Turkey:

Economy, Politics and Society in the Post-Crisis Era

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Ümit Cizre
Bilkent University
Department of Political Science
06533 Ankara TURKEY
umit@bilkent.edu.tr

Erinç Yeldan
Bilkent University
Department of Economics
06533 Ankara TURKEY
yeldane@bilkent.edu.tr

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Turkey initiated an extensive dis-inflation program in December 1999 backed and supervised by The International Monetary Fund (IMF). The Program aimed at decreasing the inflation rate to a single digit by the end of 2002. It exclusively relied on a nominally pegged (anchored) exchange rate system for dis-inflation and on fiscal prudence. In February 2001, however, Turkey experienced a very severe financial crisis which deepened and continued to-date. The official stance is that the crisis was the result of the failure of the public sector to maintain the austerity targets and the failure to fully implement the free market rationale of globalization. We argue in this paper that, contrary to the official wisdom, the current economic and political crisis is not the end result of a set of technical errors or administrative mismanagement unique to Turkey, but is the result of series of pressures emanating from the process of integration with the global capital markets. We further provide a discussion on the current distinguishing characteristics and fundamental parameters of the Turkish politics in the post-crisis era.

More than a year has passed since Turkish Prime Minister Bülent Ecevit announced, after the National Security Council meeting on 19 February 2001, that "a very serious state crisis" arose in the meeting as a result of a verbal clash between him and president A. Necdet Sezer over how to combat corruption. The incident marked the onset of the severest crisis in the Republic's history. The stock markets, employment, production, finance, and the Turkish *Lira* went into a downward spiral and the gross domestic product shrunk by 7.4 percent over the year, the worst performance since WWII. As the resumption of normalcy seemed distant and almost out of reach, relations between capital, social groups and the state became openly conflictual and the policy making process was paralyzed at a point which fell short of constraints required by the IMF. In response to the crisis, and in order to reinvigorate the now-stalled free market reforms, a new standby agreement was signed with the IMF. Whereby, Turkey would receive $15.7 billion of loans from the IMF and World Bank in 2001, and a further $14 billion in 2002, in return for the implementation of austerity measures.

If the structural market reforms promoted by the then-Prime Minister Turgut Özal in the 1980's can be termed as Turkey's "first-generation" economic liberalization, the current stage of neo-liberal economic surge can be called as the "second-generation" marketization reforms. Essentially, both rounds of reforms keep to the same prescriptive orthodoxy, namely, the establishment of unfettered free-market capitalism. However, the new generation of market policies have been formed and implemented in a context where the transnational mobility of capital and global production networks is far more pronounced than before. [1]

Clearly, the operations of a globalized financial system depend on the existence of connections between the global order and domestic politics. As required, designed and imposed by International Financial Organizations (IFO's), marketization policies aim to reshape the power relations between government bureaucracy, national and international capital, and the laboring masses. In fact, the current predicament in Turkey painfully illustrates the theoretical debate on how to modify state–market relations in a country so as to convert it into a "reliable and stable partner state" in the global capitalist order.

Nowhere has this fact been clearer than in the new wave of market reforms. Because the shock-waves of the February crisis were more crippling than ever in the history of the Turkish Republic, to pull the country out of that predicament and integrate it into the interstate system as a stable partner, the IMF insisted on a set of structural reforms in return for financial support. The second-generation market reforms required a more far-reaching incarnation of the standard one-size-fits-all IMF measures: privatization, deregulation, and rehabilitation of the banking sector, a competitive exchange rate, a more flexible labor market, drastic cuts in

[1] See Akyüz and Boratav (2002), Boratav, Yeldan and Kose (2002), Yeldan (2002), Ertugrul and Selcuk (2001), Metin, Voyvoda and Yeldan (2001), Cizre-Sakallıoğlu and Yeldan (2000), Kepenek and Yentürk (2000), Uygur (1996), and Ekinci (1998) for a thorough overview of the post-1990 Turkish macroeconomic history. Balkan and Yeldan (2002), Gürkaynak (2000), Öniş and Aysan (2000), and Yentürk (1999) provide similar analyses based on the effects of international speculative financial capital flows on the Turkish economy. Yeldan (1995) and (1998), in turn, discuss the characteristics of the post-1990 Turkish macro adjustments in terms of creation and absorption of the economic surplus, and provide a quantitative analysis on the strategic role played by the state apparatus.

the public sector spending, and central bank independence. The contents of the original 15 laws the newly appointed Economy Minister Kemal Derviş, a former World Bank vice-president, proposed and then turned into a package of legislation in May 2001, reflect those priority areas. The package included Central Bank reform to ensure the complete abandonment of a controlled foreign exchange system, privatization laws for tobacco and sugar industries and the Turkish telecommunications industry, and amendment proposals for the Banking and Bankruptcy Laws so as to restructure Turkey's ailing banking sector.[2]

The official view is that the February crisis was the result of the failure of the public sector to maintain the austerity targets set by the IMF-led stabilization program initiated in December 1999. According to that view, the previous program led to the emergence of an unprecedented current account deficit. Kemal Derviş, for instance, has recently underlined that position by claiming that during 2000, fiscal balances could not be brought under control and this resulted in inordinate pressure on the current account balance.[3] Derviş's comments found support from international figures as well. The former deputy managing director of the Fund, Stanley Fischer, for instance, has argued that the underlying cause of the crisis was the *failure to undertake corrective fiscal measures* against the deteriorating current account balances, rather than any errors in program design concerning the exchange rate backed dis-inflation.[4]

We argue, however, that the current political and economic crisis in Turkey is not the product of a few technical errors or mismanagement on the part of bureaucrats and government, but is the end result of a set of cumulative processes that were set in motion by the overly premature attempt to liberalize and deregulate the economy. Contrary to the official stance, economic evidence clearly shows that the fiscal targets were reached throughout the implementation of the program in 2000, and the Central Bank was successful in maintaining its monetary targets. It is our operating hypothesis in this paper, therefore, that because the fragile and shallow domestic asset markets of Turkey's peripheral capitalism were prematurely exposed to foreign competition, all the underlying conditions for the financial crisis were already in place. Any

[2] *Transition to the Strong Economy Program*, Undersecrateriat of Treasury. http://www.treasury.gov.tr

[3] Speech delivered by Kemal Dervis in the Conference "Crisis, from Where to Where" METU, February 27, 2002, Ankara.

[4] Stanley Fischer, "Exchange Rate Regimes: Is the Bipolar View Correct? (Distinguished Lecture on Economics in Government) *Journal of Economic Perspectives,* 15(2): 3-24, Spring, 2001.

subsequent chance event was liable to trigger the crisis. In other words, the ill-timed liberalization of the capital account meant that the crisis was an accident waiting to happen.

Thus, the question is whether the causes of the crisis and the proposed remedial reforms are as simple and mono-causal as the neo-liberal thinking behind the IMF-backed recovery program in Turkey would lead us to believe. This paper addresses these issues based on recent economic evidence. The plan of the paper is as follows: in the next section, we offer an overview of the orthodox perceptions on the causes of the February crisis in Turkey. Then we provide a contrasting view based on the existing macro economic evidence. We continue with a discussion of the current distinguishing characteristics and parameters of the Turkish political apparatus. We provide concluding comments in the final section.

ORTHODOX PERCEPTIONS ON THE CAUSES OF THE FEBRUARY 2001 DOWNFALL

The official interpretation of the causes of the February 2001 crash rests on the orthodox "political and economic mismanagement perspective". That interpretation is further incorporated into the underlying logic of the current structural adjustment program. It argues that the preoccupation with private and political gain in the public bureaucracy and politics compromised the quality of the economic decision-making, which in turn, laid the foundations for the ensuing crisis.

Corruption and Venality of Public Bureaucracy

Prominently represented by marketization–friendly elements of the political elite – especially by the ANAP (The Turkish acronym of the Motherland Party) wing of the incumbent tripartite coalition government, the bureaucracy, media pundits, majority of the academia and the IFO officials - this discourse attributes the present crisis to policy errors and deviations from or deadlocks in the first-generation market reforms. In a general sense, for this perspective, the blame for the crisis lies in the failure of Turkey to adapt to globalization and seek benefits from it**.** Accordingly, the failure to fully implement the free-market rationale stems from two clusters of factors which are not mutually exclusive: first, the lack of political will on the part of the government bureaucracy and political actors, and second, the fusion of politics with the economic realm. The combined result, it is argued, was "bad governance" and institutional rigidity which brought about ineffectual and erratic patterns of economic policy making. According to this position, the appropriate reform strategy is to make administrative changes that provide the flexibility needed to manage a market economy.

If we begin by looking at the so-called lack of political will we can see that proponents of this position contend that the first-generation reform phase and subsequent IMF structural reform programs have not gone far enough simply because the political elite have lacked the courage to identify themselves with the reforms. They have failed to carry them out and risk the political costs of the kind of austerity measures essential to integrating with global capitalism. The Minister of Economy, Kemal Derviş, himself adheres to this point of view when he attributes the failure of the past IMF programs to the absence of a group of politicians willing to commit themselves to the strong measures required by the structural logic of neo-liberal orthodoxy.[5] More specifically, for this school of thought, the genesis of the crisis derives from the incompetence of those managing public enterprises: an extensive and expensive series of populist entitlements made possible by the role of the state in the economy. Thus, the sheer size of public employment and spending has created a large dent in public finances, enabled the channeling of cheap loans to key political constituencies through state-owned banks, fostered political cronyism, and imposed an enormous inflationary burden on the goods markets. Moreover, it is argued that the character of Turkey's public sector provides the natural habitat for corruption which in turn precipitated the February 2001 crisis. It is argued that a large and unprofitable network of state-owned banks has encouraged rent-seeking behavior by bureaucrats and politicians. In fact, rooting out corruption and restructuring the banking sector has become a *sine qua non* of the latest stabilization plan.

However, there is something amiss in explaining corruption as an aberrant behavior by the public servants only. In the 1990's, an enormous and unsustainable network of some 80 private banks with no connection with the real sector emerged to take advantage of quick returns from public sector debt. They relied on the crawling peg exchange rate system for making these quick returns. In fact, as argued forcefully in Cizre-Sakallıoğlu and Yeldan

[5] Interview with Kemal Derviş by Leyla Boulton and Martin Wolf, "Winning Turkey's Trust," *Financial Times*, 14 May 2001.

(2000), Öniş and Aysan (2000) and Boratav and Yeldan (2002), throughout 1990's, Turkey's banking and financial institutions became disengaged from financing real production activities to the point where they became the dominant faction within capital and, therefore, able to manipulate the accumulation patterns. Under the regime of an open and unregulated capital account of the 1990's, short term foreign capital inflow-based deficit financing policy of the government, accompanied by high real rates of interest encouraged the commercial banks to extend their short positions in foreign currency, thereby overlooking prudential asset-liability management. Moreover, as marketization intensified, corruption in the private sector also became more commonplace: media barons were seen to be buying banks and siphoning off their assets.

The crucial flaw in orthodox perceptions of public-led corruption and rent seeking is that it tends to view the private sector as a sterile and rational entity, composed of technicians obeying only the market signals. Yet, as in all peripheral capitalist societies, Turkey's recent economic history shows very clearly how the bourgeoisie itself is a creation of the state; molded, protected and fed by the various rents that emanate both from distorted production processes and also through state-regulated surplus creation mechanisms. Thus, the so-called rent seeking activities and the associated waste, result not from *excessive* government intervention, but from the very processes of how private industrial and financial capital seek to appropriate resources to sustain its profitability. The role of the state in that case is to act where necessary, as a regulatory agent, in order to bring forth the required shifts in the mode of surplus extraction.

As Peter Evans concedes, perspectives that identify corruption and venality with public bureaucracies and that place an emphasis on rent-seeking, do have significant explanatory value. "If, however, they crowd out all other interpretations of public behavior, leaving public authority as a synonym for rent-seeking and venality, they run the danger of becoming a self-fulfilling prophecy." (1997: 76) When this kind of understanding is combined with the pervasive failure of heavily indebted and politically dependent countries to deliver public goods, the end result is a strong anti-state and anti-bureaucracy discourse expounded especially by the proponents of neo-liberal consensus.

Fusion of Economics with Politics

The second component of the political mismanagement school regards the failure to segregate politics from economics as a primary reason for corruption, lethargy over structural reform and the February 2001 crisis. According to Yalman (2002), this anti-state narrative which has become prominent since the 1980's, is a form of "oppositional hegemonic discourse" which has captivated the popular and political mind. It portrays the market and civil society as independent realms from the state where freedoms can flourish, while the state is seen as an *a*historical entity incapable of adjusting itself to global developments, unresponsive to societal changes, and to blame for bringing about the crisis. In tune with this popularly held conviction, Kemal Derviş rejects the interwovenness of politics and economics and sympathizes with the oppositional hegemonic discourse: "the message of 'lets separate politics from economics, lets not have a rent-seeking system, lets fight corruption' is an extremely popular one."[6] It would seen that in advocating the decoupling of the political from the commercial realm, Kemal Derviş is driven not by intellectual concerns but by practical objectives such as ensuring the independence of the Central Bank and transparency in public tenders.[7] Two months after the outbreak of the February crisis, Horst Köhler, Chairman of the IMF, in announcing the decision to grant a $10 billion loan to Turkey, reiterated that the goals of the stand-by agreement were to combat corruption and separate economics from politics: "now, in accordance with the program, parties and party leaders can no longer control the state-owned banks."[8]

What is conveniently ignored by this approach is the fact that the separation between market activity and political activity is itself a political project. For key economic and social concepts like structural reforms, markets, households, labor, stratification, social networks, poverty, crime and public policies can only be understood through a politics that lends them meaning and stability. Hence, the idea of segregating the political from the economic is subterfuge. Furthermore, the discourse reduces politics to the role of administration and the issuing of technical decrees, and society to a conservative and obedient and therefore malleable mass.

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[6] Interview with Kemal Derviş by Leyla Boulton and Martin Wolf, " Winning Turkey's Trust," *Financial Times*, 14 May 2001.

[7] Interview with Kemal Derviş by Muammer Elveren. "IMF Hızlı Destek Vermeseydi Kriz Derinleşirdi," *Hürriyet* (İstanbul daily), 5 February 2002.

[8] "IMF, Yolsuzluğu Bitirin," *Radikal,* 28 April 2001.

Politics is characterized as merely an instrument at the service of "liberalization", "efficiency" and "rationalization." The momentum of the stabilization project is enhanced by subordinating politics to the so-called imperatives of a global agenda. Moreover, by cloaking the IMF-backed stabilization programs in technical and scientific sounding language, the separation discourse smothers the potential for substantive resistance of even a constructive kind. The language of positivistic certitude protects itself because, by definition, it leaves no scope for even the idea of criticism.

Moreover, the idea of dissociating market and political forces is also a deliberate attempt to disconnect the economic stabilization program from the democratization discourse and to break the forces of simultaneity between the two. As a typical representative of this anti-political view, Economy Minister Kemal Derviş maintains that strengthening the economy by market reforms and establishing a strong democracy in Turkey is a problem of sequence, not a problem of the two issues being tackled simultaneously: "the stronger the economy of Turkey, the more European investment and production come to Turkey, the more trade there is, the more financial links there are, the stronger will be the European interest in integrating Turkey. I do believe that the economy deserves priority...".[9] The problem Kemal Derviş tries to evade by prioritizing economic over democratic reforms is real enough: genuine democratization is more likely to hinder than facilitate the imposition of this aggressive structural adjustment plan simply because the population seriously hurt by the massive cuts in social spending and layoffs would resist these measures if the process of democratic politics were at work.

The transfer of Kemal Derviş as the "fourth partner" of the government or as the "economic tzar" [10], as he has been called by the press, from the World Bank to manage the austerity package itself testifies to the strength of the political incompetence school as well as to the wish of the IFO's to artificially detach the political realm from the economic one. That Turkey's political class was incapable of producing an untarnished personality from within itself that was capable of garnering popular and international support behind the radical structural reforms was clear. Furthermore, Derviş's recruitment from the World Bank helped restore the confidence of the IFO's in the new management of the Turkish economy and helped ensure a frail government of much needed IMF credits. But the manner in which he

[9] Lecture by Kemal Derviş, Distinguished Lecture Series (European University Institute, Robert Schuman Centre for Advanced Studies, 1 June 2001), p., 16.
[10] "Turkey's Real Crisis," *The Economist* Global Agenda, May 15 2001.

was parachuted into power without first joining an existing political party, and in so doing saving the incumbent coalition government from having to resign, further strengthened the perspective that Turkey's political system is more accountable to global interests and institutions than local democratic mechanisms.

THE ECONOMIC EVIDENCE

A closer look at the main traits of the Turkish economy clarifies the existing misconceptions about the narratives of the neo-liberal orthodoxy. Kemal Derviş's May 2001 stabilization program was actually preceded by yet another IMF-backed stabilization program put into operation in December 1999.[11] The main pillars of this program rested on standard IMF orthodox stabilization measures, yet with an "exit" twist. It relied on a nominally pegged (anchored) exchange rate system and monetary control by setting upper limits to the net domestic asset position of the Central Bank (CB). Accordingly the CB committed itself to a policy of *no sterilization*, whereby changes in the monetary base would directly reflect changes in the net foreign assets of its balance sheet. In this manner, it was expected that the liquidity available in the domestic economy would be managed by the interest signals in smoothly operating financial markets; rising domestic interest rates would invite foreign inflows allowing for monetary expansion. Excess liquidity, in turn would be signaled through lower rates of interest, letting foreign capital outflows to bounce once again the equilibrium level of liquidity in the domestic financial markets. The program further entailed a series of austerity measures on fiscal expenditures and set specific targets for the balance on the non-interest, primary budget.

Existing economic evidence clearly indicate that the underlying cause of the Turkish currency crisis cannot be attributed to the failure of the fiscal and / or monetary authorities in maintaining the main targets of the December 1999 program. Throughout the year, exchange rate devaluation followed the programmed schedule, and the Central Bank successfully controlled expansion of the domestic money stock within the program limits. Similarly, fiscal operations were in line with both the revenue and expenditure targets, and the non-interest

[11] That in turn was a direct successor of the so-called *Staff Monitored Program* (SMP) which was put in effect in 1998. The SMP was baffled with limited accomplishments due to the continued political uncertainty surrounding the general elections and two unfortunate earthquakes.

primary balance on the consolidated budget succeeded in attaining the end-of-year target by as early as September. The non-interest – primary – budget surplus was targeted at 3.1% of the GDP for the year 2000. The end-of-year realization reached to 5.4%. Clearly, the fiscal austerity objectives were reached by far under the program.[12]

Yet, the crisis conditions emerged in due course, mainly as a result of the increasing fragility in the financial system. This fragility, in turn, was generated by the uncontrolled and excessively volatile capital flows, which were characterized by a high level of speculation. Turkey had been trapped into this fragile cycle with its premature move towards convertibility and the opening of its domestic asset markets to international capital flows. Without correcting the macro fundamentals and without taking the necessary steps to ensure prudential regulation of the banking sector, the domestic goods and asset markets felt undue strains in adjusting to the volatile conditions of open international competition. Boratav, Yeldan and Köse (2002), Balkan and Yeldan (2002), Cizre-Sakallıoğlu and Yeldan (2000), Öniş and Aysan (2000), and Yentürk (1999) for instance, point out that important fragility indicators such as the ratio of short term foreign debt to Central Bank reserves, and the standard ratios of financial deepening revealed that the Turkish foreign exchange market was not yet ready to be opened up to the speculation of international arbiters.

Under this new environment the Turkish Central Bank had lost control over its monetary policy instruments, in particular the interest rate and the exchange rate. As in all other developing economies, which had taken similar steps towards external liberalization, Turkey was trapped into a vicious cycle of high real interest rates, appreciated Turkish lira, and inflows of speculative short-term foreign capital.[13] In this environment, in order to combat pressures against dollarization (currency substitution) the real rate of interest at home had to be increased over the international markets. This generated an opportunity for arbitrage gains for the speculative financiers and short term capital inflows. Increased foreign exchange led to the appreciation of the Lira. Thereby imports increased, exports fell and the current account deficit widened. This process continued on in cycles until the financial speculators interpreted the expanding current account deficits as signifying the fragility of the domestic financial

[12] See Yeldan (2002) and Ertugrul and Yeldan (2002) for further discussion on the fiscal stance of the Turkish public sector in 2000.

[13] Elements of this *vicious cycle* are well-known and are studied extensively in the literature. See, e.g., Diaz-Alejandro (1985), Velasco (1987), Dornbusch, Goldfajn and Valdés (1995) and Adelman and Yeldan (2000).

system. At this point, capital inflows came to a sudden stop and turned into outflows, leaving the country illiquid and the Central Bank with no control over its instruments of austerity, and therefore, unable to stabilize the economy.

Thus, the IMF-led dis-inflation program which was initiated in 2000, has left the economy defenseless against a speculative run and a "sudden stop" because it dismantled all the tools of stabilization and monetary control over the Central Bank. Trapped within the confines of a pre-announced program of exchange rate devaluation, and of a monetary rule administered effectively by short term arbitrage speculation, the CB's monetary effectiveness was reduced to the miniscule role of an "accounting officer". Under this role, the CB lost all its power to steer the economy in the advent of a disruptive shock or a change in the investors' perceptions leading to a "sudden stop".

We report the main characteristics of the Turkish economy in Table 1. The volatility of the growth rate of the economy is clearly visible. Both the rates of growth of fixed investments and also remunerations of wage labor are observed to fluctuate severely. It is easy to trace the sources of this volatility to availability of imports, which in turn, was financed by short-term foreign borrowing. In the context of the post-1989 Turkish episode, the debt financed public deficit and rapid acceleration of private expenditures escalated inflows of short term foreign capital, and severely increased the vulnerability of the shallow banking system. As a result, the ratio of the short-term foreign debt to the CB's international reserves rose regularly throughout the program. (Table 1). It is alarming to note that in the Turkish case, this particular ratio has never fallen below the 100 percent mark since the liberalization of capital account in 1989. Thus, the Turkish financial system has been operating constantly in the "danger zone" for the past twelve years as far as this indicator is concerned. During the implementation of the disinflation program this ratio rose up to 112 percent in June 2000, and to 147 percent by December 2000. [14]

<Insert Table 1 here>

[14] Rodrik and Velasco (1999) regard this ratio as the "most robust indicator of a currency crisis". For comparison, at the outbreak of the financial crisis in Asia in 1997, this ratio was 60% in Malaysia; 90% in Philippines; 150% in Thailand; and 170% in Indonesia.

To this picture of fragility, an added set of pressures originated from the public sector's increased borrowing requirements (PSBR). In fact, with the advent of full-fledged financial liberalization after 1989, the PSBR financing relied exclusively on issues of government debt instruments (GDI's) to the internal market, especially the banking sector. The stock of domestic debt was only 6% of the GNP in 1989. It grew rapidly and reached to 42.8% in 1995, and to 59.1% in 2000 (Table 1).

The underlying characteristic of the domestic debt management was its extreme short-termism. Net new domestic borrowings, as a ratio of the stock of domestic debt continued at a pace of above 50% for most of the decade. Thus, the public sector was trapped in a short term rolling of debt, a phenomenon characterized as *Ponzi-financing* in the fiscal economics literature. For this scheme to work, however, domestic financial markets necessitated the continued inflow of short-term capital inflows. Thus, the episode of hot money inflows should be interpreted, in the Turkish context, as the long arm of fiscal policy, overcoming the credit and monetary constraints of the monetary authority.

In fact, with the implementation of positive interest rates, and the new possibility of foreign exchange accounts, financial deepening for the private households has lead to increased foreign exchange deposits with substantial currency substitution. Thus, it can be stated that the "pioneers of financial deepening" in Turkey in the 1980's and 90's have been the public sector securities and the foreign exchange deposits. The major brunt of the costs of this fragile environment, however, fell on the productive sphere of the economy, especially the traded sectors. High real interest rates and overvaluation of the domestic currency generated dis-incentives to exporters and productive entrepreneurs, and contributed to a widening current account deficit.

Thus, in terms of the causes of the February 2001 crisis, while for the political mismanagement school, the crisis proves that crony capitalism is a deviation from market economy, for us it should be regarded as the unavoidable offspring of the changing nature of global networks of finance. Following the rhetoric of the political mismanagement school, it is possible to reverse the orthodox arguments on the genesis of the February downfall: the February 2001 crisis did not cause the IMF's previous stabilization program to collapse, instead, it was caused by the previous program which was fully implemented. Given the structurally fragile characteristics of the Turkish financial system, the orthodox policy of fully relying on the speculative international capital flows for domestic finance and liquidity generation was clearly a design flaw, overseen by the IMF's technical expertise.

FUNDAMENTAL PARAMETERS OF POLITICS IN THE POST-CRISIS ERA

There are basically three principal features that define the ways in which the Turkish political structure and dynamics connect with the structural adjustment process in post-crisis conditions. First of all, economic crisis has served to reinforce the political status quo rather than change it. Secondly, the crisis is accompanied by a contradictory trend in politics: while the political eminence of the civil-military bureaucracy has risen, the relevance and weight of representative institutions receded. Thirdly, given heavy loan conditionality, the economic and political decision-making process was transformed to a level where international financial organizations achieved ultimate veto power. We take these issues in turn.

The Politics of Inertia

If we begin with the first, it is necessary to note that perhaps as significant as the economic crash is the paradoxical lack of an imaginative leap of statecraft since February 2001 in terms of leadership and ideas, either in response to public's mounting discontent or in order to reevaluate and the modify the extant political structure. The economic slump has provided the context for a growing awareness of the limitations of the prevailing political formula as well as of the need for a radical transformation. However, despite the ongoing clichés of reform and liberalization, the thrust of politics in Turkey has, if anything, sought refuge in the status quo. The present three-party coalition government, which has been in office longer than any coalition in Turkish history, epitomizes this inertia. It does not owe its longevity to its political ingenuity, nor empathy with the hopes and fears of the masses. It stays put because in order to provide "confidence" to the markets, government stability is regarded as crucial at a time when the country is going through "difficult times". It, therefore, has become a government by default, coexisting relatively peacefully both with a highly centralized military and civil bureaucracy and a powerful president. The serious vacuum in political authority is complemented by the absence of any viable opposition: the coalition sustains itself in office more by the absence of serious challenges to its policies than by its own muscle power. This situation is also a function of the crisis in terms of domestic and international circles not wanting to upset political balances that may lead to a worsening of economic conditions.

There is also an intentional side to this conservative turn: conservative politics, as elsewhere, utilizes moments of crisis in order to implement radical market-based reforms. This is so because the destabilizing effect of a crisis further weakens the hand of governments in dealing with domestic and international pressures and leads them to seek solace in conservative solutions. More explicitly, in conditions of distributional crisis, the political class may try to elicit a veneer of security and certainty by moving to a conservative political discourse which is conjoined with the free-market discourse. When the economy collapsed in January 1994, to cope with the corrosive effects of the distributional crisis which ensued, Tansu Çiller, the then-prime minister took an even more conservative political turn by deploying rhetoric and a strategy that focused on nationalism, religion, cultural values and embracing an anti-liberal position with regard to the individual rights, civil society and democratization. (Cizre, 2002)

New actors have not supplanted political parties and their leaders and the structures that sustain them have not been subject to critical reevaluation and revision. That inertia in terms of the personalities involved in, and the structural make-up of, Turkish politics supports the tendency to see the political realm as merely a conduit for passing stringent marketization reforms. Because neo-liberalism has become the unquestioned orthodoxy, the leading segments of the business, intellectual, party political and bureaucratic communities automatically presume that the socialist, social democratic and populist alternatives are implausible. Aside from the lack of self-reflective criticism, that state of affairs leaves little room for competitive politics. That the economic reform program has not created incentives for democratic politics to further the causes of political liberalism is not as paradoxical as it first appears to be, mainly because “it is not a paradox at all, for that relationship (between political liberalism and economic stabilization and structural adjustment program) does not always obtain, as some readings of the East Asian experience suggest.” (Springborg, 1999: 22).

Public discussion of the program is framed in the technical language of how the nation will be adjusted to the discipline of monetary and fiscal imperatives. The dominant mode of political imagination becomes technical know-how and technocrats become the substitute for politicians. This anti-political mindset is particularly apparent with regard to the expansion of the autonomy of civil and military establishment. The political autonomy of the Turkish Armed Forces (TAF) is a historical reality which has maintained a privileged position as the guardian of the foundational ideology of the Republic (Cizre-Sakallıoğlu, 1997:151-166). The last crisis not only reinforced this trend but also reaffirmed the military's long-held conviction that Turkey's political class is incompetent in the sense that it has failed to instill the fundamental priority of secularism over political Islam, economic discipline over populism, and unity over cultural and social pluralism.

Rise of Bureaucracy, Fall of Representative Politics

The concentration of power in the hands of a few non-elected public officials who are imbued with a pervasive anti-political outlook is not just confined to the military bureaucracy. There has been an increase in the autonomy of the civilian bureaucracy as well. One manifestation of this trend has been the visibility of Turkey's top bureaucrats, even before the crisis, especially in the judiciary and the civilian security spheres, speaking out loud in public against many state practices. However, accompanying this picture of bureaucratic power is the contrasting image of substantial contestation and polarization within the public bureaucracy between some agencies, departments and ministries. The most important cleavage is between the dyed-in-the-wool free market proponents who have either introduced or been converted into the market ideology by the former prime Minister Turgut Özal's ANAP administration (1983-89), and a developmentalist faction that urges a more activist state role in disciplining speculative global capital and taking care of the socially unfortunate through public spending. The former group, who reached the peak of their influence in the 1980's, still keep their stronghold in the economic bureaucracy. They are a market-minded, technically educated, rather anti-intellectual caste of technocrats who advocate integration with global capitalism and the EU more for commercial/economic than democracy reasons. They also exercise power in the new supreme boards/councils set up for each specific public enterprise to oversee the process of transition to privatization. These boards are characterized by low transparency and exclusive management and are staffed by bureaucrats given wide decisional leeway in terms of being free from accountability to the parliament.

An interesting aspect of the post-crisis politics that the advent of the structural adjustment plan has generated, is the ultimate demise of representative politics based on a mandate. The chief manifestation of this trend since the beginning of the 1980's has been the rise of the "political entrepreneur", who, as an elected politician either appropriates an existing issue or creates a new policy issue and builds her/his career on its promotion. Moreover, the issues each enterpreneur promotes tends to be the same because of a fundamental shift in the boundaries between the left and the right has become blurred. Hence they all tend to agree on a shift from public to private enterprise, from insulation to integration into the world capitalist market, from import-substitution industrialization to an export-led development. Terms like reform and liberalization are used by nearly all political persuasions to indicate that all economies operate according to the same laws.

In this context, representation in Turkey can no longer be said to correspond to a power generating and distributing processes. Policies that define the winners and losers and the re-construction of the state-economy and state-society relations, do not depend on the formation of a public consensus or even the retrospective acquisition of public backing. On the contrary, what matters most is not that politics should deliver the particular policies required and endorsed by the voters at elections, but that they are "effective" policies of "governance" regardless of the electoral premises. Likewise, leaders believe that they should be able to change their policy plans at a moment's notice, not according to publicly debated and accepted issues but as determined by their entrepreneurial acumen. In short, the political entrepreneurship trend continues without a mandate.

The development of this tradition has helped highlight the detachment of ideas from the material circumstances in which people live. Although economic liberalization has failed to better the real life situation of workers, traditional small bureaucrats, others on fixed incomes, peasant families and small-scale independent business, it has remained the unquestioned "model". Moreover, the neo-liberal conception of the market conveniently forecloses a full critique of the interests it serves. This is the paradox that the Turkish nation has become used to: the predominant everyday experience of the great majority of people runs counter to the captivation of the public mind by the laissez fair model. Once the life experience of the citizenry is disconnected from the world of ideas, the potential for political backlash by the losers against the system is undermined.

Politics of Heavy Loan Conditionalities

The most important way for the IFO's to prompt economic reform is through stringent loan conditionality. In the past, the strong populist base of politics and nationalist sensitivities to the impingement on state sovereignty, had rendered loan conditionality unattractive to the Turkish political class. However, the extreme crisis situation of the economy and polity paved the way for heavy conditionality. The IMF's conditions were based on structural reform, the free floating of the lira, fiscal tightening in the public sector through spending cuts, privatization, a more autonomous central bank, the overhaul of the banking sector, and the elimination of double-digit inflation.

Conditionality here refers to international policies and incentives which involve "the promotion of some minimum requisites and threshold conditions below which defined forms of international support will purportedly be withheld, and above which they can be supplied" (Whitehead, 1996: 257). As such, there is, in the literature, a distinction between three types of conditionality: whereas the first set of conditionality policies aims at restraining certain undesirable forms of conduct like the violation of human rights, the second set targets designed to improve measurable types of performance in the administrative and economic realm. The objective of the third group of incentives, on the other hand, is to promote "the much more complex and imprecise processes" (Whitehead, *ibid*: 262) of enhanced participation, increased political competition and the quality of democratic rule

It is true that, conditionality to promote democratic practices is more limited than the other two objectives. The difficulty arises from various factors: democracy promotion is mediated as much through the work of the local players as through transnational players and cleavage patterns and political loyalties. More importantly, the eventual prospects of democratic reform in a country transcend the constitutional and legislative changes and include social, cultural, and psychic ambits. There is not, however, a necessary consensus on just how wide and deep the less invisible changes in the foreground should be. In addition, the growing role of the IFOs in pressing for reform in the democracy-oriented climate of the post-Cold War era, can meet entrenched resistance not just from those who gain from partaking in the public sector spoils but also from sectors of bureaucracy which consider themselves as the ideological guardians of the "state". The main objective for this sector is to maintain its strategic position as the chief interlocutor in politics.

It is not surprising, therefore, that the IMF's priority conditions are economically rather than politically-based. Its political agenda and foreign policy-based concerns are centered on providing international support to a country which is a strong ally of the western bloc in a highly sensitive region. The September 11th attacks have only served to reinforce the geopolitical significance of Turkey to the United States.[15]

At present, loan conditionality is used as a tool to promote economic re-structuring without altering the basic power structure in a way that would threaten Ankara's position as a close partner of the Euro-Atlantic Community. What it seeks to do is to set in motion the forces of the free-market by reducing the economic resources flowing through the public sector. As a result the scope of political patronage available to the power wielders in the Turkish political system is curtailed. Thus, politics is understood as an epiphenomenona of the economic dynamics which can only emerge when Ankara's economic patronage networks are dried up by a severe reduction in the amount of money running through the public sector. In other words, economic reform is taken as the means to democratic reform. However, the contradiction in 'liberal' reforms is that their implementation depends substantially on the capacity of the incumbent coalition government, which seeks to follow a policy of inertia precisely so that it can preserve the very levers of power which the reforms aim to undercut.

CONCLUDING COMMENTS

In this paper we have argued that the current economic and political crisis is not the end result of a set of unfortunate mishaps or administrative errors unique to Turkey, but is the result of series of pressures emanating from the process of integration with the global capital markets.

[15] President Bush called the Prime Minister Bülent Ecevit only 2 days after the outbreak of the crisis to give his strongest support to the economic reforms. Again, on December 14, 2001, President Bush expressed his administration's positive backing by personally asking the Turkish ambassador in Washington about the economic situation in Turkey and wishing the country well in its problems. Is it worth pointing out that this runs contrary to the initial policy position the newly elected Bush administration. The treasury secretary Patrick? O'Neill, in outlining the administrations then isolationist position, made it very clear that any country that got itself into trouble would not be bailed out. Turkey was subsequently bailed out; Argentina was not.

It is true that the predominant view in Turkey is that most of the current fiscal and monetary reforms are necessary whether or not they are imposed by the IMF. There is a heightened awareness and perhaps a firm consensus that economic paralysis is a product of political ineptness and corruption. According to this view, the regulatory policies of the state have both led to corrupt public procurement policies and to shady dealings and contracts in the state enterprises and banks. More importantly, the perception that Turkey is passing through a critical juncture of history with the security, well-being, and integrity of the individuals being put at substantial serious risk, has given rise to a fresh willingness for wide-reaching reform.

However, the public's enthusiasm for a departure from corruption, cronyism and unconstrained greed should not to be taken as signifying unequivocal support for the shape and scope of the reform policies envisaged by Turkey's ongoing structural adjustment program. This program is incapable of rallying a conscious public demand for substantive change for two basic reasons**:** first, it lacks democratic legitimacy and second, it cannot overcome the obstacle posed by the very nature of the program insofar as it fails to address the basic human needs of personal security, integrity and the capacity to lead a meaningful life. The absence of the democracy dimension in the structural adjustment program means that there is a lack of a meaningful and critical public debate that goes beyond scientific-sounding technicalities and provides genuine alternatives for consideration. As the program depends heavily on the lowered life quality of the population, however, a democratic public space would be highly inimical to the achievement of its fundamental objectives.

Given these evaluations, it is clear that the ongoing stabilization program officially outlined in the most recent *Letter of Intent* of January 18, 2002 pursues a rather dogmatic "development" model proposed by the neo-liberal hegemony to the less-developed countries. This model depends on the contractionary monetary and finance policies and assumes an open (i.e. dependent on foreign capital) economic structure ensuring the liberalization of the international capital flows. In this model what is really meant by the concept of "stabilization" is to establish an exchange rate system purified from devaluation risk, and to maintain a high real return in the national financial markets to attract the inflow of foreign capital.

Under this structure, the central banks are set to be autonomous and their means of intervention in the economy are restricted, so that they would not undertake any role apart from maintaining price stabilization. Public sector fiscal policies are to be directly focused on the objective of maintaining a "budget with a primary surplus". As result of these policies, the boundaries of the public space are restricted and traditional economic and social infrastructural facilities of the public sector are left to the strategic interest of foreign capital at the cost of extraordinary cuts in public spending and investments. In other words, the adjustment program simply opens the way for Turkey's resources to be siphoned-off by international speculators rather than political patronage.

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Table 1. Basic Characteristics of the Turkish Economy, 1995-2001

	1995	1996	1997	1998	1999	2000	2001
Real Rate of Growth							
GDP	7.2	7.0	7.5	3.1	-5.0	7.4	-7.4
Consumption Expenditures	5.1	8.5	8.1	1.8	-3.6	6.7	-8.8
Private	4.8	8.5	8.5	1.1	-5.1	4.1	-9.0
Public	6.8	8.6	6.1	6.9	5.1	4.5	-8.6
Investment Expenditures	9.1	14.1	14.2	-3.2	-13.7	16.0	-31.7
Private	16.9	12.5	10.1	-6.7	-18.8	14.1	-35.1
Public	-18.7	24.4	30.1	8.0	1.0	20.8	-22.0
Exports	7.9	21.9	19.1	11.9	-7.1	19.2	7.4
Imports	29.6	20.5	22.4	2.3	-3.7	25.4	-24.8
As Ratio to the GNP (%)							
Current Account Balance	-1.4	-1.3	-1.4	1.0	-0.7	-4.8	1.4
Stock of Foreign Debt	42.8	46.2	47.8	47.2	55.7	59.1	74.3
Budget Balance	-4.0	-8.3	-7.6	-7.0	-11.6	-10.9	-15.6
PSBR	5.2	8.8	7.6	9.2	15.1	12.5	15.9
Macroeconomic Prices							
Rate of Change of the Nominal Exchange Rate (TL/$)	54.0	77.0	86.6	71.7	60.6	23.2	114.2
Inflation (WPI)	86.0	75.9	81.8	71.8	62.9	32.7	88.6
Inflation (CPI)	89.1	79.3	85.7	84.6	68.8	39.0	68.5
Real Interest Rate on GDIs	18.1	31.1	22.1	29.5	36.8	-8.8	21.4
Real Wage Growth Rates[a]							
Public Sector	-17.1	-25.0	19.1	-1.3	42.0	6.9	-11.5
Private Sector	-8.3	1.9	-3.0	16.9	11.6	1.0	
Fragility Indicators							
Short Term Foreign Debt / CB International Reserves (%)	126.7	106.6	96.2	107.6	101.3	147.2	110.0
M2Y / CB Inter. Reserves (%)	344.7	301.8	272.6	314.5	328.7	381.4	416.4
Currency Substitution[b]	54.8	50.9	48.6	45.1	45.2	44.1	56.2
Interest Paym. on Dom. Debt / Total Tax Revenues (%)	43.9	59.2	41.7	61.0	66.4	63.7	103.4
Interest Paym. on Dom. Debt / Net New Dom. Borrowing (%)	93.7	83.1	63.5	97.9	87.5	137.8	47.2
Net New Dom. Borrowing / Domestic Debt Stock (%)	52.4	57.8	52.4	49.5	49.3	37.1	70.2

Sources: SPO *Main Economic Indicators* ; Undersecreteriat of Treasury, *Main Economic Indicators;* Central Bank Annual Reports

a. Data compiled from the Turkish Employers Association and the Confederation of Public Employers Unions, as reported in the Central Bank Annual Reports. Nominal wages are deflated using the CPI (1994=100).

b. (Rate of Dollarization): Ratio of foreign exchange deposits to total deposits of residents.