaneous events with implications on political institutions, associated distribution of resources, and hence political power balances. The period immediately after World War I was another significant period for the two countries, and was marked by the rise of the two leaders with army backgrounds, Riza Khan and Ghazi Mustafa Kemal and the establishment of Pahlavi Monarch and the Republic of Turkey. From then on, both states would be characterized by military, modern state bureaucracy and state patronage. Furthermore, in the course of capital accumulation the state in Iran and Turkey played an effective role in not only redistributing incomes but also in creating totally new economic classes. Moreover, they both had deep institutional transformation programs on their agendas.

Yet, as maintained by the political power balances approach, formal institutional structuring may function in a completely different way depending on who holds de jure and de facto political power. This is what took place in the countries under study. While the constitutional revolution occurred at almost the same time in both countries, it had completely different implications for the power balances. Table 3 demonstrates occupational classification of parliament representation in the two countries, and hence underlines important information on the developments in domestic de jure political power balances in the period under analysis.

Although occupational classification of parliament representation cannot provide us with clear-cut results because different fragments from both societies used to be from more than one occupational category (e.g. the *Ulama* in Iran in some instances belonged both to the ‘clerics’ and to the ‘landowners’ categories), the table still outlines some basic facts in the transformation in power balances among certain classes.

First, the drastic fall in the power of the *Ulama* with the establishment of the Turkish Republic is quite clear from the table. In Iran, on the other hand, there were negotiations between the *Ulama* and the Shah during the establishment and the early period of the Pahlavi Dynasty. Thus, although the table points towards a severe fall in the parliamentary representation ratio of the *Ulama* with the rise of the Pahlavi Dynasty, the case was not the eradication of the *Ulama* from domestic politics. Second, the ratio of landowners in the

Iranian National Consultative Assembly far exceeds the ratio of the landowners in the Turkish Parliament. Third, the ratio of capitalist/merchant representatives was more or less similar for both countries, particularly in the second half of the twentieth century which is the time period focused on by this study.

With the information provided in the table we can now explore the roots of these politically powerful groups and classes. The assessment will be made in terms of *state-Ulama*, *state-merchant/capitalist* and *state-peasant/landlord* relationships. This is because we identify a major difference between the *state structures* of these countries. Such an analysis is crucial because here we propose that the relative strength of the patrimonial state vis-à-vis these groups and classes in the two countries was one of the most important factors leading to traditional versus modern (or maybe better to name Western) ways and methods of production and accumulation practices, and hence attitudes towards integration with the rest of the world.

In view of that, a major aspect that distinguishes the pre-twentieth century Ottoman Empire's political system from the Iranian political structure is that; a continuous state tradition was one of the Ottoman's main qualities whereas Iran had long been governed by "changing and kaleidoscopic array of dynasties that appeared and disappeared with amazing rapidity" (Bill 1972, 5).

5.2 State structure and form of control of land

The implications of the twentieth century land relations dominantly characterized by landlordism in Iran and by small peasant ownership in Turkey were very different for the political power balances *and hence for the different transformation experiences of the two countries on the eve of the 1980s*.

From this point of view, different forms of land relations are argued to have a considerable role in the relative success of democratic forms in Turkey versus the persistence of monarchy in Iran despite their similar political events at the beginning of the twentieth century as discussed earlier— Mesrutah (1906) and Mesrutiyet (1908). Such an argument has a paramount importance for the main analysis because, as it has been proposed at the very beginning, diverse political institutional structures that determine *formal constraints* on political power relations is one of the two important determinants affecting establishment, reformation and transformation of economic institutional structures in different countries. Accordingly, it is reasonable to state that during the continuous process of institutional emergence, persistence and change a multi-party electoral system makes commitments on the government's part of the governments, and threats on the voters' part more credible because they spring from formal channels.

Additionally, diverse land relations in Iran and Turkey appears to be important in explaining how the different trends in rural areas in both countries might have affected the structuring of economic relations in the urban areas. That is, Turkey's peasantry appears reasonably independent with the objective of becoming market-integrated petty commodity producers. In contrast, Iran's peasantry appears to have a relatively more dependent nature due to the existence of powerful landlords. Accordingly, first, we observe different extent of political power of the two types of peasantry in exerting pressure on the two central governments to influence the process of policy making. Second, we expect these two diverse land ownership structures to shape the preferences of the two types of peasantry in different ways. For example the small land owner peasant and the landless peasant must differ in their preferences; such as in terms of economic freedom in the form of market opportunity. Lastly, we also observe different land ownership structures of the peasantry affecting the political power of the peasant in the rural areas also had an effect on the level of political power of the

migrant labor in the urban areas due to the different patterns of rural-urban migration; that is the migration of landless poor versus the migration of small land owner peasantry.

However, when we search for the roots of land relations in the two countries we again encounter obvious similar historical structures. Specifically, throughout the medieval times the fundamental economic structure of Iran and Turkey, which was based on land revenue administration by the state, was similar, particularly in comparison to the western feudalism. Private property right was generally absent; all land was considered as state property. The institution connected with the land was the fief system of land assignment which was called *Timar* in the Ottoman Empire and *Tuyul* in Iran. The land revenue system was principally grounded on the central government's grant of land and its revenue to its officers conditional upon levying troops. Thus, the system was bureaucratic in nature in both countries. The critical point for the particular purpose of the current study is that though the two similar systems in their essentials lasted until the nineteenth century due to the financial needs of the two central states in order to be able to finance their operations, the process towards unconditional private property rights developed differently in the two countries due to dissimilar power levels of the two central authorities. This, in turn, led the fundamentally different land ownership trajectories in the twentieth century.

Then, how can we explain this diverse evolution of land control in Persia and the Ottoman Empire despite the similarity, in essence, of the land revenue administrative systems up till the nineteenth century? The answer seems to lie in the past record of tribal structure evolution and how it diversely influenced the strength of the state and the effects of the nineteenth century developments. As mentioned above, primordial loyalties in Iran appear mainly tribal, where the peasant strictly follows his tribal chieftain or agha. More importantly, Iranian tribes were cultivated by the established rulers under conditions in which the tribes were sources of revenue, military levies and agricultural produce. On the other hand, these tribes credibly threatened those established authorities as disruptive elements prone to armed opposition to government, and often to dynastic ambitions of their own. In Lambton's words:

If the central government was strong, there was close control over the land assignment system, but more often the central government was weak, and those to whom the land was assigned usurped control. In the course of time the functions of the provincial governor, the provincial military commander, the tax collector, the tax farmer, and the man to whom the land was assigned tended to be combined in one person. This led to the emergence of large landed properties in which the holder carried out most of the functions of government to the virtual exclusion of the central government (Lambton, 1969:23).

In such an atmosphere many villages appeared to be the personal possessions of notables, either wholly or partially. Many aghas became landlords, their followers becoming their share-croppers. The landlords could evict them if they wished. The agha might leave the village and become an absentee landlord. What followed was a new form of patronage developed between the state and the landlords and tribal aghas, the elimination of which did not appear probable in the short term due to the government's inability and/or reluctance. Accordingly the dominant form of control over land in Iran which also continued into the twentieth century was that of large landowners mainly composed of (i) members of the ruling family who had obtained their land by conquest, inheritance, gift, or purchase; (ii) tribal leaders who sometimes also belonged to the ruling family or to the official classes, and had acquired their land in the same way; and (iii) members of the religious classes, whose properties were mainly from grants and pensions from the state, inheritance, purchase, and sometimes from the usurpation of waqf property.

For example, during the Qajar period of the nineteenth century, the largest landlord – Zell al-Sultan – allegedly owned 2,000 villages, with a population of half a million. On the other

hand, it should also be noted that some policies pursued during the reign of Reza Pahlavi, in the twentieth century, tended to reduce the size of the area held by large, and politico-militarily powerful, landlords (Lambton, 1953: 260). For instance, at the time of land reform in 1962, the largest landlord owned only 200 villages (Khosravi 1972 cited in Moghadam 1996:47). However, the estimates for 1934 indicate that only 2 to 5 percent of peasants were proprietors (Sandjahi 1934 cited in Keddie 2003:96). For 1958, peasant ownership was estimated to cover 20 percent of the holding areas (Najmabadi 1987, 47). In 1960, 26 percent of the agricultural land was reportedly owned by cultivators (Vezerat-e Keshvar, 1960 cited in Moghadam, 1996:50).

In the case of Ottoman-Turkey, on the other hand, the dominant pattern in the country appears as the extension of peasant property, despite the collapse of the classic land revenue system (*timar*) after the population growth and following price increases of the seventeenth century that reduced the fixed-money taxes levied by state functionaries and led to the rise of tax farming (*iltizam*) and tax-farmers (*mültezim/ayan*) by the end of the century. Nonetheless, maintenance of such an institutional system for centuries, in which the sole ownership of the land was set as state ownership, impeded deep transformations in the agrarian structure. More specifically, when the Ottoman state once again succeeded in its centralization attempts, it re-accommodated those *ayans* in different state lands. More importantly, the Ottoman state started to redistribute the state lands to the peasantry with the 1858 Land Code. Thus, in Keyder's words: "...when the dust settled, the peasantry emerged again as independent family farmers" (Keyder 1987).

Indeed data from various sources also supports this argument. For example, Quataert (1994) maintains that in 1860 more than 80 percent of the cultivated land consisted of parcels of land that were smaller than eight hectares. Similarly, Pamuk (2010) states that the ratio of small land ownership was 82 percent in 1859. Quataert (1994) also gives the information that the scope of cultivated land in Anatolia was between 6 and 8 hectares in 1869. The data also demonstrates that these ratios did not change with the beginning of the twentieth century. Quataert (1994) provides the data for 1910's Anatolia which reveals that the number of landowners owning land below five hectares was more than one million, which constituted 75 percent of total land owners during that time. In addition, Rozaliyev (1973) asserts that the ratio of landless peasants and landlords in 1913 was only 8 percent and 1 percent respectively. The rich peasant constituted 4 percent. Thus, it evidently appears that the land relations on the eve of the World War I were dominated by middle farmers and small land owner peasantry which formed 87 percent of the total.

5.2 State structure and state-Ulama relations in Iran and Turkey

In the Ottoman Empire the continuity of the strong state was the sole condition for existence of classes and the spread of Islam, which was in turn related to the dynamism dependent upon the conquest politics. Thus secular imperial politics was legitimized. The Qajar shahs who "in theory...were omnipotent; in practice...were politically impotent," on the other hand, ruled through, "and so with the kind permission of...tribal chiefs, local notables, and religious leaders" (Abrahamian 1982, 41).

Thus, the politically active and economically powerful clergy, one of Iran's most distinctive features, was not formed by a chance factor occurring in a stochastic process as proposed by the strong version of path dependence theory. It was due, to some extent, to the consequences of a clash of the Safavid path with the path of Ottoman institutional development, such as fall of nomadic traditions in the Ottoman Empire leading to the rise of heterodoxy elements in the Safavid state and the espousal of Shiism due to political reasons—that is, the ambition of a strong Shiite Safavid state in the East against the Sunni Ottoman Empire in the West. However, the early collapse of the Safavid state left behind superficial, weak and intermittent

state institutions. What is more, following the collapse of the Safavid state the country suffered from an interregnum of fifty-eight years with tribal and dynastic conflicts. Such an interregnum provided the Iranian Ulama with the time and the means to institutionalize independent of state governmental apparatus. What supported this process was that Qajar dynasties agreed upon such a win-win situation because the Qajars "...were of nomadic descent, and for them the administration of a country was far more complex than that of a tribe...The growth of the Ulama was thus reinforced by their ability to perform educational, judicial, and legitimating functions of the Qajar state" (Moaddel 1986, 522-523).

Religion and state administrative systems were also inextricably intertwined (traditional duality of *Din-ü-Devlet*) in the Ottoman Empire. Contrarily however, the collapse of the Safavids, coeval of the Empire, due to a chronic legitimacy crisis, obliged the former to make a relatively more sophisticated synthesis. The geographical expansion towards the West, additionally, required ensuring the socio-political order and not discriminating against the imperial subjects that belonged to different religions, which in turn meant ensuring civil union. Accordingly, the most liberal branch of Sunni Islam, Hanafi School of Law, was adopted because of being more pragmatic and therefore worldlier in nature.

The Hanafi School of Law was more prone to a system in which the Ulama joined the ranks of governmental bodies. Such an integration of the Ulama into the state's administrative body provided continuity of political legitimacy, because the Sunni political doctrine had then meant obedience to *Ulul-Emr*, which were understood as rulers, governments and administrators (Gencer 2008). That is to say, decisions taken by the government in a pragmatic way had to be a posteriori legitimized by the Ulama through wangling. Accordingly, the Ottoman Ulama served as "experts in legitimation" (using the words of Antonio Gramsci).

Consequently, the Ulama class and its relation with the state in the two countries were developed into completely different structures. In contrast to Keddie (1972)'s finding of inversely proportional power balances of the state and the Ulama in Iran, it was directly proportional in the Ottoman Empire. That is, in case of an external threat to state's power, Ulama used to further attack the state in Iran; whereas the Ulama, even in "the sick man of Europe³", were legitimizing all decisions of the state even though they were not recognized by the statute in religious law. This was largely because of the belief that Islam could be spread if and only if the state was strong, which further strengthened the strong state tradition explained above.

In such an environment, unsurprisingly the influence of the West's big transformation in 19th century on modernization and state-religion relationships in the two countries was thoroughly different. In Ottoman-Turkey, for instance, the bureaucrats of 'Tanzimat' (the administrative reform period), in the process of modernization, did not hesitate to exclude the Ulama, who had been trained in accordance with Aristotelian deductive reasoning specific to the traditional world and thus lost their connection with political reality, for the sake of survival of the country (Gencer 2008). Because, as mentioned earlier, the state's existence was considered as the sole condition for the existence of all classes, including the Ulama who had long been embedded in the state governmental bodies. On the other hand, the politically and even hierarchically institutionalized Iranian Ulama, which were then independent of the state apparatus, claimed that they had the ability to understand and manage the changing world.

³ In the mid-19th century the term "Sick man of Europe" was used as a nickname to describe the Ottoman Empire at a time of experiencing economic difficulty and/or impoverishment.

5.3 State structure and entrepreneurial independence from the state

The last important factor in the political power balances of the two countries is the structure of the entrepreneur class. More explicitly, among the classes with power of pressure on state economic policies in Iran, the Bazaar comes as another influence, which indeed has its roots of power in earlier centuries. For instance, the importance of the merchants and craftsmen for the economy in general was highlighted by some nineteenth century foreign officials residing in Iran. Issawi (1971) describes traditional merchants, who hold vast amounts of capital, as playing the same part as European credit institutions and providing credit even for the government. Bill (1972) as well underlines the meaning of the traditional middle class as follows:

The merchants are a numerous and wealthy class; and no part of the community has enjoyed through all the distractions that kingdom has been afflicted with, and under the worst princes, more security, both in their persons and property. The reason is obvious; their traffic is essential to revenue; oppression cannot be partially exercised upon them, for the plunder of one would alarm all; confidence would be banished, and trade cease.

This clearly demonstrates that the traditional bourgeoisie had long been enjoying a de facto political power.

In the Ottoman Empire all classes were tried to be kept in the place with a platonic conception of the world in which *order* rather than *change* was more accepted. Accordingly all economic activity was heavily controlled by the state. As a result, the establishment of an independent local bourgeoisie class was impeded (see Keyder1987 and Heper 1992). As a result in Ottoman-Turkey with a more heterogeneous social structure, it was instead the non-Muslim minorities which filled this gap of local bourgeoisie class. Furthermore, those relatively more prosperous non-Muslim communities had had extensive contact with Europe and European financial institutions (e.g. ‘Galata Bankers’ in contrast to ‘Sarrafs’ of Iran), had Western style education and knew Western type trade methods. Thus, with no local traditional bourgeoisie trying to impede change forced by the nineteenth century developments, the reformation period in accordance with the demands of the international system was relatively much easier in Ottoman-Turkey compared to Iran, where the traditional bourgeoisie were continuously opposing the European economic and political penetration.

The importance of this characteristic of the entrepreneur class in Ottoman-Turkey became more visible when it manifested itself in an economic transformation in accordance with the Turkish Nationalistic movement pioneered by the Union and Progress Party. The aim was establishing a Muslim-Turk entrepreneur class and had momentous consequences that shaped the twentieth century state-business relationship, the structure of industrialization and the nature of capital accumulation process.

6. Integrating Macro-Level CoP Account of Institutional Evolution to Design of Institutions at the Micro Level: A Simple Model of the Bargaining Game

How may have these various features—of Ottoman-Turkish and Iranian history—influenced the design of political and economic institutions?

To answer this question using the CoP approach, we propose the following framework.

Politically powerful actors, whose source of power intricately depends on previous institutional structures, all of which do not have to be formal rules, have their objectives subject to various formal and informal constraints that ease or impede reaching these objectives. Under such constraints the actors also have strategies that they design for maximizing their objectives.

In view of that, prevailing institutions are maintained, modified or replaced by completely new institutions as a result of the dynamic interaction among these three factors. By doing so, we connect institutional building to juxtapose several micro and macro-level aspects, ranging from individual interests to societal mental models.

From this micro perspective, in such a process of institutional emergence as a consequence of strategic conflict among the actors who seek distributional benefits over substantive outcomes, actors contend to develop institutions that bring them favorable equilibrium outcomes. In this way, institutional development and change can be viewed as an ongoing bargaining process. Thus, we believe that the most appropriate alternative for analyzing the strategies of the hegemonic actors of our case countries is a simple model of the Bargaining Game. The conditions of this game are that a) cooperation must be rational b) interaction should be repeated and c) actors must be in an ongoing relationship (Knight 1992). In view of that we present the following basic two-actor model.

In the model above, the main target for the actors of the game, with comply (C) and non-comply (NC) strategy options, is to achieve ε , which in our case can be defined as some sort of incremental power.⁴ $\omega_{A,B}$, in addition, stands for the payoff obtained in the case of non-coordination on an equilibrium outcome and $\Omega_{A,B}$ represents the payoff in case of compliance from both sides. Finally, we presuppose that $\beta + \varepsilon_i > \Omega_i > \beta > \omega_i$.

Accordingly, with this simple framework sketching out the bargaining theory of institutional emergence, we demonstrate how the emergence of an institution, or a change in the general institutional structure, can be explained in terms of repeated interactions among the hegemonic actors of a society. Following the general bargaining theory and Knight (1992) who made a contribution to the theory via incorporating the power asymmetries between actors, the 2x2 game presented above is played as follows. In line with the theory of rational choice, player A and player B prefer different equilibrium outcomes, that are (NC-C) and (C-NC) respectively. Each actor thus has an incentive to constrain the other's choice to C. To constrain B's behavior, A must manipulate B's expectation of A's behavior and, to do so, must constrain his or her own behavior through pre-commitment and threat. However, the strategic efficacy of any commitment or threat is strictly correlated with its credibility. That is to say, if B believes A will choose NC, B will choose C and receive the payoff from the less favorable equilibrium. Credibility, on the other hand, is a function of attitude toward risk and time preference. According to Knight (1992) the most important source of credibility is grounded directly in the relative bargaining power of the actors. Applying it to our case, the measure of the costs of non-coordination on an equilibrium outcome is $\omega_{A,B}$. If $\omega_A > \omega_B$ or $\omega_B > \omega_A$, then there is an example of asymmetric bargaining power. For instance in the case of $\omega_A > \omega_B$ the costs of breakdown are greater for player B. In such a case in which A will suffer fewer costs of breakdown, A is more likely to accept the risk and attempt the commitment to NC. In other words: "a player who has less to lose from a breakdown is more likely to risk one" (Maynard-Smith 1982, 153).

Yet, bargaining power is in turn a function of *endowment* which is defined above as originating from previous political institutions, economic might, ability to form collective action and the ability to mobilize the existing resources. In view of that, let us now examine the diverse institutional transformation experiences of Iran and Turkey on the basis of this framework. This will be done via dividing our period of analysis (post WW-II to 1980) to some particular stages in which either the constraints or the strategies of hegemonic groups or classes went into a process of change.

⁴We assume that power is generally fixed, with the exception of periods in which power sources expand (these are usually related to economic might). That is, if a group or class in society increases its domination, this usually happens at the expense of another group or class.

7. The Application of the Framework to the Iranian and Turkish Cases

As mentioned at the beginning, the main period of the analysis is the post- World War II - 1980 interval. We have chosen this timeframe specifically because the political institutional structures of Turkey and Iran began to diverge by the end of World War II. To show these diverging trends institutional shifts and downfalls towards more inclusive or extractive political institutions we compare the POLITY2⁵ indices of Turkey and Iran from 1940 to 2008. The Polity conceptual scheme examines “concomitant qualities of democratic and autocratic authority in governing institutions” and thus can be considered as a proxy of the extent of the concentration of power in the hands of the ruling strata.

Indeed, democracy is not exactly identical to *inclusive* institutions. Yet arguably it can be a system that lays the proper ground for the rise of inclusive institutions. Specifically, as the political power balances approach maintains, distribution of de jure political power in a society is strongly related to its prevailing political institutional structure. From this perspective, it can undoubtedly be argued that a relatively more equal distribution of de jure political power is more probable in democracies. Moreover, when votes become instrumental threats become more credible, since they are from formal channels.

The diverse institutional transformation experiences of Iran and Turkey will be analyzed via conducting a stage-by-stage comparative analysis of institutional building in these countries. The distinguishing feature of these particular stages is the change in the constraints and the strategies of the dominant groups and classes. More explicitly, in these critical junctures dominant groups or classes reach a consensus, either a voluntary or an involuntary one, or prefer to reject the consensus in accordance with those changing constraints and thus strategies. Indeed institutional change or inertia in the case countries was very much connected to politically powerful groups decisions being in or out of those consensuses. Their decisions in turn were dependent on their ability to solve the collective action and resource mobilization problems.

Thus, the first phase we consider in the following section is the WW II – 1950/53 time period. This period witnessed politically powerful groups and classes in both countries reaching a consensus on state administrative systems. This period saw the return of the Shah to court in Iran after a decade of free-politics and the transition to a multi-party electoral system—with the triumph of the Democrat Party—after a long period of an authoritarian one-party regime in Turkey. The divergent consensuses, however, cannot be solely attributed to Turkey’s earlier multi-party practices, because Iran also had similar practices and an experience of constitutional revolution (Mesrutah) in as early as 1906. Thus, we principally argue that monarchy in Iran and democracy in Turkey were chosen because they were the solution systems to the objective maximization problems of the dominant classes and groups.

7.1 Stage I: Power holders reach a ‘consensus’ on the state administrative structure in the 1950s

It has now become clear that ‘consensus’ is something that is built or destroyed on the basis of actors’ projected utilities. In line with this, and the basic facts rooted in the history of both

⁵“This variable is a modified version of the POLITY variable added in order to facilitate the use of the POLITY regime measure in time-series analyses. It modifies the combined annual POLITY score by applying a simple treatment, or “fix,” to convert instances of “standardized authority scores” (i.e., -66, -77, and -88) to conventional polity scores (i.e., within the range, -10 to +10). The values have been converted according to the following rule set:

- -66: Cases of foreign “interruption” are treated as “system missing.”
- -77: Cases of “interregnum,” or anarchy, are converted to a “neutral” Polity score of “0.”
- -88: Cases of “transition” are prorated across the span of the transition.” POLITY IV Users Manual PDF File is available at <http://www.systemicpeace.org/inscr/p4manualv2010.pdf>

countries, we can describe each politically powerful actor/group and their objectives along the following lines.

In Iran, *Shah* is one of the politically powerful actors with his objectives of increasing power, increasing and preserving control over resources and thus society, and becoming a commemorated person in the Iranian history for his achievements. The high *Ulama* appear as another powerful group with their similar objectives of boosting power, improving control over the society and thus gaining more social backing. *Bazaar* is the next politically powerful group with a natural goal of profit maximization. The fourth politically powerful group is the *big landowners* with their objective of boosting their regional power on rural areas.

In Turkey, the first politically powerful group is the *Civil and Soldier Bureaucratic Elite* with their objectives of further increasing their political power, increasing and preserving control over society and spreading modernization nationwide. The *local notables* are the second hegemonic group with an objective of gaining and preserving local power, local control and local support. The third group is the state-created *capitalist class*, with their typical objective of profit maximization that is in turn dependent on the general economic environment including for instance external credit mechanisms and the trade policy. Finally, independent peasantry with an objective of becoming market-integrated petty commodity producers appear as another politically powerful group due to their ability to influence the dimensions of political contestation⁶.

7.1.1 Turkish case and the consensus reached: Multi-party democratic system

For the Turkish case, the interaction among the objectives, constraints and strategies of the politically powerful groups is presented in Figure 10.

The most important constraint on the inter/transnational side was no doubt the US. Thus, strategically, it was clear for the Turkish leadership that conforming more closely to the political and economic ideals prized by America—democracy and free enterprise—was needed to profit fully from its political and economic support. In terms of international conjecture's effect on the domestic power-balances, on the other hand, the drastic fall in the standard of living apparently created discontent among the mass of the population. However, this alone was not enough for system transformation, because the masses were already suffering from low standards of living and thus the discontent was not new (Zurcher 1992). It was particular hegemonic classes—that is the capitalists, big landowners of particularly fertile land and more interestingly the small-medium peasants, who preferred economic freedom in the form of market opportunity—that were mostly responsible for the Republican People's Party (RPP's) loss of support.

The merchant/capitalists (both modern and provincial) with their substantial wartime accumulation were more able to collectively act due to their increased resource mobilization capacity. Thus they started to consider setting themselves apart from the military bureaucratic elite to whom they had been allied for the previous four decades. Large numbers of land-owning peasantry, given the immediate returns promise of the new international economic conjuncture, also preferred hunting 'freely' for those immediate returns in the market. Thus they chose the strategy of not complying with the civil/military bureaucratic elite.

A more interesting development was the formation and strengthening of a normally uneasy alliance between the petty peasantry and the factions representing large landed interests in the single party in power. The underlying rationale behind this alliance must be their common interest in agricultural development, their common emphasis on advancing commercial agriculture, but more importantly their common opposition to the urban-based,

⁶ There also big landowners with similar objectives as their Iranian counterparts however they are clustered only in a few regions of the country, particularly the Eastern part.

industrialization oriented policies of the single party authoritarian regime. As a result, this alienation of the peasantry from the military-civil bureaucrats (henceforth MCB), the former's unusual alliance with the landed segments, and the resultant increase in the ability of both in collectively acting and mobilizing resources, increased the rural coalition's bargaining power in the course of institutional building. The MCBs with de jure power under the one-party system recognized this unusual alliance and the threats that it posed to its de jure political power base. Accordingly, they changed their strategy in the direction of being more responsive to demands of the masses. The Republican People's Party, with the main aim of preserving its domestic power and control and disseminate modernization movement credibly felt the threat becoming "political losers." As a result, the party chose taking the widespread discontent into account and played the 'compliance' strategy as a safety valve. The country then transferred from the pre-war political system to a new one during the post-war era. However a certain degree of political liberalization meant the traditional block being able to collectively express their demands through the parliamentary system. This in turn implied an increase in the bargaining power of the local notables/provincial petite bourgeoisie due to their bidirectional empowerment in an environment in which votes become important and threats become more credible.

7.1.2 Iranian case and the 'consensus' reached: The system of monarchy

In the case of Iran, the post-war era was important because the allied occupation at the time of the war, and the resulting instability, conflict and turmoil together with the paralysis of the state apparatus led to a period of free politics. This loosening up process was also reflected in advancement in interest representation on the political arena through both the National Front representing the interests of the traditional and the modern fractions of the upper middle class (Abrahamian 1982) and the Iranian communist party (Tudeh Party) that was attacking the traditional lines of clientelistic⁷ politics (Karshenas 1990). Moreover, the post-war era was also important in terms of oil politics, because "it was a period in which the US directly intervened to restructure the Middle Eastern oil industry, not only towards increased concessionary access for the US oil companies, but also in terms of geographical reorganization of the world oil markets and the allocation of the thus determined aggregate Middle East exports amongst the various oil-exporting countries" (Stork 1975, cited in Karshenas, 1990). Yet, on the other side of the coin, the fall of Reza Shah quickly brought up the question of the 1933 concessionary oil agreement⁸, which among the great majority was considered as an unjust imposition.

This disgruntlement in such a relatively liberated political environment unsurprisingly brought one of the most popular movement of Iran: The oil nationalization movement that is identified with an admired prime minister Mr. Muhammad Musaddiq, leader of the National Front, who according to Abrahamian (1982), for the first time reduced the Pahlavi monarch to a mere ceremonial figure with very limited political influence. However this power of

⁷ By 'clientelistic relations' we mean "cross-cutting patron-client resource flows" for more detail see Khan and Jomo (2000)

⁸ During 1926-1932 interval, the revenue from oil ranged between £310, 000 and £1,530,000, with great fluctuations in spite of the continuous rise in the output from 4.556 to 6.446 thousand long tons(33.715 to 47.700 thousand barrels) during the same period. For instance there was a tremendous fall from £1,400, 000 in 1926 to £500, 000 in 1927 as well another plunge from £1,290,000 in 1930 to £310, 000 in 1931. Thus, the 1933 Oil Agreement was an attempt to end these dramatic fluctuations in oil revenues via ensuring that changes in the market price, and/or the company's tax obligations to the British government could not be used as reasons for dramatic declines in the revenues paid to the Iranian government. This was done through changing the form of revenue payments from 16 percent of the company's annual net profits to 4 shillings per barrel produced. However, the agreement also extended the concessionary period from twenty-seven to sixty years (Katouzian, 1981).

Musaddiq soon proved to be poorly-established when he gradually lost the backing of the tripartite coalition of the landlords, bazaar and the upper middle class *Ulama*.

Musaddiq indeed regarded alliance of the *Ulama* via choosing a highly religious elder statesman, to be the foreign minister and the founder of the Islamic Society, to be the assistant minister of education in his first cabinet. However, he soon lost the support of *Ulama* when he was convinced that he consolidated his power and transferred the Ministries of Interior, Agriculture, and Transport to leaders of the Secular Iran Party, the Ministry of Justice to an anticlerical judge, and the Ministry of Education to a university professor sympathetic to the Tudeh Party (Abrahamian 1982).

Losing the support of the Bazaar came due to the unfavorable economic conditions arising from post-oil nationalization sanctions that led to a sharp decline in oil revenues and a consequent unemployment and inflation catastrophe. Besides, further nationalization plans, such as of the bus companies, raised concerns among the Bazaar guilds that such an act would open the way for the state to take over all small businesses, even groceries. When the minister of economics tried to reduce food prices by opening new bakeries, the Bazaar guilds protested that the government had no right to interfere with the free market. A Bazaar-connected politician from the National Front expressed his concern using the following words: “We would end up like the Soviet Union where the state owns everything and citizens nothing. Anyway, we all know that our bureaucrats are incompetent businessmen” (Abrahamian 1982).

Subsequently the National Front became a movement solely representing the interests of the modern middle class—principally the new intelligentsia. In such a poly-vocal environment, it was the *Ulama* that soon realized that a democratic arrangement was not an effective one in maximizing their objectives, due to the highly-likely threat of being political losers in such a system prompting diverse views, ideas and approaches towards the country’s institutional structure. Moreover, in a pluralist setting of this type, they would also have to deal with several diverse threats from several groups—like the TUDEH party or the National Front for example—and spend more effort to separately evaluate if their commitments and threats were credible instead of dealing with only one threat (the Shah). Consequently, the Shah came back to throne with his power consolidated via the backing of the tripartite coalition of Bazaar-Landlord-*Ulama*, who due to above-explained developments, were concerned with the worsening economic crisis, modification of institutional structures and thus likelihood of deterioration, if not elimination, in their political power. Thus, the determining effect of the interaction of the strategies of the hegemonic groups/classes, whose objectives-constraints-strategies are presented in figure 11, under changing formal and informal constraints due to CoP effects was strongly felt in Iran.

7.2 Stage II: The first fracture in the consensus: Hegemonic groups leaving the consensus

7.2.1. The military bureaucratic elite leaving the consensus in Turkey: The 1960 coup d’état and the new institutional structuring

With the elections that brought the Democrat Party (henceforth DP) to the power with 53.4 percent of the vote against 39.8 percent for the RPP, it became clear that the forthcoming period would be the crossover point from one of Turkey’s hegemonic groups to the other. Zurcher (1994) for instance points to the virtual absence of representatives with a bureaucratic and/or military background in the DP, where most of the representatives had local roots in their constituencies and background in commerce. This was certainly a sign of the increase in power of the traditional forces (i.e. small capital owners of Anatolia). Such a development was naturally a product of the multi-party election system, which empowered those already influential groups and classes bi-directionally. To be more precise, first, when the votes of the citizens became more important, those locally influential groups became

more important in the eyes of politicians. Second, this created a cumulative causation effect via making these influential actors more powerful in the eyes of the masses given that they were more able to take advantage of the government's blessings.

Accordingly, the first noticeable hegemonic group whose interests were put first under the rule of the DP, without doubt, was the contradictory alliance of large farmers and the small peasant. Supported by American aid, the government provided cheap credit to the agricultural sector and kept the agricultural prices artificially high through government buying. With an increased world demand for agricultural products coupled with the favorable weather conditions leading to good harvests, the progress in the first years was impressive and the economy as a whole grew rapidly at rates between 11 and 13 percent. In such an environment, agricultural incomes grew fastest, with large farmers profiting the most. Incomes in urban areas also went up, although profits rose much more rapidly than wages, making traders and industrialists relatively better off (Boratav 2003; Zurcher 1993; Ahmad 1993).

However, the economy's fortunate period did not last long, because it had not built on any sound fundamentals rather than the DP's unsophisticated belief in the workings of the market once it was allowed a free rein. The economic expansion period of a large domestic market and an increase in imports, that were triggered by providing cheap agricultural credit sourced from foreign aid/loans, came to an end when the taps for credit were turned off when the country's total external debt/GNP ratio reached 1/4 (Zurcher 1993). As a result, in a country unable to import capital goods and spare parts, most of the agricultural machines remained idle, an issue conflicting with the objectives of the politically powerful groups/classes at the rural areas.

The DP could have resolved some of their financial problems by introducing a more effective system of taxation, particularly by taxing the new wealth in the countryside. For despite earning more than a fifth of the GDP, the rich landowners and substantial farmers were paying only two percent of the total tax revenue (Boratav 2003; Zurcher 1993). Evidently, this was not an option because these classes had strong influence on a considerable portion of the electorate. Thus the DP preferred to borrow from the Central Bank, which basically meant printing extra money, and to put the National Defense Law into effect again to protect the agricultural sector through price controls. This, however, meant another set of problems, since the process coupled with the emergence of a black market spurred inflation (from 3 percent in 1950 to 20 percent in 1957), hitting wage and salary earners.

What is more, when the government was in further need of foreign loans, it had to agree to the IMF's stabilization package and tighten the budget controls, contradicting the interests of other traditional sections of the hegemonic groups. The hit of the inflationary policies and finally the economic downturn, coupled with the DP's growing authoritarian tendencies, such as the efforts to get the military inherited from the old regime under control⁹ (political loser effect), alienated the army, most of whose members were suffering from poor living standards, such as homes in the shanty towns. The underground dwellings in Ankara for instance were called the "army staff officer flat" by the public (Ahmad 1993).

7.2.2 The Ulama leaving the consensus in Iran: Long period of Ulama's attempts to form a collective action versus the Bazaar's unresponsiveness

The overthrow of Musaddiq's popular government by the coup d'état of 1953 ended the post-war free politics period. This phase was in a way the power consolidation time for the Shah, who instinctively knew that it depended on the traditional politically powerful groups'

⁹ In December 1957, nine army officers were arrested for plotting against the government.

backing, at least initially. Accordingly, economic policies consistent with the interests of these supportive classes were pursued.

Accordingly, the Shah started to reverse the agrarian reforms introduced by Musaddiq in order not to alienate landlords, as well the high ulama who owned agricultural land and religious institutions supported by earnings from agricultural trusts (Karshenas 1990). The share of land owners in Parliament increased from 49 percent of the seventeenth Majles (1952-1953) to 50 percent of the eighteenth Majles and further to 51 percent of the nineteenth Majles (1956-1960) (Abrahamian 1982). The Bazaar also preserved much of its independent character. The Shah avoided price controls, kept the army out of the market place, and permitted the guilds to elect their own elders even after 1957, when a High Council of Guilds was set up in Tehran (Abrahamian 1982). Moreover, the revaluation of the Rial and policy of high private consumption expenditure that was blended with the gradual removal of trade restrictions through low tariffs, and therefore high imports, also highly benefited the bazaar merchants, particularly the ones in the import business (Katouzian 1981; Karshenas 1990).

The straightforward implementation of these policies, on the other hand, was dependent on the massive inflow of external finance in the form of increased oil revenues due to new agreements with the consortium members under better terms thanks to the oil nationalization movement which paved the way for such a contract¹⁰ and the substantial financial support in the form of aid and credit provided particularly by the US during this episode of bureaucratic and military renovation and reassertion of the Shah's power and control over society.

However, this favorable state of affairs did not last long. The ambitious seven-year plan together with its mounting military expenditures, led the government to engage in deficit financing, which later led to a severe balance of payments crisis. In such an environment, the initial "hands off policy" was no longer possible due to internal and more importantly external pressures for transformation of the economic strategies. The IMF, for instance, promised \$35 million subject to conditions such as budget cuts and cancelling some development projects. What is more, there were also pressures for social reform. The Kennedy administration, "acting on the belief that liberal reforms were the best guarantees against communist revolutions" (Abrahamian 1982), offered \$85 million subject to the condition of implementing serious land reforms.

Consequently, a stabilization program consisting of a series of contractionary fiscal and credit policies and import controls was put into effect for the 1960-62 interval. This mostly hit the Bazaar, because in such an environment of economic recession domestic trade exhibited a negative rate of growth of -4.3 percent per annum in real terms over the period (Karshenas 1990). More importantly, in 1962 the Land Reform Act, which would become the first plank of the Shah's White Revolution, was launched. Although it lasted only fourteen months, and although the Shah's aim was not eliminating commercial landlords at the beginning, a possible land reform posed a threat to the landlords and some sections of high *Ulama*, who were also owners of large agricultural lands.

On June 1963 massive riots erupted all over the country. This time, the Shah with more resources to mobilize (expanded armed forces) defeated the traditional forces due to their failure in overcoming the collective action problem. Besides, the increasing oil revenues and the prosperous environment they created, despite being interrupted by the balance of payment crisis, were, at any rate, beneficial for the traditional powerful groups in maximizing their

10 This was a consortium made up of a number of British companies (with a 40 percent share), French and Dutch companies (with a 20 percent share) and American companies (with a 40 percent share). It was set up to produce and market Iranian oil for 25 years, and pay 50 percent of the net proceeds to the Iranian government. Although far from ideal, this was a real improvement and would be useful in the Shah's objective maximization process.

objectives in an intermingled way. As a result, although some of the traditional forces, such as the landlords, were faced with the threat of losing their de facto power base, others, such as the import-exporter merchants in the Bazaar, were still unresponsive (Keshavarzian 2007) undermining the possible collective action as mentioned above. Consequently, these tendencies forced those traditional hegemonic groups to re-enter into an involuntary consensus.

7.3 Stage III: Changing form of the ‘consensus’ in Turkey and Iran

7.3.1 Turkey: Embedding the military into the capital accumulation process and return to the ‘consensus’

With the coup d’état, the army indeed took the first step in a process in which it became the founder, partner and guardian of the new order. There were new institutions established. With the establishment of the National Security Council for instance, national security was considered as such a broad notion that encompassed everything “from price of rice to highways or touristic towns” (Orhan Erkanlı cited in Ahmad 1993, p.156), and thus regularly required the inclusion of Pashas into the decision making processes of the Parliament. The high army officials, in turn, were effective in all developments concerning the social, political and economic issues.

Meanwhile, the capitalists were rising as a class with considerable de facto political power that was stemming firstly from economic might, and secondly from their increased ability to solve collective action problems, particularly after the establishment of the TUSIAD (Turkish Industrialists and Businessmen's Association) in April 1971. Indeed, the position of the indigenous mercantile capital, whose growth had been such a high priority since the Union and Progress Party’s policies, had become fairly strong that they no longer desired to accept their earlier position of a privileged, but essentially dependent and politically powerless, class.

The Armed Forces Pension Fund (henceforth OYAK¹¹), through which the military would in fact become embedded in the capital accumulation process, was also established at the same period. The broad literature on OYAK agrees that OYAK’s functions as a collective capital group running productive, commercial and financial economic activities was more pronounced than its role as a social security organization (Insel and Bayramoglu 2004; Parla 1998; Akca 2006; Ahmad 1993; Ozturk 2010). Starting with a very small capital around \$1000 in 1961, OYAK increased its investments to \$50 million in 1970, and by 1986 its capital was \$33 million following the other giants of Turkey such as KOC, SABANCI and CUKUROVA with capitals of \$52.3 million, \$47.8 million and \$38.8 million respectively (Ozturk 2010). OYAK also increased its value of assets from \$4.871 in 1961 to \$20 million in 1972 (Ahmad 1993). With regards to the profits, OYAK was the third biggest capital group in 1990 following KOC and SABANCI (Ercan 1997, cited in Akca 2006).

Hence, it is worth focusing on OYAK’s positioning within the big capitalist groups of Turkey, which are powerful in defining the course of accumulation strategies in line with their interests, in order to provide insights on different institutional reorganizations: from agriculture based development to import substitution industrialization and further to export oriented industrialization and economic liberalization in Turkey. That is to say, under different systems of accumulation, the military, which through OYAK was deeply embedded

¹¹OYAK was defined as a “financially and administratively autonomous legal person subject to the verdicts of private law.” Paradoxically however, article 37 reads that “all assets, earnings and accounts of the foundation are to be treated as state property, and any party causing damage to OYAK property will be treated as having damaged the state property.” OYAK also enjoyed all kind of tax exemptions (corporation tax, turnover tax, income tax, stamp tax...) at the level of the Foundation (not at the level of affiliated companies) (‘OYAK Law’, Article 35) OYAK Law is available at www.oyak.com.tr.

into the new system and the associated power balances, developed different strategies and affected the course of institutional evolution.

7.3.2 Iran: Deepening fracture but involuntary 'consensus'

The balance of payments crisis of 1960-1, pointing to that serious transformation in the structure of the economy—from agriculture to industry—was essential if the process of accumulation were to be continued. Thus, in line with the Shah's own objectives, the Iranian minor industrial revolution and the Shah's six-point reform program labeled the 'White Revolution' were initiated with these concerns.

Accordingly, the most important development was the agrarian reform, which had its roots in the pre-1963 period. With that act the absentee landlordism was successfully eliminated (Karshenas 1990). Consequently, the effect of the land reform at the national and regional political levels was "that traditional landowners who occupied the key positions in the bureaucracy reform era lost their power basis as landowners" (Ashraf and Banuazizi 1980, 54). This would unsurprisingly break the already loose alliance between the land-owning class and the regime. Yet, thanks to the intentional loopholes left in the laws, large landowners could keep considerable amounts of land on the condition of cultivating or cash renting their land (Abrahamian 1982). Thus the involuntary consensus could be maintained.

The second profound area of state intervention was the restructuring of the industrial sector. Massive public investments were directed into new lines of manufacturing production. These years of transformative industrialization movement, blessed with tremendously rising oil export revenues, were naturally marked by impressive growth rates. Such a transformation, however, initially did not put a serious challenge on the position of the traditional merchant/capitalists of the Bazaar, because despite them not being under state patronage, high growth rates and industrialization did not emerge at the expense of the Bazaar (Keshavarzian 2007). That is to say, the rising oil income, principally after the formation of the modern rentier state in Iran, radically altered the relation between the state and the economic actors. The state's income generation procedure changed from customary methods to unusual ones, which unsurprisingly had an effect on fiscal policies. At this precise point, because the process of state-directed formation of an 'industrialists' was being financed by extraordinary oil revenues, the practice did not realize itself at the expense of traditional merchant trade.

The Shah was exceptionally passionate about maximizing his objectives of attaining power and control over society and establishing his place in history. Thus, he based his power on three pillars: armed forces, court patronage and vast state bureaucracy. Accordingly, the size of the armed forces was increased from 200,000 men in 1963 to 410,000 in 1977; the annual military budget from \$293 million in 1963 to \$1.8 billion in 1973, and to \$7.3 billion in 1977. The main source of the second pillar – the court patronage – was naturally the oil revenues directly flowing to the Treasury. Finally for the maintenance of the third pillar, the state bureaucracy was radically enlarged and this, together with the merits of the land reform, led the state to penetrate into distant districts, challenging the entrenched institutional structures and the objectives and functions of the traditional powerful groups and classes, particularly the landlords and the land-owning segments of the *Ulama* (Abrahamian 1982).

On the other hand, the prosperous 1963-73 period paradoxically helped the religious establishment as some of the fortunes of the Bazaar merchants were directed towards the *Ulama*. This was done via the expansion of the major seminaries financed by many Bazaar merchants, whose objective maximization was constrained by informal institutional structures such as the societal mental models, specifically in this case the meaning of 'reputation' within the society. However, a similar return to a loose alliance was not the case for the *Ulama*, because the government, without delay, decreed a law to transfer the administration

of waqf (religious endowments)—a very important income and thus an authority source for the *Ulama*—to the state (Akhavi 1980). In this very environment of nonexistent credible commitments on the side of the Shah, the high *Ulama*, whose most important de facto power source was taken away, started to seek strategies to acquire de jure political power, which is more persistent and thus deemed as better in guaranteeing interests for longer terms. In a word, change in formal institutional structures on one hand put constraints on the objective maximization process of the *Ulama*, but the relatively slow change in informal institutional structures on the other hand indirectly helped their power.

Nonetheless, because the interests of the all groups had not yet completely deteriorated, a successful form of collective action could not be formed to change the political and economic institutional structuring. This once again highlights the fact that the widely known *Ulama-bazaar* alliance was not formed on the grounds of religious terms, underlining once again the insufficiency of the explanatory power of the beliefs and ideologies view. The post-oil shock period, however, marked a turning point in which the economic interests of the traditional mercantile capital were also threatened by the state policies. This meant a formation of collective action in selecting alternative pathways at this particular critical juncture.

7.4 Stage IV: The oil crisis and the changing constraints

7.4.1 Oil shock and the changing constraints in Turkey

When the Turkish case of institutional transformation of 1980s is assessed on the basis of the proposed framework, it appears that the oil crisis, which caught the hegemonic actors just in the middle of a structural crisis (e.g. advantageous position of the industrialists in the prevailing status quo declined), victimized these agents. What is more, an incompatibility problem emerged between the internal and the external institutional structures due to the transformation in the world economic system. The policy measures taken in accordance with the import substitution industrialization model did not naturally provide a remedy for the crisis of the national system to which the developments in the international environment were gradually putting a strain on. Losses were mounting as time passed and the productivity gap was widening due to an increase in production costs because of importation. Thus they desired for urgent integration with the global capital markets. A secure business environment was also dependent on receiving credit from the West.

The military, which was by then embedded in the capital accumulation process, was naturally in cooperation with the capitalists. We can even compare it with the traditional *Ulama-Bazaar* alliance in Iran, the former differing from the latter on the basis that it was arguing for “modern” internationally compatible institutions.

7.4.2 Oil boom and the changing constraints in Iran

The State under the Shah’s system, albeit without backing from traditional hegemonic groups and classes, still appeared pretty strong due to the three institutional pillars explained before. However, the oil boom dashed that appearance, directly and indirectly, first via triggering the economic crisis and second through causing deterioration in foreign relations (Griffith 1978). But how did the ‘boom’ play a profound role in creating such a catastrophic environment at both domestic and international levels? More importantly, why did it prompt the collective action formation among the hegemonic groups and classes and enable them to mobilize resources in order to provide support and strengthen the established collective action?

To begin with, the outlay of skyrocketed oil billions for ambitious development plans expectedly overheated the economy which led to especially high inflation rates. However, although the inflation was due to a complex combination of factors, the Shah preferred to put the blame on the shoulders of the businessmen, particularly the traditional merchants on the grounds of profiteering. Subsequently, the central government imposed strict price controls

on many basic commodities and formed and send out specific “inspectorate teams” to the bazaars to wage a “merciless crusade against profiteers, cheaters, hoarders, and unscrupulous capitalists” (Abrahamian 1982, 498). There were some 25,000 fines and some 8,000 prison sentences ranging from two months to three years given out the bazaar merchants; 23,000 bans forbidding traders from their home towns, and some other various charges applied to some other 180,000 small businessmen. In Abrahamian’s words: “by early 1976, every bazaar family had at least one member who had directly suffered from the anti-profiteering campaign.” In these conditions, the Bazaar, decided to leave the involuntary consensus and turned to the *Ulama* for establishing a collective action.

Secondly, the oil price increase act of 1973 weakened the relations of the Shah with his Western allies. The political structure of the country started to be questioned very often and the Shah became pressed from both internal and external forces. American congressmen began to question the wisdom of selling so much sophisticated weaponry to a regime that depended entirely on one man. The US Department of Defense concluded that it was potentially dangerous to sell so many weapons to such a repressive regime. The House of Representatives Subcommittee on International Organizations declared that the Iranian regime could not be considered stable. Carter, in 1976 specifically named Iran as one of the countries in which America should do more to protect civil and political liberties (Abrahamian 1982), triggering the process of one phase institutional change (Lenczowski 1978).

8. Conclusion

This study, starting from the proposition that institutions are all *choices* endogenous to natural experiments of history, analyzes the roots of completely different post-1980 institutional restructuring in Turkey and Iran. It basically argues that twentieth century political power-dynamics underlay the diverse post-1980 institutional reorganizations in the two countries. The former on the other hand has been demonstrated to have their origins in preceding political institutional forms. In view of that following findings have been underlined:

- a) The *Ulama* in Iran had age old roots of de jure political power, in which the establishment of the Safavid state was the critical juncture.
- b) The military in Turkey as a founding factor of the country has roots of de jure political power.
- c) The local notables’ and the modern capitalists’ de facto powers stem from specific features of these classes and their relations with the state.
- d) State structures were noticeably different in Iran and Turkey. This feature appeared particularly important when considered in terms of state-ulama, state-capitalist and state-landowner relationships. Different central state strengths led diverse domestic political power relations and in turn complete divergence in institutional evolution in post 1980s.
- e) Co-evolutionary interactions among different national paths have also appeared effective in reshaping institutional structures.

Moreover, we have proposed that establishment, reformation and transformation of economic institutional structures in different countries are endogenous to two important determinants: First, diverse political institutional structures that determine formal constraints on political power relations and second, diverse mental models that different societies adopt which create informal constraints on cognitive and relational patterns. Accordingly it is demonstrated that the diverse selection of political institutional pathways in the two countries in the 1950s had significant effects on the evolution of economic institutional structures. Economic institutions in Iran largely took the form of deals between de facto power holders and the court, with

limited redistribution towards broad segments of the population. In Turkey in contrast, the economic institutions emerged as the outcome of competition over influencing the public policy. Votes served as “credible threats” on the part of the masses and led to considerable redistributive rents towards broad segments of the society. Consequently, in Iran on the eve of 1979, depending on the relative power balances, particular groups with de facto political power stemming from their economic might and ability to solve collective action problem, wanted to convert it to de jure political power which is considered to be more persistent compared to de facto power. When they managed, the economic institutional structure was also intended to be transformed in a way which would facilitate the sustainability of the newly formed political institutional structure that was the base of those hegemonic groups’ de jure power. In Turkey on the other hand, the multi-party election system led institutional shifts rather than complete institutional switches via providing the hegemonic groups and classes with ways to form consensus and impeding the fights for interests go to the extremes and lead the boat to rock, or worse to sink.

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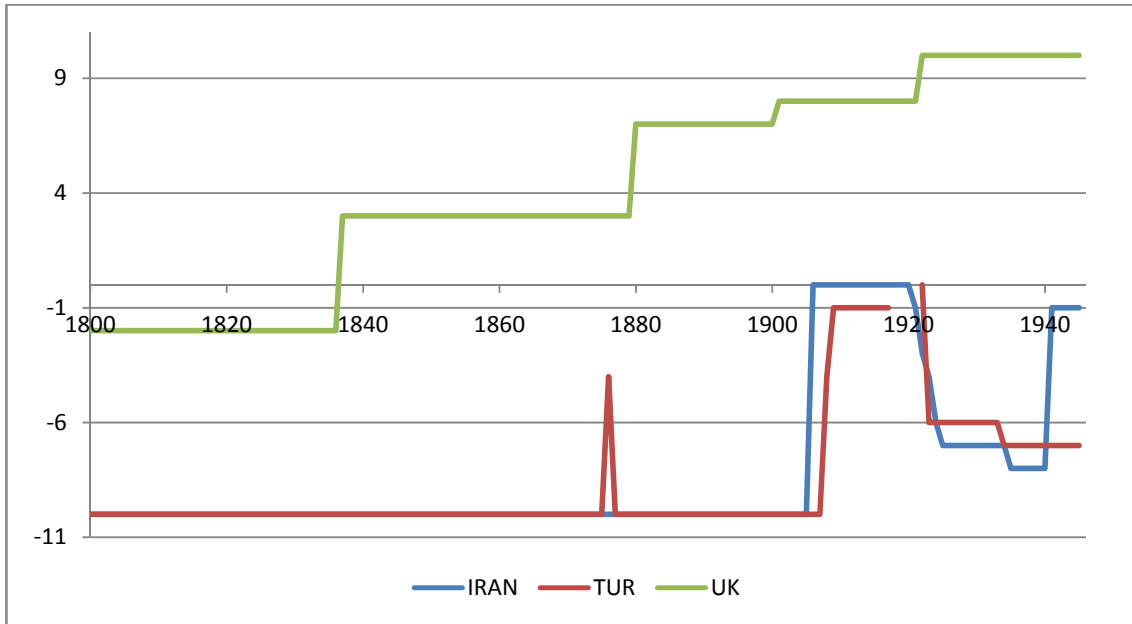
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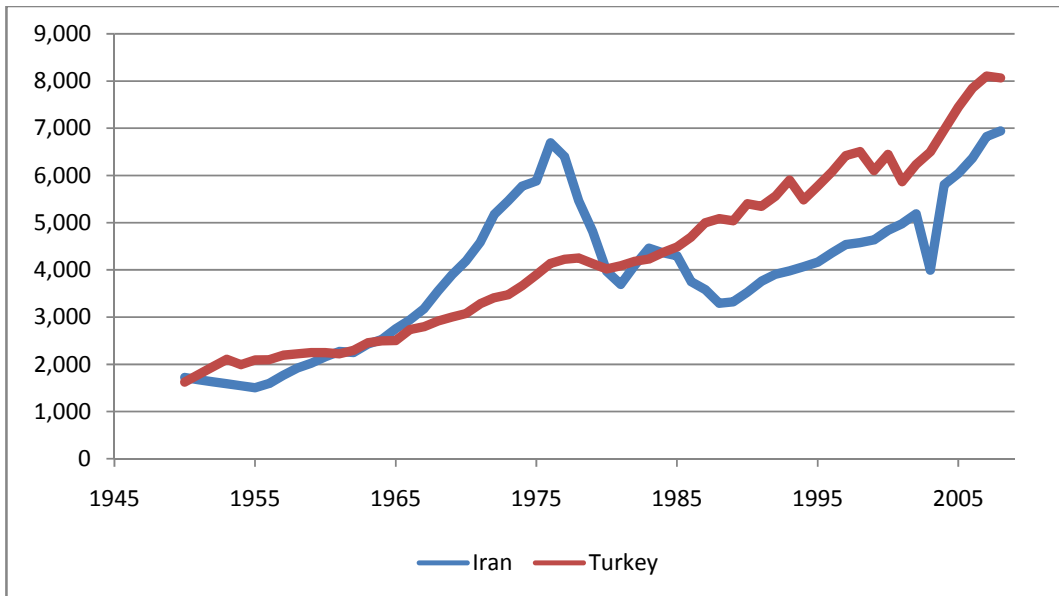
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Figure 1: POLITY2 indices Iran, Turkey and the UK (1800-1945)



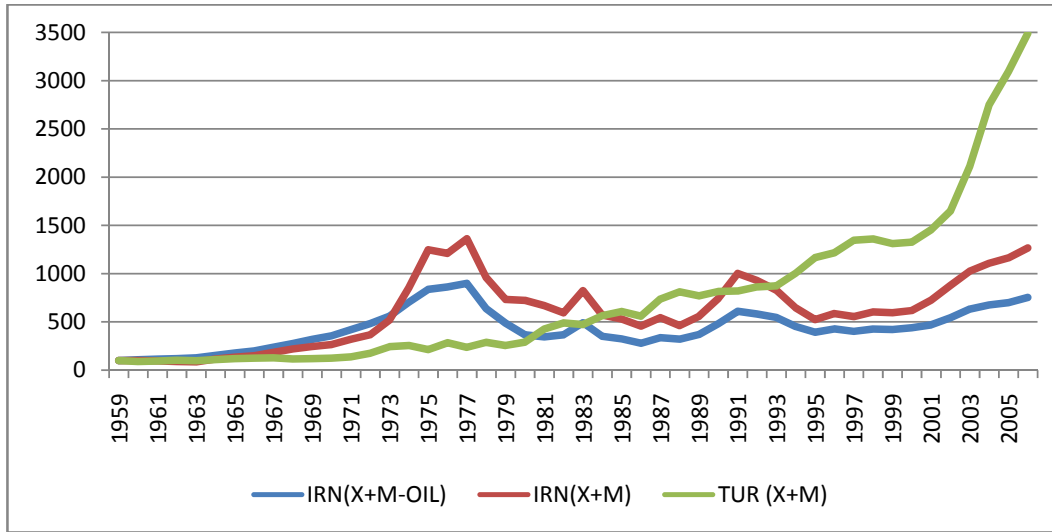
Source: <http://www.systemicpeace.org/polity/polity4.htm>

Figure 2. Per capita GDP in Iran and Turkey 1950-2008 (in constant 1990 dollars)



Source: Angus Maddison 2007, World population, GDP and per capita GDP

Figure 3. Trade in Iran and Turkey, 1959-2005 (constant prices, 1959=100)



Source: Turkish Statistical Institute and Central Bank of Iran

Figure 4: The Political Power Balances View



Figure 5 Institutional Emergence, Persistence and Change from Macro to Micro Grounds

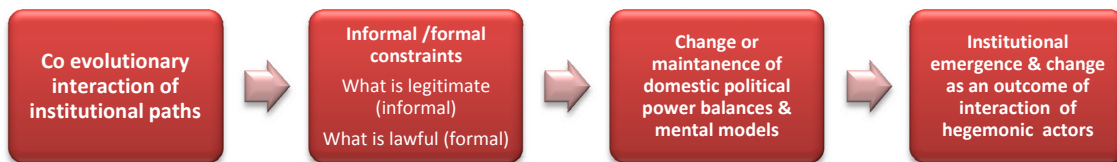


Figure 6: Formation and Behavior of Hegemonic Actors

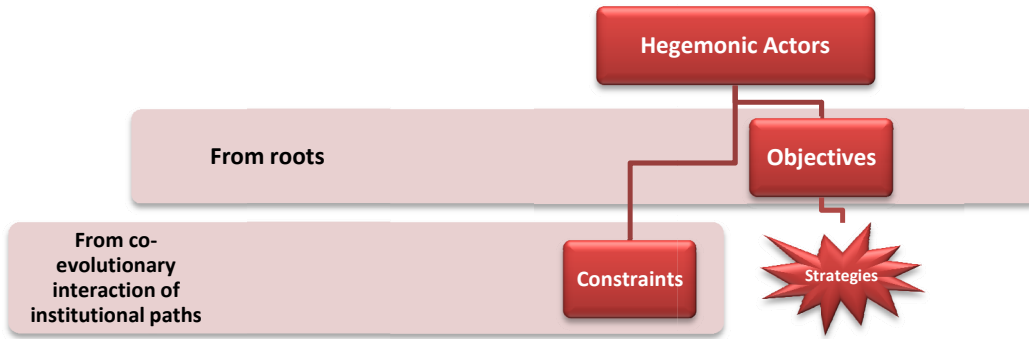


Figure 7: POLITY2 Indices for Iran and Turkey, 1940-2008

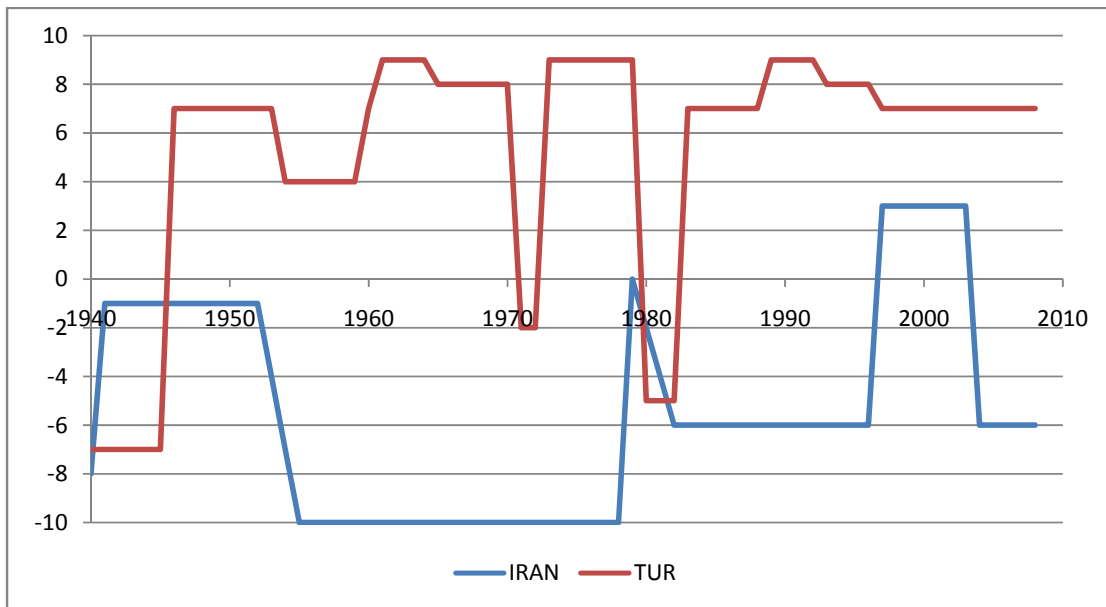


Figure 8: Politically Powerful Actors and their Objectives in Iran

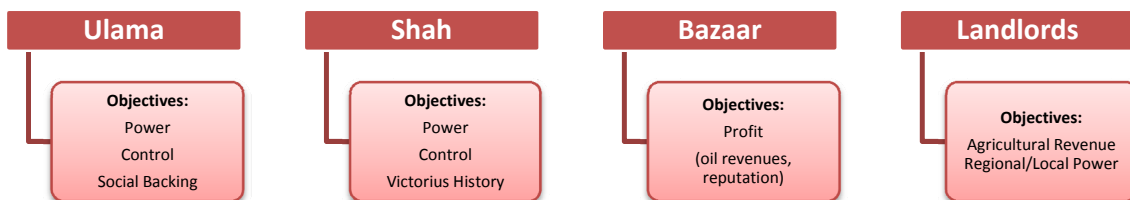


Figure 9 Politically Powerful Actors and their Objectives in Turkey

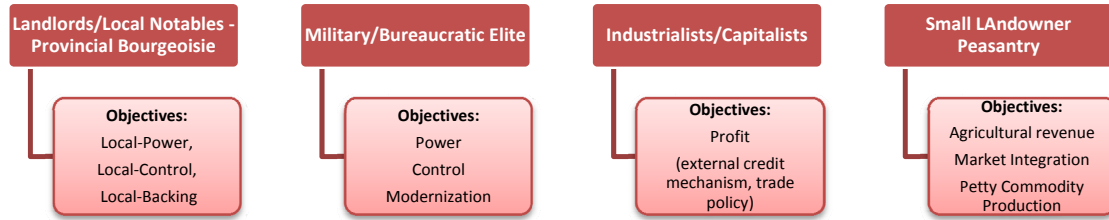


Figure 10: Actors, Objectives, and their Strategies in Turkey

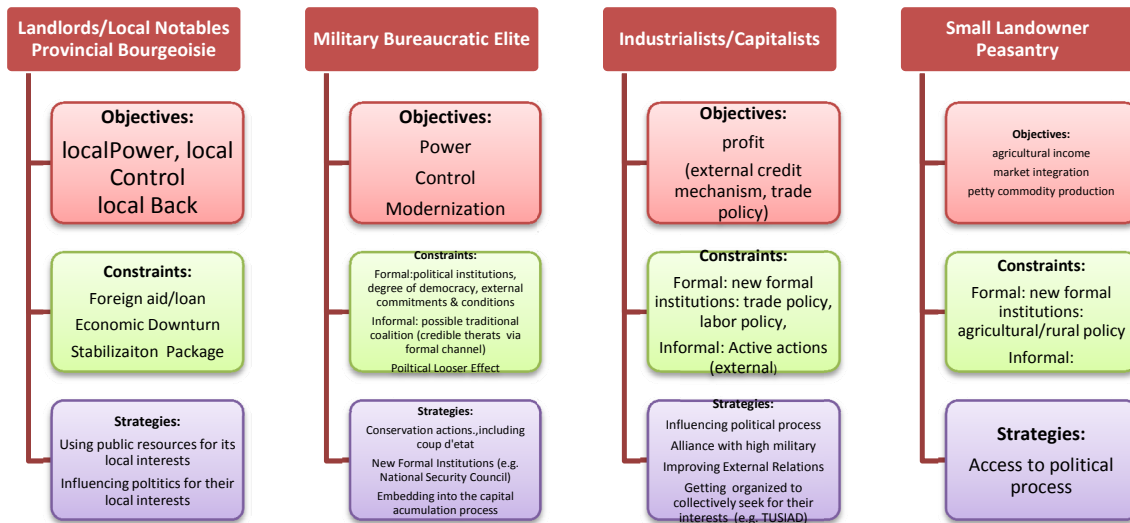


Figure 11 Actors, objectives, and their strategies in Iran

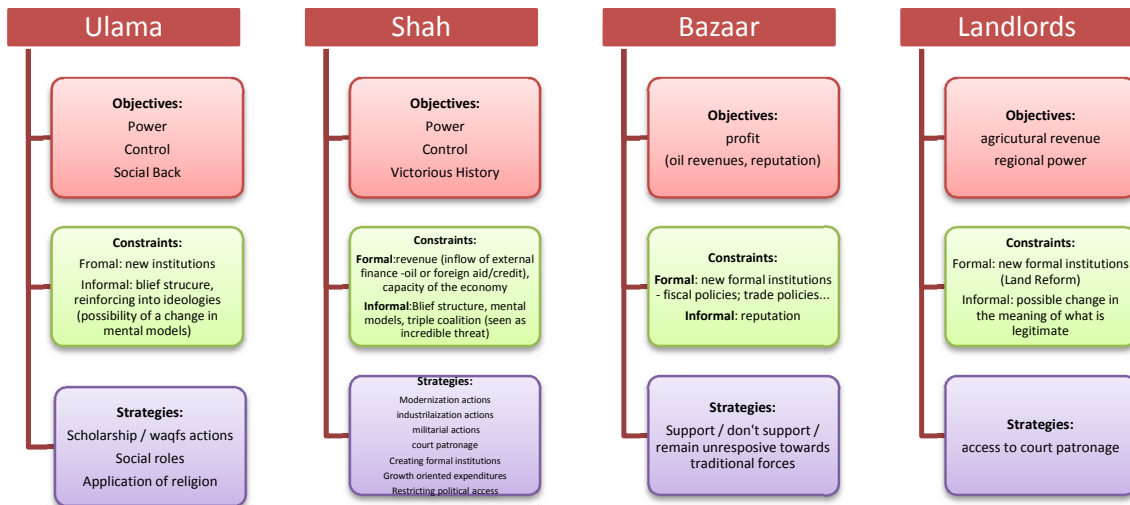


Table 1: Population in Iran, Turkey and Egypt (000 at mid-year)

Country	1820	1870	1913	1950
Turkey	10.074	11.793	15.000	21.122
Iran	6.560	8.415	10.994	16.357
Egypt	4.194	7.049	12.144	21.198

Source: Angus Maddison, 2007, World population, GDP and per capita GDP

Table 2: Historical comparison of per capita GDP ratios – Iran, Turkey and Egypt (1990 international dollars)

Country	1820	1870	1913	1950
Turkey	643	825	1213	1623
Iran	588	719	1000	1720
Egypt	475	649	902	910

Source: Angus Maddison 2007, World population, GDP and per capita GDP

Table 3: Parliament representation since the constitutional revolution in Iran and Turkey: Comparison of occupations (in percentage)

Occupation	IRAN					TURKEY			
	1906-26	1926-41	1941-63	1963-7	1975-9	1908-18 ^a	1920-60	1960-80	
								Parliament	Senate
Soldier	-	-	-	-		5.6	9.56	5.21	14.63
Cleric	24	11	4	0.3	0.3	22	1.46	1.81	0
Merchant	11	11.4	9.2	7.7	6.8	2.4 (+)	12.11	10.78	2.03
Landowner	28.5	40.4	40.4	23.2	9.8	21	10.65	9.12	3.29
Government	32.1	26.9	32.6	45.8	40.8	30	24.11	14.19	18.49
Emp.									
Professional	12	17	19	13.8	21.3	19 (+)	25	38.1	48 ^b
Private Sect.	3	2	2	3.7	3.2		9.35	3.91	6.30
Worker-Unionist				3	4.9		0.69	1.95	1.22

Notes: a Data for Turkey for the period 1908-18 covers only 50 percent of the parliament representatives due to lack of data on non-Muslim delegates. According to Ahmad and Dankward (1976) if this data could be obtained, the ratio of merchants would probably be higher. This also applies to the ratios of professionals. b 35 percent being lawyers and jurists.

Source: Adapted from: 1) Cumhuriyet Dönemi Türkiye Ansiklopedisi; 2) Encyclopaedia Iranica; 3) Bill, J.A. (1972); 4) Ahmad, F and Dankward A. Rustow (1976)

Table 4: A Simple Model of the Bargaining Game

	Hegemonic Actor-A	Hegemonic Actor-B
	NC	C
NC	ω_A, ω_B	$\beta + \varepsilon_A, \beta$
C	$\beta, \beta + \varepsilon_B$	Ω_A, Ω_B

Appendix A: Representation of the Stages of Institutional Building in Turkey

	Prominent/Featured Players	Strategy Option	Pay-off Set
STAGE I: Consensus on Political Institutional Environment (Multi-Party System)	Small Landowner Peasantry + Large landowner local notables (contradictory CA) versus Military Civil Bureaucrats (MCB)	Contradictory CA Non-Comply with prevalent institutional system. MCB values the future and complies with the new hegemonic institutional project as a long term rational strategy	$\beta, \beta + \varepsilon_B$ Contradictory CA gets the ε de jure power of Contradict. CA \uparrow i.e. Associational Life + Access to political process
STAGE II: Fracture in Consensus MCB Leaving the Consensus (Political Loser Effect)	MCB Versus Contradictory CA	MCB \rightarrow Political Loser Effect \rightarrow Non-Comply with the prevalent institutional system.	$\beta + \varepsilon_A, \beta$ MCB gets the ε d-j power MCB \uparrow i.e. New Constitution Bicameral parliament - senate
STAGE III: Return to the Consensus (MCB values the future)	All.	Comply-Comply Contradictory CA express their demand through associational life and parliamentary system Labor through unions MCB through new formal institutions (i.e. NSC) Provincial capitalists through TOB later through NSP Industrial capitalists (IC) through relations with MCB (ISI & SPO)	Ω_A, Ω_B De facto power of high military \uparrow MCB embedded into the capital accumulation process De facto power of IC \uparrow with TUSIAD b/c CA ability \uparrow
STAGE IV: Changing constraints and domestic power balances (Oil shock victimized Industrial Capitalists – Economic Loser Effect)	Industrial Capitalists versus MCB and Contradictory CA De facto power of IC \uparrow with TUSIAD because CA ability \uparrow De facto power of provincial capitalists \downarrow unbalanced growth De jure power of MCB \downarrow due to unstable coalition governments \rightarrow “proliferation of rights” \rightarrow no credible commitments	Industrial Capitalists Non-Comply with prevalent institutional system. (high wages, strikes, losses, need for a new project of economic growth which could ensure a steady supply of foreign exchange)	$\beta, \beta + \varepsilon_B$ Industrial Capitalist gets the ε De facto power of IC \uparrow

Appendix B: Representation of the Stages of Institutional Building in Iran

	Prominent Players	Strategy Option	Pay-off Set
STAGE I: Consensus on Political Institutional Environment (Constitutional Monarchy)	Traditional Proprietary Classes (TPC) (<i>Ulama</i> + Landlord + Bazaar) versus Embryonic Intelligentsia & TUDEH	TPC Non-Comply with existent institutional developments •Post WWI changing informal institutional structure via new formal institutions + Post WW II free politics (i.e. TUDEH) → <i>Ulama</i> - Political Loser effect •Oil Nationalization Movement → international sanctions → unfavorable economic conditions → further nationalization movements → Bazaar no maximize its objectives •Mosaddiq introduces agrarian reform prog. → Landlords' constraints ↑	$\beta, \beta + \varepsilon \beta$ Traditional Proprietary Classes gets there De jure power of Landlord ↑ De facto power of Bazaar ↑ e facto power of <i>Ulama</i> ↑ (direct) + De jure power of Shah ↑
STAGE II: Fracture in Consensus – <i>Ulama</i> Leaving the Consensus	Traditional Proprietary Classes & Shah	Involuntary Comply-Comply Bargaining power of TPC initially high, but Initial compliance of Shah ends Oil nationalization stops → Consortium when 3 pillars → military + bureaucracy + court patronage → Shah Bargaining Power ↑ → <i>Ulama</i> Political Losers Bazaar non- responsive because $\omega_B < \omega_U$	Ω_A, Ω_B De jure power of Shah ↑ De facto power of Shah ↑ De facto power of Bazaar ↑ De facto power of <i>Ulama</i> ↑ (indirect)
STAGE III: Involuntary return to Consensus (Collective Action Problem not yet solved)	Shah versus <i>Ulama</i> and Landlords	Shah Non-Comply with prevalent institutional structure WHITE REVOLUTION <i>Ulama</i> involuntarily comply with new institutional project Landlord involuntarily Comply Bazaar Comply	$\beta + \varepsilon_A, \beta$ Shah gets the ε Landlord de jure power ↓ H/r unintentionally <i>Ulama</i> de facto power ↑ Bazaar de facto power ↑
STAGE IV: Changing constraints and d. power balances (Oil boom → from quest for a decent life to quest for equally rising share from skyrocketing oil revenues)	-1- Shah versus TPC BUT -2- Traditional Proprietary Classes vs Shah when solve the problem of CA as soon as Bazaar becomes responsive (<i>Ulama</i> credible – played same strategy option over repeated games)	Shah plays N-C strategy -1- Fourfold ↑ in oil income One-party pol. System Anti-profiteering campaign against Bazaar Credit Subsidies -2- Then , when understands that threats from informal channels also credible converts to Comply but not considered credible anymore	$\beta, \beta + \varepsilon_B$ <i>Ulama</i> gets the ε