

**A Failure Story: Politics, Society and Financial Liberalization
in Turkey; the paths of retransformation in the post-
liberalization era**

Firat Demir*

Second Draft, January 2002. Prepared for the 2002 Annual Meeting of the European
Public Choice Society (EPCS2002).

JEL Classification Numbers: E62, F34, H50, H63

Key Words: Financial liberalization, Capital flows, Politics, Distribution,
Authoritarianism and Decision Making.

*Ph.D. Student in Economics, Department of Economics, University of Notre Dame,
Notre Dame, 46556, IN, USA. Email address: fdemir@nd.edu

Abstract

The risks and benefits of financial liberalization as a complement of trade liberalization has been one of the highly debated issues in the current economic analysis. The article focuses on the political economy of Turkey in the 1980s and 1990s to illustrate the importance of the underlying institutional infrastructure and the accompanying economic and political actors involved in it on the economic outcomes attained in the end. The ambitious program of deregulating the country's financial markets together with the ongoing processes of liberalizing commodity markets and integrating with global capital markets was expected to bring about fiscal and monetary stability, enhance business confidence to invest in productive sectors, stimulate stable growth and reduce the inflation rate while preventing rent seeking behaviour in both public and private spheres. However, in contrast to these expectations, the new hegemony of capital markets has gone hand in hand with deteriorating macroeconomic performance, deteriorating public deficit, increasing corruption and rent seeking behaviour, worsening income distribution and further isolation of the state bureaucracy from society along side with increasing authoritarianism and crony capitalism. The article tries to reveal the underlying reasons behind this divergence of the neo-liberal economic program from the expected results and argues that the institution building (in)capacity of the country played an important role in the depressing results attained in the end. The rent seeking coalition among business community, state bureaucracy and the military is also given special emphasis while discussing the factors which have led to the failure of the economic programs Turkey tried to undertake.

INTRODUCTION

The impact of domestic and external financial liberalization and deregulation has been one of the highly debated issues in the contemporary economic analysis especially over the course of last two decades. In this respect, although, starting from early 1980s, there has been a growing consensus among the majority of economists, international financial institutions and most policy makers on the favorable impacts of this neo-liberal economic program, especially after the non-stop crisis era of 1990s, the negative and destructive effects of uncontrolled capital flows started to be given more attention by the groups mentioned above, at least in the developing countries.¹

The advocates of financial liberalization-as an indispensable complement of trade liberalization-start their argument from the so-called intrinsic efficiencies, fairness and self-regulating capacity of markets. These three aspects of “free markets” are assumed to generate economic outcomes far superior to those, which might be generated by even the best intentioned and technically sophisticated state-led controls and interventions. It is strongly believed by the members of the afore-mentioned group that the liberalization and opening-up of capital controls will inevitably result in an optimal allocation of capital and resources on the global scale.²

As a natural outcome of this faith in the miraculous outcomes of the liberalization of markets, the economic programs implemented in semi-industrial countries are built upon a common theoretical framework and embody a number of standard policy instruments (Calvo et al, 1996; Rodrik, 1996; Bird, 1998). However, the countries going through this liberalization process differ widely in their capacity to implement the general-standard framework down upon them, and in the degree of success achieved in the end (Onis, 1992:4).

The current article proceeds from the above premise and tries to discuss the validity of the claim that historically determined-institutional characteristics, and the political environment of the country (that is Turkey in our case) are of crucial importance in determining both the nature of the adjustment process and the following economic performance. In this respect, we will argue that the organization of the state structure and the rent distribution among the actors involved in it and the accompanying institutional

framework constitute the key elements determining the path which to be followed during and after the post-1980 neoliberal policies in the Turkish case. These structural conditions will help us to illuminate why we observe radically different responses among developing countries to the ongoing economic liberalization programs that has surrounded them as a part of the ongoing globalization age.

In our search for an answer to the above questions, the Turkish experience since the 1980s provides us with an interesting case study for the relationship between the state, business, society and the international economic system from the outset.³

To be more specific, the current paper will try to reveal the underlying components of the neoliberal policies implemented in Turkey since early 1980s and to discuss the degree to which the institution building capacity of the country contributed to the following economic development. The link between the pre and post liberalization crisis experience will also be discussed with special emphasis on the crisis experiences in the post 1990 period under a fully liberalized capital account structure.

THE HISTORICAL HERITAGE

The year 1980 constitutes a corner stone in the modern economic history of Turkey. Following a major balance of payment crisis in the late 1970s, Turkey emerged as “the test case for the newly implemented World Bank (WB)-International Monetary Fund (IMF) joint programme involving cross conditionality”(Schick, 1987:333-365; Rodrik, 1990b; Onis, 1998:192) The crisis also brought about the ending of the already-exhausted import substitution regime in the country. The program designed by these twin institutions aimed at stabilizing and liberalizing the closed-inward oriented economic structure in Turkey and at shifting it to an outward-oriented path of development.

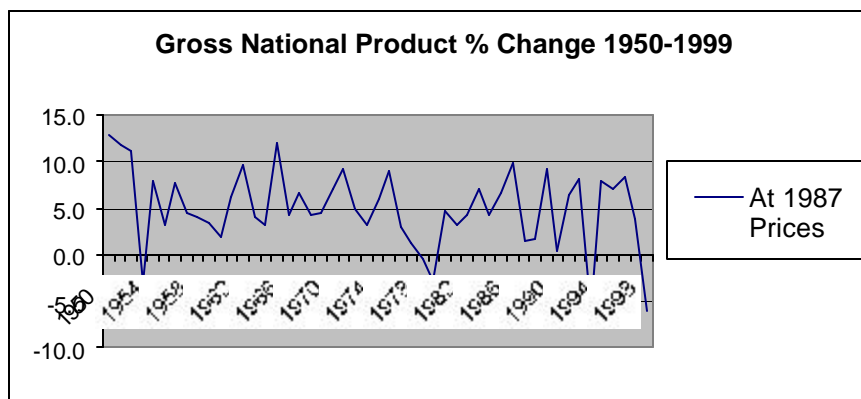
Several scholars have already discussed the underlying reasons behind the selection of Turkey as the test case for this –later to be well known-standard structural adjustment package (Rodrik, 1990a, 1990b; Atiyas, 1995;Yeldan, 2001: 25-56). The main outlines of these arguments can be summarized as follows; firstly, the timing of the crisis was important for the crisis in Turkey took place in late 1970s, just before the Latin American debt crisis. The second factor is related with Turkey’s strategic role as an

integral part of the NATO alliance in a two-polar world. Thirdly, these twin institutions needed a test case to prove to the world the correctness of the highly debated neo-liberal economic policies and the –promised–accompanying benefits of the free market model.

As a part of this program, Turkey received five successive structural adjustment loans (SALs) from the World Bank (WB) in the period 1980-84. In addition to financial resources made directly available, the programme was also influential in providing a significant flow of resources from other official creditors, mainly from the governments of the OECD countries. Considering the size of the financial assistance generated to other countries under similar adjustment programs, the amount provided to Turkey appears to be significantly greater than the rest during early 1980s.

Having already provided a considerable amount of financial resources, the WB and IMF were willingly committed to the success of the Turkish experiment and wished to project it as “a model of success” to the rest of the Less Developed Countries (LDCs) to be followed.

Figure 1: Percentage Change in Gross National Product



Source: State Planning Organization (SPO), Main Economic Indicators, June 2001; Central Bank of Republic of Turkey (CBRT)

(*)GNP figures for 1950-1967 period are based on the growth rates of 1968=100 GNP series.

The Turkish economy, starting from late 1950s to late 1970s, was characterized by an import-substitution regime. The growth rates during the 1960s were significant comparing to those attained in the course of post 1980 era (see figure 1). The implementation of first five-year plan in 1963 constituted the starting point of the

institutionalization of the Import Substituting Industrialization (ISI) regime in the country. Under five year plans, the import regime acquired quite a restrictive character in time while the quantitative controls on trade gained momentum and overvalued exchange rates⁴ became the main features of the system (Baskaya, 1986:161-181).

Increasing dependence on imports, deteriorating current account balance, negative interest rates, two OPEC crisis, political insolvency and increasing fragmentation in the society among marginal political groups were the broad headlines of the last stage of the above system in late 1970s. One of the interesting features of the era is the fact that During ISI years, accumulation process highly depended on policy and politics rather than markets.⁵ Entrepreneurs became increasingly depended on the state and bureaucracy and on the subsidies (through direct and indirect ways) provided by the latter rather than exploiting the opportunities created by the market itself. This political and economic environment created vast opportunities for wide-range rent seeking behaviour among the business community as the business people competed for the special set of incentives (in the form of cheap credit availability, cheap foreign exchange through state banks, permission for import of certain intermediate and final goods, etc.) provided by the state (Boratav, 1993; Onis 1993; Balkan et al, 1998).

Strict controls and restrictions on prices, exchange and interest rates, import and export transactions (in the form of import licenses and foreign exchange regulations) were some of the accompanying features of the above system. Foreign exchange and bank credit were subject to severe rationing-the criteria for which was not clearly known-and there existed fierce competition among the business people for the above provisions since access to these resources guaranteed exceptionally high profits in the highly protected Turkish domestic market. The system, as a result, encouraged and generated serious moral hazard problems and rent seeking behaviour on a systematic basis in both public and private spheres.

The ISI experience in Turkey, hence, inevitably gave rise to a narrow distributional coalition⁶ among the state bureaucracy, the military forces (the role of which will be discussed in detail in the following sections) and the business community.

While the severe economic crisis that hit the country in late 1970s brought the system to a halt and made its continuation impossible under existing conditions, a change

in the rules of the game became almost inevitable. Under the directions of international financial community, Turkey tried to undertake a profound switch in the philosophy of state structure mainly concerning its role in economic affairs. The new economic (and political) policy aimed at reducing the size of the public sector involvement in the real sector through its operations of SEEs as well as at reducing the degree of intervention in the organization of the market activities.

On the other hand, it is also possible to interpret the policy shift in 1980s not as a radical departure but as a continuation of the previous “rent distribution targets” but on different grounds. In retrospect, the state bureaucracy in Turkey directly aimed at creating a domestic bourgeoisie and business class starting from early 1920s.(Bugra, 1994; Keyder, 1987). The ISI policies were, in some sense, implemented as a tactical manoeuvre focused on this broad aim. The subsequent demise of ISI-after the continuation of the existing system proved to be unsustainable (as can be seen in graph 1 with the sharp fluctuations and negative growth rates especially in the course of 1970s)-with the deepening of the severe balance of payments crisis in late 70s and the switch to liberal open market economy was nothing but an effort to continue the previous rent distribution targets through a new path. The changes in the international environment and the changing demands of the ripened domestic bourgeoisie were also among the factors contributed to the policy shift in this era.

As a part of this broad program, in the course of the 1980s,Turkey went through a step-by-step liberalization in its economy. Liberalization of the foreign trade regime, removal of exchange rate controls, adoption of special policies with generous incentives to attract foreign direct investment, liberalization of market interest rates to encourage private savings, privatization of SEEs, and shifting to income transfers through public spending (mostly in the form of interest payments) instead of price mechanisms via subsidized pricing of SEEs (which were used as one of the main policy instruments in the previous era to provide cheap industrial inputs for the private sector) were some of the components of the new economic program implemented under the guidance of IMF and World Bank.(Onis, 1998:183-196)

In the final stage of this program, the August of 1989 witnessed a complete transition to an extremely liberal capital accounts regime “even by the standards of advanced economies with highly developed financial markets.”⁷

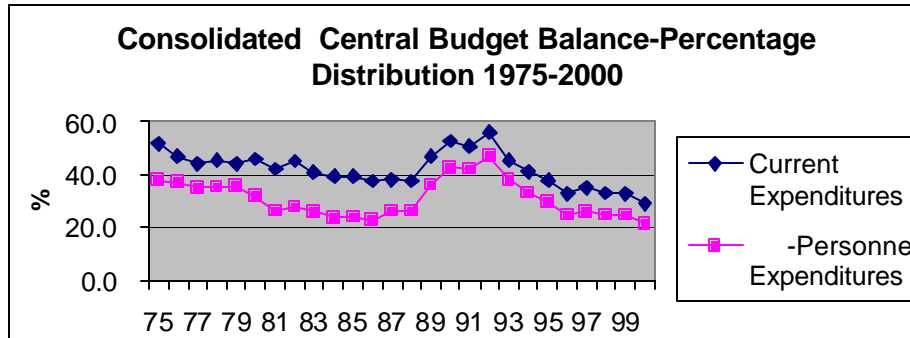
On the other hand, when we turn to the political side of the picture, the whole process of structural shift from ISI regime to the outward oriented free market model was accomplished under military rule that “officially” continued from September 1980 till late 1983 but effectively lasted till first free elections-after the cou’p detat-in 1987.

Figure 1 displays the cyclical character of the Turkish economy where sharp fluctuations in growth rates and alternating crisis eras were of an integral part of its development path even before 1980. However, although the year 1980 constitute the starting point for the Turkish neo-liberal experience, August 1989-which mark the shift to full capital account liberalization-appears as the Achilles’ Heel in its trajectory. Since then, Turkey has been exposed to the instabilities and accompanying problems and risks of financial liberalization and deregulation which proved themselves with three major crisis in the post 1990 era which made a sharp contrast to the initial risk-free phase of the reforms in the early 1980s.

The reasons of the sudden recovery of the economy and the accompanying high growth rates in the early 1980s can partly be explained by the absence of distributional pressures during the first phase of the liberalization package (Boratav, 1990:199-224; Onis, 1992:12-23). The military government during the years between 1980-1983 imposed strict restrictions over trade union rights and labour’s bargaining power. Yet, even after the re-transition to democracy in November 1983 considerable restrictions over labour’s bargaining power continued to be held-while at the same time holding the ban over the parties established before the 1980 takeover. Repressed real wages of labour and civil servants and the following considerable decline in the purchasing power of these groups were the accompanying features of the new system. Moreover, it can further be argued that the initial fast recovery of the economy and the boom cycle was enabled partly by the huge income transfers from the working classes to a small industrialist group in the country⁸. The return to the multi-party democracy took place with the elections in 1987 and from then on (till 1994) we observed an attempt by the losers of the new model-namely the workers, public servants, and the agricultural workers-caused by

the structural adjustment program to reorganize themselves and to recover the losses they had incurred over the past years (Boratav et al, 1996:373-380; Onis, 1998:495-508).

Figure 2:



Source: SPO, Main Economic Indicators June 2001; Underseretariat of Treasury and Foreign Trade (UTFT) Main Economic Indicators; CBRT.

(*) The year of 1982 covers 10 months

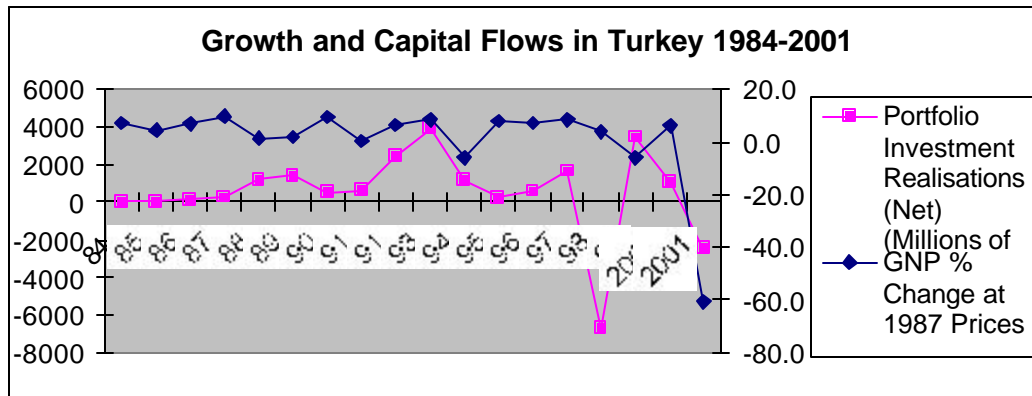
As can be seen from figure 2, the share of current expenditures (most of which consist of personnel expenditures) in the consolidated budget decreased from almost 52% in 1975 to 37% in 1988. The years between 1987-1993 witnessed a rapid recovery period for the losers of the system demonstrating itself with the sharp increase in the share of the current expenditures up to 56% by 1992.

Hence, a distinguishing feature of Turkey during late 1980s and early 90s was the reemergence of a distributional conflict between the losers and the winners of the new system in the society. However, as we will discuss in the following sections, the conflict did not last long and once again be solved in favour of the business class in the face of another serious crisis in the post reform era in 1994. Following the 1994 crisis, the share of current expenditures in the consolidated budget expenditures declined to around 21.4% by the year 2000 from its peak of 56% in 1992.

The elements of the post 1987 cycle are clearly demonstrated by the sudden increase in the share of public expenditures in GNP from 16% in 1986 to 24% in 1993. Within the public expenditures, especially the rise in current expenditures was striking which reflects the size of the public sector wage booms in the period of 1989-91. Another striking element in this period was the record rise in PSBR/GNP ratio (12% of GNP in 1993), especially just before the crisis in 1994.

Nevertheless, this kind of populist cycles is not a novel phenomenon in the Turkish trajectory (Keyder, 1987:293-307; Onis, 1998:495-512). The pre-liberalization period witnessed several upward-downward swings generated mainly by this kind of populist public expenditures. However, the distinguishing factor in the post 1989 era has been the implementation of full capital account liberalization whereby the pace of fiscal expansionism became heavily dependent on the continuation of the highly volatile and reversible short term international capital flows. In this respect, table 3 is helpful in showing the close correlation (with a time lag) between growth rates attained and the short-term capital movements poured into the country.

Figure 3:



Source: SPO, Main Economic Indicators 1950-1997; CBRT

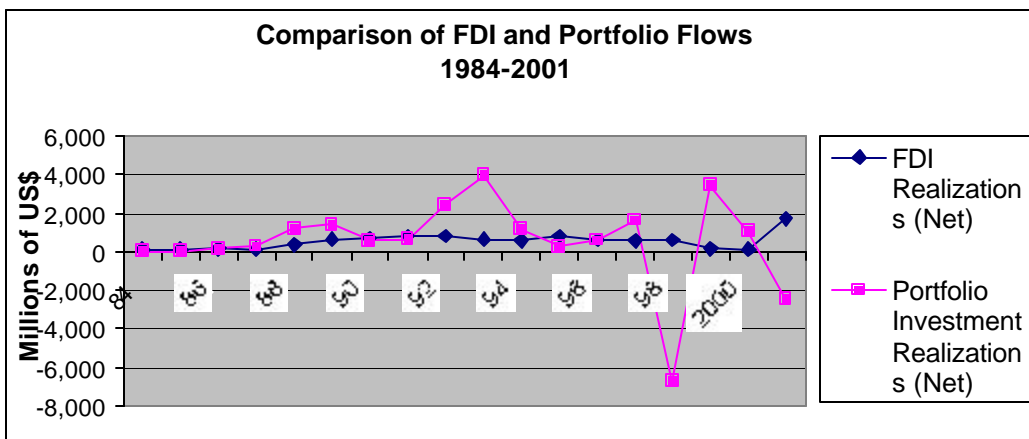
(*)The data for 2001 covers the period up to 8th month.

It is argued by several scholars that “capital flows towards developing countries arise from structural conditions which are unlikely to change dramatically in a short period of time”(Strange, 1986; Knight, 1998:1185-1200; Boratav, 2000:1032-1037). In this respect, without having the necessary regulatory framework in the economy, large current account deficits are expected to accompany premature implementation of the neo-liberal policies. Furthermore, the sustainability of large trade and public deficits has also become possible by the availability of short-term capital flows, which is highly volatile by nature.

Turkish experience provided ample evidence for the above proposition that the regulatory framework and the institutional infrastructure are indeed of special importance for the success of liberalization packages, which mostly carry a uniform character. In an

environment characterized by under-developed capital markets, economic and political instability and uncertainty that is accompanied and stimulated by a highly unstable and fragmented party system together with a strong military dominance over the public sphere-which is quite untransparent in its economic activities, Turkey faced quite a distorted capital account structure. In spite of the implementation of quite a liberal FDI structure and several incentives (i.e. in the form of land provisions, tax exemptions, etc.), the inflows of Foreign Direct Investment (FDI) remained at marginal levels while large budget deficits made the country more and more dependent on short term capital flows. The ratio of FDI to overall capital inflows have been relatively low comparing to the levels attained by other emerging markets (see figure 4) (Yenturk, 1996:151-169).

Figure 4:



Source: SPO Main Economic Indicators June 2001; CBRT.

In this respect, Turkey’s post 1980 neo-liberal era has suffered serious problems and the distorted capital account structure is not the only one among them.

In retrospect, there is a growing controversy among the economists familiar with the Turkish experience on the underlying reasons behind the dramatic gap between the expected gains from market led outward oriented growth path and the depressing results that have been achieved so far (Cizre-Sakallioglu et al., 2000:483-487). The point of departure is whether this “disappointing performance” is because of the domestic policy failures and the accompanying deviations from the structural adjustment programs or simply because of “ the inherent difficulties with the neoliberal adjustment model, or at

least in the Turkish setting (Boratav et al., 1996:391) or is it a problem generated by timing and sequencing mistakes during the implementation of the policy objectives (McKinnon, 1982; Frankel, 1997). The last two arguments originate from the premise that the developing countries share common structural problems in their institutional settings and the policies that are designed to liberalize the economy may also produce “frictions, inequalities, uncertainties, discontinuities and an unbalanced-distorted economic structure at the outset”(Cizre-Sakallioglu et al., 2000:482).

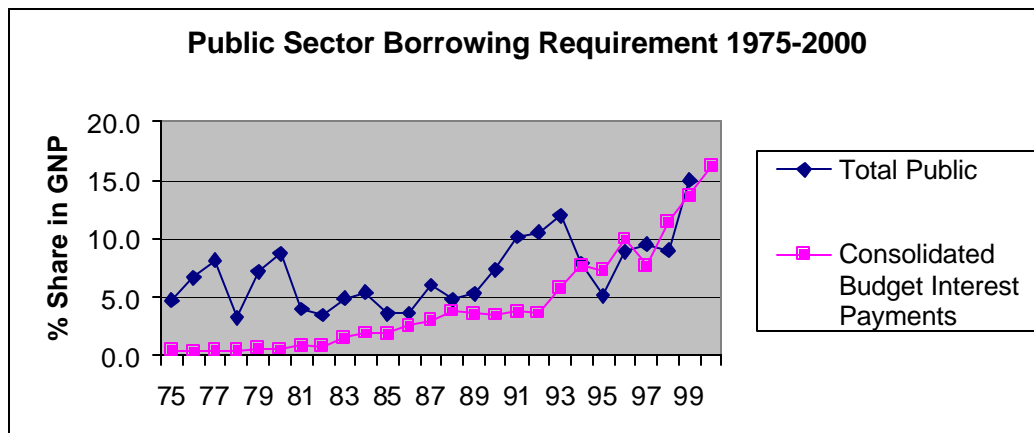
Especially in countries like Turkey where there is still a strong state hegemony over the society with its military and legislative institutions, lack of democratic accountability, and lack of transparency in economic and political affairs of the state further contributes to the already fragile nature of the institutional structure in the country. (Onis, 1994)

The financial liberalization reform, as discussed in the previous section, was expected to generate a more efficient and developed financial system, which could direct the national savings into private investments at a lower cost. The political background-that of being implemented under military rule-of the policy shift led to a strong commitment to the non-reversibility of the course of the reform (Onis, 1993:39-48, Onis, 1994:128-184; Cizre-Sakallioglu et al., 2000:494-497).⁹ Yet, the reforms were not accompanied by any change in the financial behaviour of the corporations and did not lead to a cheapening of investment costs (Akyuz, 1990). The government continued to keep its control over the economy through a combination of fiscal and price adjustment mechanisms. The real rate of interest jumped up to three digit levels in the course of 1990s, while domestic asset markets became increasingly volatile and unstable as a result of sudden changes in speculative capital flows. The weak and fragile nature of the Turkish economy, in the end, contributed to the rise of three serious crisis in 1994, 2000, and 2001 each of which was followed by a complete collapse of the economy and could (partly) be stabilized only after the IMF intervention and the accompanying “rescue packages”.

The collapse of public disposable income-reasons of which will be discussed in the following section-inevitably led to public sector over borrowing syndrome. The state has become a powerless actor lost in a vicious cycle generated by the widening public

debt. The interest payments on public debt (most of which is in the form of short term liabilities) could only be financed through new borrowing again from short-term sources. The continuous flow of short-term funds, on the other hand, could only be made possible by offering high interest rates, which again led to worsening of the interest burden on the budget. In the face of this growing debt trap which resulted from high public expenditures and fiscal policy mismanagements (and rent seeking behaviour), the capital account liberalization of 1989 provided the successive governments with a deadly tool, mainly to finance their expenditures through short term capital inflows (Atiyas, 1995; Ersel, 1996; Tukul, 1997:27).

Figure 5:



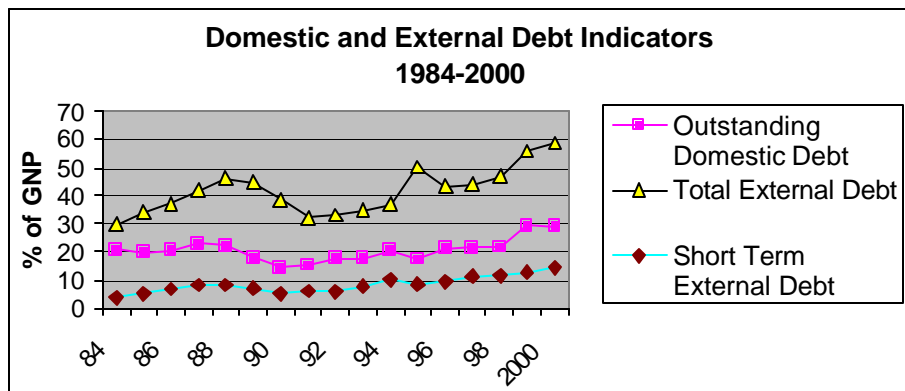
Source: SPO Economic and Social Indicators; CBRT

(*)The latest data for PSBR/GNP is for the year 1999

As the foreign debt reached its limits in the course of 1980s, the public sector turned to the option of domestic borrowing (Figure 6) (which didn't oblige the successive governments to undertake any structural policy change as was-and is-the case with IMF-WB lending). With its small and limited capital market and existing oligopolistic structure in it, this policy change resulted in very high interest rates on government bonds and treasury bills while enabled the financial sector to strengthen its hegemony over the real sector of the economy (Yeldan, 2000:144-155). The natural outcome of these developments was nothing but a death trap for the public sector economics. The need for high interest rates-to attract additional funds-and cheap foreign currency-in the form of overvalued TL-to avoid the threat of capital flight and to ensure a continuous flow of

short term resources to finance the ever-growing public expenditures lead to further increases in real interest rates. High public borrowing requirement together with overvalued TL and deteriorating current account balance further triggered the instability in exchange and interest rates (Boratav at al, 99:21). The size of the debt trap can be seen from the figures in table 4 and 5. The share of total public sector borrowing requirement reached 16% while the share of interest payments in consolidated budget increased to 17% of GNP by year 2000. In the search for the underlying reasons of this sudden rise in the PSBR and the interest burden on the budget, the year of 1989 once more appears as the critical turning point in the Turkish trajectory.

Figure 6:



Source: SPO, Main Economic Indicators June 2001, CBRT.

(*)External Debt data covers the period till 1997 January-June Period

(*)Domestic Debt data covers the period till June 2001

Throughout this period, the banking sector and other financial institutions have become the leading forces behind the capital manipulating the economy (Yeldan, 2000; Tukel, 1997; Akyuz, 1990)). Figure 6, on the other hand, displays another important aspect of the Turkish experience in the post-liberalization era, mainly, the character of the rent distribution in the economy. As can be seen from the above graph, the share of domestic debt in GNP increased by almost 60% from around 18,2 in 1989 to 28,9 in 2000. For the same period, on the other hand, the external debt to GNP ratio increased by only 30%. However, this relative decline in foreign debt with respect to domestic debt mainly resulted from the substitution of foreign with domestic resources. In other words,

as the ability of the Turkish government to have access to long-term borrowing sources reached its limits-because of the widening official debt due to international lending agencies, the government chose the option of financing its debt liabilities and the growing public deficit through short term speculative financial flows (in a kind of Ponzi-game) and short term borrowing by selling of treasury bills whose maturity were less than one year in most cases. Despite the relative decrease in the external debt, the share of short-term external debt to GNP ratio increased by almost 103% since 1989. Hence the increase in domestic debt in the aftermath of the financial deregulation was also accompanied by a sharp rise in the short term borrowing of the state.

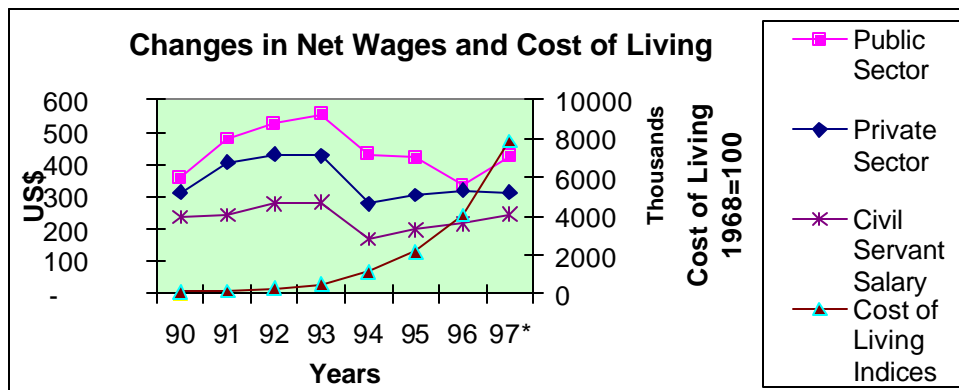
THE INTERNATIONAL LINKAGES

The international side of the picture, on the other hand, is no less important. As the country proceeded towards complete deregulation of financial sector, it has become subject to the manipulations of the international asset holders. The judgment of global markets and the creditworthiness of the country became two interrelated determining factor in the continuation of the capital flows needed by the public sector in the country (Calvo, 1996; Balkan, 1998; Stiglitz, 2000). A side effect of this distorted picture was the growing dependence on short-term policy making in economic and political decisions because of the “veto effect” of the global finance whose primary concern is not long-term development but short-term financial gain. The fatal consequence of uncontrolled financial deregulation in the Turkish context is first realized in the fourth quarter of 1994 when the domestic currency appreciation reached unprecedented levels and the subsequent current account deficit (4% of GDP in 1993) became no longer sustainable. The crisis was triggered by two major causes, namely, the unsuccessful attempt of the policy makers to control the interest rates-which were quite high because of the reasons already discussed-and thereby to reduce the interest burden on the public finance, as well as the exchange rate in the high inflation environment of Turkey (Ozatay, 1994). The end result of these policy attempts was a sharp decline in the foreign exchange reserves of the central bank (in the first 3 months of 1994, the Central Bank reserves diminished by 50% amounting to US\$2,8 billion) which led to a speculative attack on Turkish Lira (TL) (TL

was devalued on April 5th following the speculative attack yet during the first three days after the devaluation, TL lost almost 70% of its previous value). The attack ended up with a large devaluation of TL and with another rescue packet by IMF.

The IMF program of 1994 had many in common with the standard IMF packages. A combination of expenditure shifting and reducing policies were accompanied by a sharp contraction of output and employment which proved itself with a negative growth rate of -6.1 in 1994. As a result of the devaluation, exports recovered slightly with an increase by 17%, while the import boom was reversed with a decline of 21% comparing to their 1993 values and led to rapid improvement of the current account balance from -4% in 1993 to +2% of GDP in 1994. Although the economy went through a fast and smooth recovery period as a result of the stabilization program, the long-term costs of these policies were much greater than expected. The contraction of output and employment, real decline in wages, increasing unemployment, deteriorating political environment (together with continuing undeclared civil war against the Kurds and the consequent increasing military spending) and further fragmentation of the society were among the costs of the recovery measures. Nevertheless, the country, after recovering from the crisis, again returned to its old path of financing its rising expenditures by short term capital flows.

Figure 7:



(*) Estimated values

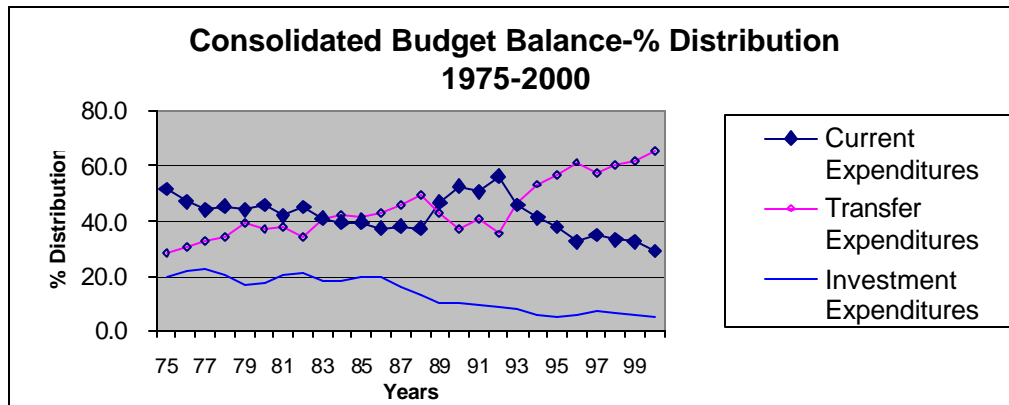
(**) Cost of living indices are represented by the right axis of the graph.

(***) For the calculation of net wages in US dollar, we used the central Bank's dollar buying rate at the end of each period

Source: SPO Economic and Social Indicators 1950-1997, State Institute of Statistics (SIS) Households, Labour Force and Income Distribution Surveys (various years) , CBRT.

Part of the rapid recovery after the 1994 crisis was enabled by labour market flexibility and the subsequent redistribution of income from wage earners (as was the case in the course of 1980s as well) (Cizre Sakallioglu, 1991; Onis, 1996:4-12; Senses, 1994). As can be seen in Figure 7, following the crisis in 1994, the net wages of both public and private workers and civil servants dropped by around 22% in real terms in one year while the cost of living sky rocketed by almost 98% comparing to the previous year¹⁰. To put it in another way, in the year following the crisis, the living standards of people dropped by a net total of 120%. There are also certain measures implemented by the government in the aftermath of the crisis-under the guidance of IMF-which speeded up the recovery process. Yet, despite the fact that these policies worked for the time being, they also led to the development of further crisis in the year 2000 and 2001. Short term measures resulted from myopia on the part of the politicians and the nature of the IMF programs-that does not consider long-term development perspectives but short term solvency-created negative repercussion effects whose results were to be felt only after a time lag. In this respect, there are two developments that were pregnant to future crisis. Firstly, the policy of keeping interest rates high to encourage short term capital inflows have resulted in a rapid built up of domestic debt with deteriorating burden on the budget in the form of high interest payments (Rodrik, 1990; Ersel, 1996; Yenturk, 1997). Secondly, the IMF guided changes in the banking sector regulations, especially the introduction of full state insurance for deposit accounts created serious moral hazard problems with rent seeking behaviour (Kumcu, 1997; Yeldan, 2000, OECD, 2001:18)¹¹. In other words, it can be argued that, the source of the two latest crises in December 2000 and February 2001 were originated-or at least triggered up- from this myopic decision in 1994.

Figure 8:



Source: SPO Main Economic Indicators (various Years), CBRT.

In the aftermath of the recovery period from the crisis, fiscal disequilibrium continued to deteriorate while the share of transfer expenditures in it reached unprecedented levels due to increasing interest payments on domestic debt. The growing interest burden in the consolidated budget has been tried to be covered through investment cuts with negative effects on growth rates and through reducing current expenditures most of which were personnel expenditures (Figures 7 and 8) (Ozmucur, 1996; Oyan, 1997; Onis, 2000).

A close inspection of the central budget, on the other hand, reveals one of most the important elements behind the widening public deficit. It is interesting that despite the ups and downs in the economy and shrinking public expenditures on even the basic accounts like health and education, the share of the military expenditures followed an increasing trend for the last 15 years. As the only solution to close the gap between the public revenues and expenditures, the state followed the path of reducing its investment with negative effects on the long-term growth perspectives of the country while closing the financing gap with increasing the tax burden on the wage earners.

Nevertheless, the official figures about the size of the budget deficit and the accounts of related expenditures do not represent the real figures. There is considerable underestimation of the size of the deficit because of the extra-budgetary funds¹²(Oyan, 1997; Onis, 1998:188-189)

Policy makers in Turkey progressively referred to extra-budgetary means to finance government expenditures, which are free from the supervision and control of the parliament (Onis, 1998:188).¹³ The scale of rent distribution among various groups in the economy is hidden by the ability of the governments to use these funds free from the intervention of the other actors in the system. Lack of transparency, in this respect, appears to be one of the continuing illnesses of the Turkish economy. (Oyan, 1997; Boratav, 1998)

The epidemic of non-transparency and non-accountability in the Turkish public sphere reveals itself in various forms such as deteriorating performance of the banking sector and the financial system. As the crisis in the public debt grew further, the outside pressure by the international financial institutions for a tighter control over the quasi-fiscal activities of the state banks in developing budget transparency and accountability also gained momentum (OECD, 2001:17-18). The use of state banks for political rent distribution in the form of distributing cheap credits on non-economic grounds manifested itself in the accounts of huge “duty losses” of these banks. The subsidized lending operations performed by the state banks on the behalf of the government generated record level of duty losses, which reached 8.2% of GNP in 1999, and was one of the main reasons leading to the deterioration of the consolidated budget deficit (OECD, 2001).¹⁴ On the other hand, the state banks still appear to be keeping the upper hand in the banking sector with their control of 40% of the total assets in the sector. The total of bad debts generated by these banks, on the other hand, amounted to some \$20 billion, which is nearly 20% of GDP in the country (IMF letter, April 30, 2001).

1999 STABILIZATION PROGRAM: Unrealized Dreams

At the end of 1999, under the guidance of IMF, Turkey embarked upon an ambitious stabilization program aimed at reducing the inflation to single digit levels by 2002 (OECD, 2001). The program was designed around the use of monetary and exchange rate policies so that to provide a nominal anchor for reducing the inflationary expectations¹⁵, sounder public finance aimed at eliminating the main source of inflationary pressures, and continuation of structural reforms that started in early 1980s to liberalize the

economy. But a severe banking crisis took place in late November 2000, accompanied by a massive capital outflow and followed by another severe financial crisis in early February that led to the collapse of the IMF program. The two crisis originated from three basic reasons, namely, the vulnerability of the banking sector and lack of required regulations and supervision in the sector; fragile nature of foreign confidence and international capital flows, and widening current account deficit (as a result of overvalued TL driven by the IMF designed fixed exchange rate policy).

The trigger of the crisis in late November was the emergence of financial problems in some mid-sized banks, which had positioned themselves aggressively for continuing declines in interest rates via longer-term investments, which were highly leveraged by short-term funds. The widening current account deficit together with delays in realization of the scheduled structural adjustment program targets resulted in increasing interest rates starting from September and speeded up after mid November 2000. The above-mentioned banks had no other option but to sell their large amount of government bond holdings to remain liquid in the face of the increasing cost of the funds. The central Bank, which could –under normal conditions- have easily avoided the crisis by providing liquidity to the market, was constrained from stepping into ease these liquidity problems because of its monetary policy targets promised to IMF as a part of the program. Around 20 November, as rumors about the illiquid banks spread, first-tier banks cut their credit to the inter-bank market and international participants exited the overnight market. This development speeded up market pressures and led to further deterioration of the portfolio losses of the exposed banks. These events, as a result, brought about a serious liquidity problem in the market pushing the overnight interest rates up to 2000% while generating an excess dollar demand and pressure on central bank exchange reserves. Only after that, central bank intervened to the market and injected huge amount of liquidity to the system. The capital outflow and devaluation fears (within two weeks over \$7 billion of Turkey's original \$24 billion of foreign currency reserves had flown out of the country) which further worsened the speculative attack (due to the expectations that the government was no longer able to realize the provisions of the 1999 IMF program with the pegged exchange rate) could be slowed down by a large IMF loan package of in total \$10 billion including \$7.5 billion from the supplementary reserve

facility, in addition to \$5 billion from the World Bank. The final result was the takeover of the country's sixth largest private bank, Demirbank, which had been the major source of the liquidity problems in the beginning of the crisis by the independent banking and supervision agency of the state.

Nevertheless, only after two months following the crisis in December, Turkey was shaken once more in February by another major crisis. In fact, this time it was Turkey's politicians, not its financial bureaucrats, who triggered up the latest *kriz*, or crisis. On February 19th, Bulent Ecevit, the prime minister, stormed out of a meeting with Ahmet Necdet Sezer, the president. Mr. Sezer had apparently chided Mr. Ecevit for his half-hearted pursuit of corrupt politicians. The markets, not missing the opportunity, took the news badly, fearing that infighting might distract or even topple the government, and hence bring Turkey's much-needed economic and political overhaul to an untimely end. Jittery investors started pulling billions out of the country, seriously denting the central bank's reserves of foreign exchange. In the end, the government had no choice but to abandon the lira's "crawling peg", under which the currency was to be allowed to slide down by about 15% this year against a currency basket comprising the dollar and the euro. The move led to an immediate slide of more than 30% against the dollar together with 18% decline the stock market on February 21 alone. Interest rates have soared to several thousand percent (as high as 7000%) in the inter-bank market. However, although what reportedly scared away investors was a publicized argument between President Ahmet Necdet Sezer and Prime Minister Bulent Ecevit, whom the president had accused of being too lenient toward corrupt politicians, that was merely the beginning of the crisis, not its underlying cause. A fragile economy and faltering banking system, growing public deficit, increasing dependence on short-term capital flows and a distorted capital account structure, endemic corruption and a shaky coalition government with weak political leadership have been the real underlying causes of the last crisis which has been the country's 17th failed IMF program within past 54 years. The very fragility of Turkey's recent economic reforms and the boom-let they had created, sending market indexes up from 5,000 to nearly 20,000 points in 1999 and early 2000 came to a halt with the last crisis but not to an end for the inherent structural problems still remain to govern the

economy. Another important reason for the last crisis appears to be the lack of transparency and the very corruption in both public and private spheres.¹⁶

Together with the last crisis, the total number of banks taken over by the state reached a total of 12.

As was the full state guarantee provision on bank deposits (imposed as a part of the IMF rescue program after 1994 crisis) the triggering effect on wide-range corruption and moral hazard problems in private banks, this time, after the December 6 crisis, treasury announced that it would provide a full guarantee on deposits and credits of Turkish banks. The guarantee covers all domestic banks including foreign branches of them. Although this provision was designed to give the private banks a breathing space in the midst of the crisis, as was the case in 1994, it is highly likely to create further problems and lead to future crisis in the banking sector in the unregulated crony market environment of Turkey.

Initially, the three-year standby agreement by IMF provided the country with a 2.9 billion SDR (about US\$3.7 billion) in December 1999. After the crisis in December 2000, Turkey was given another SDR 5.8 billion (about US\$7.3), and in May 2001 after the February crisis, IMF approved another SDR 6.4 billion (about US\$8 billion) so that the total IMF credit in the form of SDR reached SDR 15 billion (about US\$19 billion). The standby agreement incorporated standard IMF structural Adjustment Program whose main headlines were as follows;

Privatization of 33.5% of Turk Telekom and 51% of Turkish Airlines with expected revenue of US\$6-7 billion¹⁷

Increasing transparency in public budget and incorporation of extra budgeting funds: as part of the agreement, the government eliminated 27 of 74 extra-budgetary funds by mid 2001 and promised to eliminate the rest but 6 special funds.

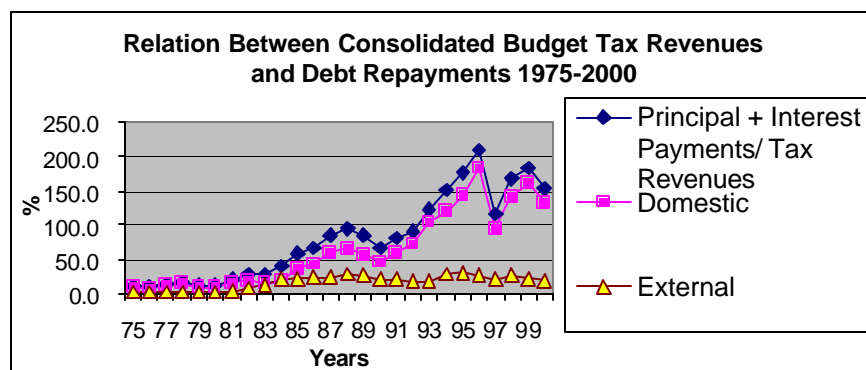
Banking reform: under new legislation to “strengthen the banking system”, commercial banks will contribute little to after crisis recovery efforts, as generous tax deductions are the main instrument for voluntary mergers and consolidation of the banking system. Furthermore, as the treasury has now taken on the domestic and foreign liabilities of the entire banking system as a contingent liability, in contrast to the naïve

expectations of the IMF program, new tensions are expected to rise on the fiscal side and will have to be reflected in the introduction of further new tax measures.

The challenge for banking reform is no less than prior to the crisis as was unlimited Turkish lira deposit insurance (introduced after 1994 crisis) a major source of banking sector moral hazard.

Income policy: as the government promised to eliminate its extra-budgetary resources and undertake the full state insurance on bank accounts, the financing of this comprehensive program arises as a question mark. As part of the solution, as was in the previous IMF programs, wage earners will have to bear the burden of adjustment through wage cuts and indirect taxation measures.¹⁸

Figure 9:

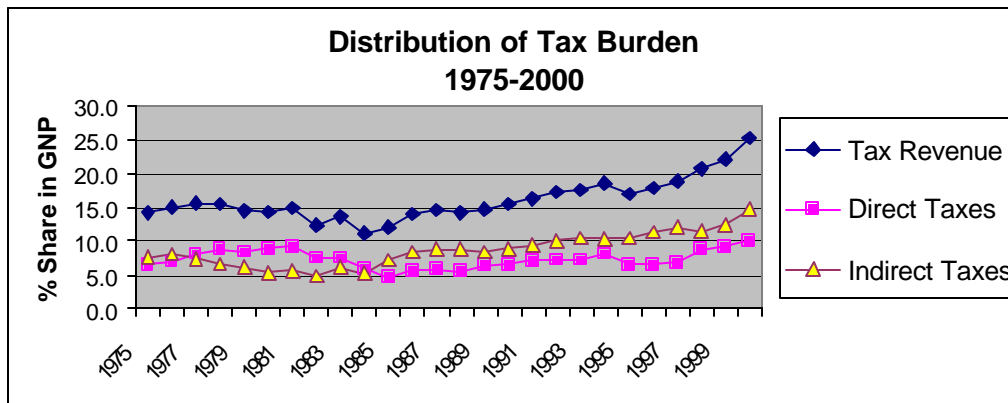


Source: SPO Main economic Indicators (various years), UTFT, Main Economic Indicators.

Tax system: the inability-or unwillingness- of policy makers to implement an efficient and fair tax scheme has contributed to the macro-economic disequilibrium of public finance of the country (Figure 9) (Akyuz, 1990; Rodrik, 1990; Atiyas, 1995; Ozmucur, 1996; OECD, 2001:17; Yeldan, 2001:121-125). The share of principal and interest payments to total tax revenues increased from around 12% in 1980 to a record number of 182% of which 160% was on domestic debt in 1999 (figure 9). Furthermore, the interest payments on government debt to tax revenues ratio increased to 77% by 2000. In other words, sixty cents of each dollar citizens paid as tax was to be spent on interest payments. The major development in this area took place in the 80s as a part of

the new economic program. The introduction of VAT (Value Added Tax) contributed to already regressive nature of the system. “In retrospect, Turkey’s tax system has been characterized by two major problems: (i) the negative incapacity to tax effectively which is related in inadequate overall tax revenues, in particular judged by the OECD standards, and (ii) the highly unequal distribution of the tax burden with low income groups bearing a disproportionate share of” (Senatar et al, 1991; Yeldan, 1992; Onder et al, 1993). Another striking fact about the post liberalization era after the 80s has been the relative decline in the burden of taxation on capital (Cizre-Sakallioglu et al., 2001; Yeldan, 2001). Along with these developments, as can be seen in figure 10, the share of indirect taxes has risen drastically comparing to direct taxes following the shift to neo-liberal economic policies after 1980. As a consequence of these complementary policies which supported each other and helped to generate a kind of vicious cycle in the public economic of Turkey, the corporate business and the banking sector have benefited from the deteriorating public deficit by making considerable sums of profit (see figure 9) out of the growing borrowing requirement of the state mainly through lending at very high interest rates.

Figure 10:

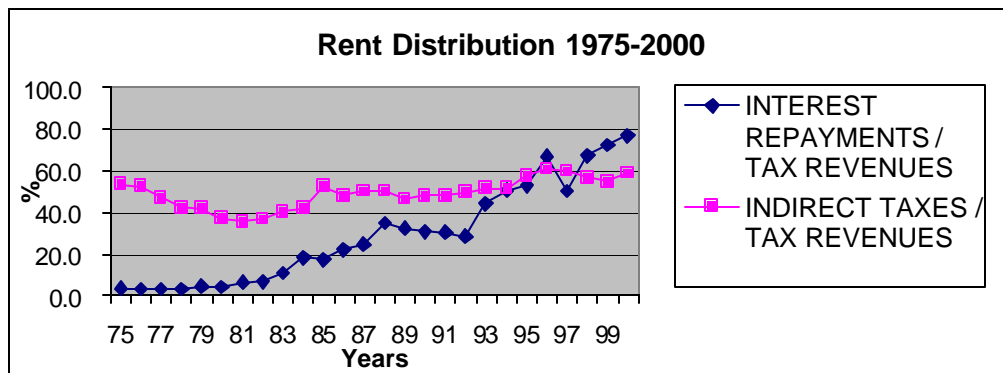


Source: SPO Main Economic Indicators, CBRT

Furthermore, the inability of the successive governments to produce an effective method to incorporate the informal sector to the system further strengthened the wide

spread tax erosion. The existence of large informal sector-which roughly accounts for almost 45-50% of all market activities in the country-contributed detrimentally to the efforts for establishing an efficient tax base with negative repercussion effects on the labour market¹⁹. The existence of generous tax exemption clauses also displayed the unwillingness of the state to tax the financial sector and the incomes derived from rent in general. A close inspection of the relationship between the consolidated budget tax revenues and the distribution of the debt repayments, as shown in figure 9 and 10, displays the nature of the direction of the rent distribution in the country and the specific role given to the state under the new economic program after 1980s. Starting from early 1980s, the ratio of interest payments to tax revenues skyrocketed (from 4.2% in 1980 to 77.1% in 2000) showing the direct redistribution of income from the taxpayers towards the corporate capital. Another fact supporting this view is the increasing share of the indirect taxes in the total tax revenues. As can be observed in figure 11, the share of indirect tax revenues to total revenues increased from around 37% in 1980 to around 60% in 2000. The low and middle-income groups who provide most of the indirect tax revenues²⁰, therefore, have become the scapegoat of the new economic system that benefited the higher income groups by lowering the tax burden on them and by generating a recycle of the tax revenues towards them in the form of debt repayments.

Figure:11



Source: SPO Main Economic Indicators, CBRT.

The underlying grounds for this kind of indirect subsidy system provided to the private sector, as has been discussed in the previous sections, can only be revealed through a closer look at the business-state relationship in Turkey from a historical

perspective. The state took the leading role since the early years of the republic in building up a domestic business class. Also, organic relations between state bureaucracy and business further cemented the cooperation between these two groups in the already abused economic system of the country (Keyder, 1987; Bugra, 1994; Bugra, 1997).

Therefore, despite the emergent need of the public sector for greater and stable sources of income rather than short-term and volatile capital flows and continuous borrowing, the state is unwilling to tax the corporate capital while not hesitating in taxing the low and middle income groups in a disproportionate way comparing to these groups contribution to the national income.²¹

THE WINNERS AND LOSERS

The capital account liberalization in 1989 and the following expansion in international capital mobility have not given rise to the expected consequences in the Turkish economy. As the FDI remained at marginal sums, new investment and employment creation is not stimulated by international investors. On the other hand, starting from early 1980s and especially after early 1990s, we observe a dramatic decline in the purchasing power of the masses and increasing unemployment (see table 1& figure 7).²²

The main contribution of Turkey's miraculous financial reform in the 80s has turned out to be aggravating a widening public sector debt and making the government main source of inflation in the country. In the period of 1990-96, public disposable income declined by 45% in real terms.

The introduction of new financial instruments into the system enabled the successive governments to finance their borrowing requirements from domestic sources by issuing government bonds and treasury bills thereby bypassing many of the legal regulations and protocols constraining their fiscal operations.

Another reason for the shift from international to domestic borrowing was the growing foreign debt burden due mainly to the accumulation of official debt borrowed from international financial institutions. The PSBR climbed to more than 15% of GNP by 1999 from around 3% in 1987 (figure 5).

The fragile nature of the domestic asset markets with a relatively undeveloped capital market-which is dominated by a few major players-gave rise to very high interest rates. “The real rate of return offered on government debt instruments exceeded comparable market rates on demand deposits by a margin of almost 20%”(Yeldan, 2000:6) Interest payments as a ratio of public revenue, on the other hand, increased to 77% by the year 2000 (figure 11).

In our view, Turkey is rapidly approaching a dangerous debt trap, in which rising interest payments consume the government revenues to such an extent that total debt continues to grow even when the government is not overspending. High public debt is a major concern simply because the cost of servicing it amounts to a significant portion of government spending, perpetuating the deterioration in fiscal imbalances. With the crisis in progress, the problem has essentially evolved into a self-sustaining vicious circle, running from debt stock, to higher interest rates, to interest payments, to budget deficits and once again to higher debt stock. To service public debt, the central government channeled 77% of tax revenues - about 16.4% of GDP- to interest payments in 2000, up from a mere 17.6% of tax revenues in 1985. Furthermore it is estimated that, the cost of interest payments is likely to reach 94% of tax revenues this year.

The state played a twin role during the ISI era before 1980 reforms, namely the role as a producer through its operations of the SEEs and the regulatory role as its involvement with the administration of several accounts like foreign exchange rates and setting of key prices in industry and energy. In the post-reform era, however, the state is compelled to give up its productive role while continued to play its regulatory role in income distribution through fiscal operations in the market. In the Turkish example, the state’s use of fiscal operations appears to be a kind of income transfer mechanism from the wage earners and peasantry to domestic business groups.

The state’s instrumental role in this income transfer mechanism is evident in the figures comparing taxes on capital incomes. A comparison of the interest payments by the state and its tax earnings from corporate capital income reveals the nature of the relationship between state corporate business and the use of fiscal debt management in this dual relationship. “ The contribution of corporate incomes to aggregate tax revenues lies well below the income captured through interest earnings on the domestic debt,

which means that capital incomes in Turkey are effectively untaxed, and the current mode of domestic debt management works as a direct income transfer to the holders of capital income” (Cizre-Sakallioglu et al., 2000:490). When we go back to 1988, the interest payments on domestic debt to GNP ratio was around 2.4% while the corporate tax to GNP ratio was 1.8%. In this respect, the taxation of corporate capital and the interest payments transferred to them were in a rough balance. Yet, when we come to 1998, just after a ten-year-period, the share of interest payments on domestic debt in GNP rose to around 14% while the corporate tax to GNP ratio remained almost the same at around 2% of GNP. Another way of seeing the character of this transfer mechanism is to look at the distribution of domestic debt among buyers. Between the years 1987-1999, on average, 84% of treasury bills and government bonds sold by public are hold by private banks, therefore, the banking sector (which are owned by the corporate sector) appears to be the main beneficiary of the growing debt trap on the public budget. The banks in Turkey are owned by major conglomerates that use them to shore up their firms and finance dubious investment projects while at the same time enjoying the government deposit insurance which enables them to continue this transfer of resources without incurring any risk on their part. The moral hazard problem that resulted from the state guarantee on all bank deposits, hence, were the primary source of the bail out of 12 private banks by the state within the last 2 years.

Another example supporting the point discussed in the above lines is the fact that despite the existence of high public debt and the consequent emergent need to create additional revenue sources for public spending, tax (exemption) reform proposals have never been a novel phenomena in Turkey. For instance, lastly in 1998, the government passed a tax reform whose main components were an overall reduction of tax rates for different income groups which was implemented by granting new tax amnesties and a reduction of the tax rate for the highest income groups by 15% and lower brackets by 10%. Two following tax amnesties were granted namely, on the stocks of merchandise held by commercial enterprises, and on the undeclared value of all assets owned by individuals. Although the expansion of tax base to include the financial income was also among the proposals, it was later excluded on the premise of supporting the financial deepening of the capital markets.

Furthermore, there has been no serious attempt to include the informal sector, which accounts for almost 50% of the market to generate a more equal distribution of the tax burden in the society.²³

Although the main target of these tax deduction and amnesty policies were to encourage individuals to declare their unregistered-underground asset holdings and also to enhance economic activity by lowering the investment cost for the private sector through tax cuts, there is no sound improvement in the government revenue as a result of these policies. On the contrary, the fiscal deficits are expected to deteriorate after these generous tax reform programs.²⁴

Table 1-Distribution of Income Across Households

<u>% Share in Aggregate Disposable Income</u>		
<u>Household Percentiles</u>	<u>1987</u>	<u>1994</u>
Lowest 20%	5.23	4.86
21%-40%	9.61	8.62
41%-60%	14.07	12.60
61%-80%	21.16	19.02
Highest 20%	49.93	54.88
<u>Memo:</u>		
Lowest 10%	1.94	1.84
Highest 10%	34.02	40.51
Lowest 5%	0.70	0.69
Highest 5%	23.01	30.34
Gini Coefficient	0.44	0.49

Source: SIS, Household, Labour Force and Income Distribution Surveys (various Years).

Diminishing real wages, expansion of the informal (unrecorded) economy, together with the widening distributional conflicts in the society display their consequences through the opening up of the already large income gap among different income groups. According to a recent report, the richest 18,000 families in Istanbul, who constitute only 1% of the city's population, receive \$6 billion of the \$20 billion generated in the city (Sonmez, 1998). The disparity in income distribution is not limited with the big cities. While the highest 20% of the population have managed to receive almost 55% of total disposable income over the last two decades, the remaining 80% have had to afford their living with the other 45% (table 1). Furthermore, the gap widened over the

last decade especially after the implementation of full capital account liberalization in 1989 (Kasnakoglu, 1997:58). The share of lowest 5% of population in national income dropped from 0.7% to 0.69 between 1987-1994, while for the same period the ratio for the highest 5% have risen to 30.34% from around 23%. In other words, when we arrived at 1994, the highest 5% was earning 44 times more than the lowest 5% of the population.

The difference between the highest and lowest 1% of income groups has reached to 236 times while the regional disparities has also widened. While Marmara region collects 40% of the total income generated in the country, Southeastern part receives only 4% (Sonmez, 1998). Another important indicator of the deteriorated income distribution is the change in the Gini coefficient during the past decade which increased from 0.44 in 1987 to 0.49 in 1994.

In addition, the last two crises have increased the already high unemployment level by an addition of about 700,000 new ones (Radikal, 8/05/2001) and widened the income gap further. Among all these depressing results, the privatization programs of SEEs have further accelerated the pauperization of the lower and middle-income groups in the country. The underlying factor for this is the fact that public enterprises are given a set of tasks in the underdeveloped-developing countries. Under the presence of high-income inequality and redistributive pressures in the society, SEEs are expected to fulfill contradicting objectives in such an environment. The inevitable conflict between efficiency and profit maximizing targets as a rule of the market and social objectives in the form of providing employment and under priced services become unsustainable during and after IMF guided structural adjustment programs (Onis, 1991; Senses, 1996).

The point IMF and other international financial institutions ignore to see is the fact that SEEs provide a kind of social safety net, for the masses impoverished under the applied economic programs, that is missing in such developing countries as Turkey. The inability of the state to establish a system that guarantees the basic needs of the poor and unemployed during downswings is further worsened by the IMF programs for which privatization is generally the first step in downsizing the state control and participation in the economy.

Furthermore, because of widening fiscal deficit, privatization programs in Turkey have turned out to be perceived as a way of fund raising for the budget rather than

efficiency gain targets. This also contributed to the loosening of the cement keeping the society together. Contrasting life styles, increasing and polarization of the poor brought with itself the danger of social explosion as well.²⁵

The economic collapse has further provoked the already loosened social fabric in the country. The economic and political divisions among several groups in the form of urban-rural, secular-islamist, Turkish-Kurdish brought about serious concerns among political leaders as well as the military that still keeps the upper hand in the country's politics.²⁶

UNTOUCHABLES: Militarization of the Market

Military expenditures constitute one of the main accounts behind rising public deficits not to mention its contribution to the rent-seeking behaviour and corruption through its lack of transparency and untouchable status in the country (Cizre-Sakallioglu, 1997:151-166, Cizre-Sakallioglu et al., 2000). The official estimate of the military expenditure GNP ratio was around 5.4 percent as of 1999. However, even this amount is controversial and is a true understatement of the true size of the total public spending on military. A special fund named Defense Industries Support Fund (DISF) receives funding from special levies placed on earned income, alcohol, fuel, cigarette consumption, bank interest earning collection and etc.²⁷

Despite all these transfers through several different sources, the DISF is not included in the computation of Turkey's defense budget. In addition, there is another special organization called OYAK-Armed Forces Trust and Pension Fund-which occupies a greater space in the country's economy through its operations in the market but still not included in the computation of defense budget.

OYAK was established by the Parliament in 1961, after the first military coup, to provide "*economic benefits*" for the military officers. It is currently a conglomerate consisting of vast holdings in Turkey's "*civilian economy*", its activities range from super-market chains to real estate, insurance and banking companies, the automotive and petroleum industry, tourism, cement industry, food marketing and other industries (parla 98). It ranks in the top-five conglomerates in the country, and enjoys "unique and

generous set of subsidies”(Parla, 1998). First of all, although it is a market player, it is exempted from “all taxes”, and secondly, its members-army regulars, defense ministry employees, etc.-pay compulsory fees cut directly from their monthly salaries. It has shares in 24 companies²⁸, and owns two banks, and extensive real estate.

Many of these businesses are partnerships with the domestic and international companies like Sabanci and Koc in Turkey, and Good year, DuPont, Mobil, Shell, Renault in the international arena.

The militarization of business and market has turned the army to one of the main benefactors of IMF designed programs while generating a very distorted market structure and unfair competition against other actors who are not provided with the privileges OYAK and its sister corporations have been granted²⁹. The system has also enabled the military to protect itself from the negative effects of the market economy and the continuous economic crisis in the country while the rest of the society has no such safety net.

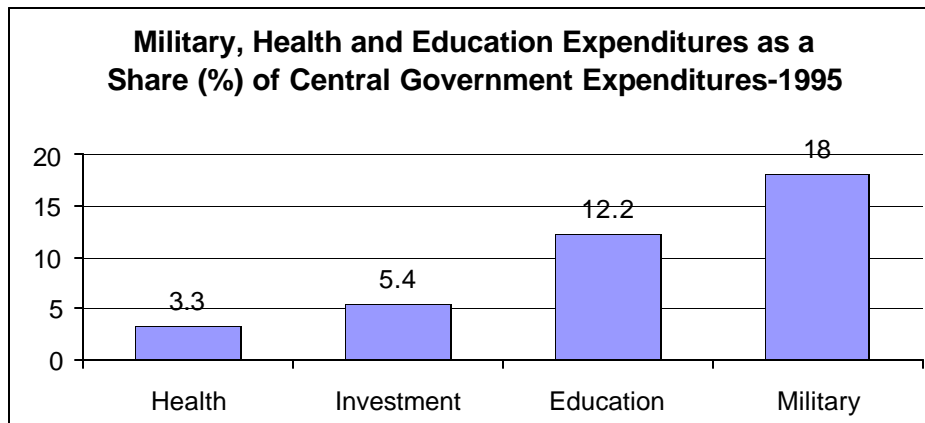
OYAK is privileged also with a unique provision by the state, which enables it to transfer any of its loss making or bankrupting company to the state in the form of SEEs.

The military also controls the Foundation for Strengthening the Turkish Armed Forces, a sister corporation established in 1987 that has interest in 30 defense related companies, and manufacturing everything from aircraft artillery to missiles and telecommunication systems. It employs an estimated 20,000 people (other than the 30,000 employed by OYAK) and 80% of its income is donated to the armed forces.

The military’s dominance over the country’s politics and economy through its interventions via MGK and its business organizations signifies itself with avoiding any kind of objection directed to the growing size of the military budget and its military operations against the second class citizens of the country, the Kurds. To give an example, the annual cost of the 15 year war against the Kurds is estimated to be around \$9 billion and is among the reasons of high public debt accumulation after mid 1980s (Gabelnick, 99:13). The increasing political and economic fragmentation in the society, widening income gap between different classes, and deteriorating public balance has not prevented the government from increasing the size of its military spending. In contrast, the government has chosen the option of reducing its spending on the most important

components of its budget like education, health and public investment. In 1995, the relative shares of health, investment and education expenses from the central budget were 3.3%, 5.4%, 12.2% respectively while the share of military spending was 18% alone. This distribution of budget revenues is in a sharp contrast with OECD figures, in which an average of 75% of all tax revenues are used to finance public expenditures on health and education (Oyan, 1997).

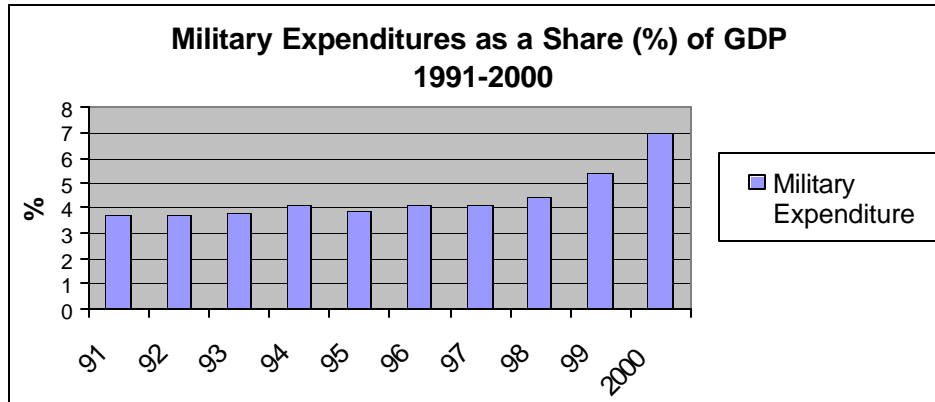
Figure 12:



Source: World Bank; United Nations; SPO, Main Economic Indicators.

The inability of the domestic pressure groups to limit the size of the military involvement in politics and economy finds its counterpart in the pressure of international financial and political organizations to curtail the military.³⁰ Along this lines, the IMF asked the government in December 2000-in the aftermath of the December crisis-to trim the budget for the armed forces as part of the reforms in return for \$7.5 billion emergency aid³¹. As can be seen from figure 12, the share of military expenditures in the GDP has risen substantially over the past decade despite the alarming deterioration of the public deficit.

Figure 13:



Source: Stockholm International Peace Research Institute (SIPRI) Year Book 2001; World Bank World Development Indicators, 2001.

However, despite IMF's pressures on the government for the inclusion of the extra-budgetary funds to the general budget and hence to increase transparency, there seems to be no policy advice or proposition to incorporate the military-owned businesses to the rules of the market (i.e. abolishing the full tax exemption of OYAK and its sister companies)

It may seem strange from the outside to allow such a big business group to operate with the help of all these subsidies and tax exemptions that create unfair competition in the market, however, it is no less absurd to see that IMF and WB have made no comment on this so far, at least in the public sphere.³² The explanation for the Turkish side lies on the institutional and historical setting of the country. Turkish military has staged three coups with only ten year intervals in 1960, 70, 80 and issued several ultimatum to the democratically elected governments of Turkey (Cizre-Sakallioglu, 1997).³³ As the founding institution of the republic in 1923, the military sees itself as the guarantor and supervisor of the national interest with changing emphasis on the so called national threats, namely the fundamentalist threat, communist challenge and the ethnic Kurdish separatism.

In this picture, the place occupied by the civilians in the determination of the country's politics is relatively minor. The inability of the civilians to control the military goes hand in hand with the inability of the society to control the state apparatus. Corruption and bribery has become a fact of state affairs in the minds of people.³⁴

It is interesting to remember that the triggering event of the February crisis that eventually led to the collapse of 3-year IMF designed stabilization program was the accusation made by president Sezer to prime minister Ecevit for the latter's unwillingness to investigate corruption claims in state owned banks and the involvement of several high level state bureaucrats, government officials and deputies.

Hence, the Turkish market economy experience has turned out to be a strange combination of autocratic military etatism and crony capitalism in which "economic, political and social rents are shared away among domestic and international businesses, subcontractors who deal with the state...mafia groups...drug and gun smugglers"(Cizre-Sakallioglu, 2000:496).

MIXED RESULTS

Lack of transparency and accountability in Turkish politics and economy together with its authoritarian state structure have produced strange results as the country became more and more dependent on international financial organizations for the continuation of financial flows. Each time the country called for IMF help, a team of high-level technocrats with close ties with the international community became responsible for preparing and implementing the new program (Kirkpatrick, 1991). For instance, the key figure in the process of policy formation in 1980 was Turgut Ozal, a former head of the state planning organization who spent a formative period at the World Bank in the mid-1970s. He was the main negotiator with the international donor organizations during late 1970s and became the architect of the January 1980 program that mark the beginning of the new liberal economic era.³⁵ Likewise, after the serious balance of payment crisis in 1971 the military government invited one of the researchers of the World Bank, A. Karaosmanoglu, who was a Turkish citizen, to rebuild the economy and implement economic policy reforms, but later on, populism and internal political struggles overcome the efforts for restructuring of the economy. The last crisis, ironically, gave rise to a similar development in the mixed political-economic arena of Turkey. Kemal Dervis, former vice president of WB was invited³⁶ to rebuild the country's ruined economy after the two consecutive crises in late November and early February. From the beginning, the

52-year old world bank economist appeared to be the fourth partner of country's three-party coalition government with special powers given from the outset. As was read in the Financial Times' columns, "when the IMF approves a fresh bail-out for Turkey..., it will be betting its money on Kemal Dervis, the new economy minister". His connections with the international financial community and independence from political manipulations and populist policy making are two qualities that are expected to bring an end to the economic turmoil and chaos in the country.

Although "the Turkish experience provides strong support to the proposition that the character and unity of the technocratic elite with clear ties to international lending agencies is a key factor in determining the success of an adjustment program", it also supports the proposition that in countries with lack of democratic institutions and transparency in state affairs, top-down policy building further strengthens the already autocratic and repressive state governance. Lack of transparency together with a social structure characterized by extreme polarization of incomes and life styles further limits the possibility for a social pact that was needed to build a consensus around an anti-inflationary program (Onis, 1997:37).

The existence of widespread corruption also contributes to lack of trust in society for any new economic program aimed at reducing inflation.³⁷ A side effect of the ongoing economic crisis in the country, therefore, has been the insulation of the state from social pressures further away. The isolation of political and military class from the rest of the society also strengthened the resistance of these groups to any criticism against their subsequent conducts and helped to deepen the fragmentations among different groups in the society.

The broad view discussed above brings us to conclusion challenging the generally accepted neo-liberal view of the reciprocal relationship between economics and politics which base on the premise that these two are and must be independent of one another. In contrast to the arguments put forward by the mainstream economists, Turkish experience demonstrates a clear-cut lesson that "politics matters in the era of financial liberalization." The volatile nature of capital flows largely depend on the good news from the markets and these good news gain special importance especially in countries

where there is lack of institutional infrastructure to ensure continuity in political and economic policies.³⁸

CONCLUSION

The Turkish experience in the 1980s and 1990s provides an important example for the demonstration of close relationship between the economic programs a country applies and the political and economic infrastructure surrounding those programs.

We tried to argue that Turkey's switch to neo-liberal economic policies in the early 1980s did not bring about the expected yields partly because of its lack of the required infrastructure for the economic reforms it was trying to apply. To the surprise of many but not all, the end result has turned out to be the continuation of the previous rent coalitions under the new system with new partners.

As demonstrated in the last Asian crisis, Turkish case also provides new evidence to the fact that "weak financial institutions may make a [developing country] particularly vulnerable to large and sudden changes in short-term flows."(Stiglitz, 2000) especially in the face of unregulated capital account liberalization.³⁹

The Turkish trajectory in the post-liberalization era, on the other hand, displayed some interesting results in terms of the existence and the continuation of the rent-seeking coalitions formed during the ISI era prior to the liberalization wave of the 1980s. The distribution of rent (created in the formal and informal part of the economy) between the business, state bureaucracy and the military, in this respect, appears to be the distinguishing elements of Turkish capitalism. The attempts to downsize and reduce the state control and regulation in the economy have yielded (un)expected results in terms of state-business-society relationship. The state has taken (been given) a more direct role in transferring the economic surplus extracted from the society in the form of taxation back to the business as interest payments on public debt.

Despite the increasing power of the financial capital in domestic policy formation through the internationalization of the domestic markets, the Turkish army could still insist on holding a secured place in the political arena of the country. The widening public debt, and the deteriorating income distribution in the country have gone hand in

hand with increasing militarization of the Turkish state. Suppression of the democratic rights, division and polarization of the society among several political and ideological fractions, and the untransparent functioning of the state apparatus together with the destructive effects of the uncontrolled trade and financial liberalization programs have put the country away from the expected results of the neo-liberal reform package of the 1980s.

In this respect, we have argued that the political sustainability of neoliberalism, at least in the Turkish context, in the 21st century is largely determined by the performance of the political and economic order both in the domestic and the international sphere at the same time.

End Notes

¹ For a detailed discussion of the financial deregulation and trade liberalization programs and their effects on the developing countries' growth paths, see World Bank, 1997; Knight, 1998; Gabriele et al, 2000; Stiglitz, 2000; Eichengreen, 2000.

² As an example of this view, see Dornbush, 1992; Citrin et al., 2000.

³ For an in depth analysis of the relationship between politics and the economic liberalization package of the 1980s, see e.g. Boratav, 1993; Onis, 1998; Cizre-Sakallioğlu et al, 2000.

⁴ The main target of these policies was to support the domestic industrialists by providing cheap intermediate inputs imported through subsidized exchange rates.

⁵ For a detailed analysis of this relationship between the state and the business class, see Keyder, 1987; Bugra, 1994.

⁶ The development paths of this narrow distributional coalition have been analyzed by several scholars, see e.g. Keyder, 1987; Celesun, 1989; Onis, 1992; Boratav, 1993.

⁷ "Turkey is one of the seven countries in the OECD to have the least number of restrictions on capital account transactions." (Kumcu, 1997:31).

⁸ For a discussion of the over invoicing, tax rebates and virtual exports that led to a direct income transfer to the business class see, e.g. Rodrik, 1988.

⁹ Also the increasing dependence on the international capital flows from both private and official sources-to finance the widening public deficit resulted in loss of control over the economic policies followed by the country.

¹⁰ For a detailed analysis of the post-1980 economic reforms and their effects on the income distribution, see e.g. Celesun, 1989, Ozmucur, 1992, Yeldan, 2000.

¹¹ For a general view on the disruptive effects of the international capital flows on domestic markets and the moral hazard problem associated with the state guarantee on private sector debt and bank deposits, see e.g. Edwards, 1998; Felstein, 1999; Rasich, 2000; Eichengreen, 2000; OECD, 2001.

¹² The distortion caused by the extra budgetary funds is recognized and admitted by the government in Turkey, in the letter of intent to IMF dated December 9, 1999 and December 18, 2000, it is promised that; "...to increase transparency Changes in the budgetary framework will require broadening the effective coverage of the budget. In this respect, 20 budgetary funds, out of a total of 61 budgetary funds, will be closed by February 2000 (a structural benchmark for the first review); 25 more funds would be closed by August 2000 (a structural benchmark for the third review). The remaining funds will be closed by June 2001. Further progress in this area will be achieved by introducing in 2001 accounting and reporting on a commitment basis for the consolidated central budget. Moreover, in 2001 an integrated financial information system based on a treasury single account and a general ledger will be implemented.

¹³ This system of financing government expenditures was an invention of Ozal era in 1980s. One of the main motives behind the invention of EBFs was the government's inability to generate revenue from standard sources. The increasing need for these funds to finance several government expenditures made the successive governments to resort to extra-non tax sources of revenue such as exit fund paid by citizens traveling abroad. -The exit fund was \$100 for each Turkish citizen going abroad and was abolished in 1992, yet after the February crisis in 2001, the government again returned to this source of funding this time for \$50 each. According to the Annual Report of the Ministry of Finance, in 1988, 11,2% of public investment was financed by the EBFs (Ministry of Finance, 1988).

¹⁴ ie., one of the state banks, Ziraat Bank itself has \$12 billion uncollected assets vis-à-vis the Treasury.

¹⁵ The exchange rate framework was designed to have the following features:

- A pre-announced exchange rate path with respect to the existing basket will be introduced before the IMF Executive Board meeting (a prior action). The exchange rate path will be announced for the period January 1, 2000-December 31, 2000. During this period, the depreciation rate will be 20 percent, equal to the target for WPI inflation. Within each month, the daily exchange rate adjustment shall remain constant. After the introduction of the new exchange rate system, the depreciation rate for the rest of December 1999 will be the same as in the first part of the month.

- At the end of each quarter, the exchange rate schedule will be extended by three additional months, without changing the part of the exchange rate path already announced. The devaluation rate for the additional three months may differ from the announced rate in the preceding period with a view to furthering the disinflation process.
- There will be no band around the exchange rate path for the first 18 months following the introduction of this regime. A gradual shift toward a more flexible exchange rate regime will begin on July 1, 2001 when a symmetric, progressively widening band about the central exchange rate path will be introduced. This band will widen at a rate of 15 percentage points per annum, measured from edge to edge. The total width of the band will thus reach 7½ percent by end-December 2001, 15 percent by end-June 2002, and 22½ percent by end-December 2002. For a detailed description of the program outlines see; <http://www.imf.org/external/np/loi/1999/120999.pdf>

¹⁶In this respect, Turkey is not unique among other developing countries. As Samuel P. Huntington explains in his 1968 classic, "Political Order in Changing Societies," high levels of corruption are endemic to societies undergoing the stress of rapid modernization. Corruption greases the wheels of creaky, unresponsive bureaucracies, creates informal networks of power so that things get done when they otherwise wouldn't, and allows people to purchase power in third world systems that they would otherwise violently revolt against.

¹⁷ The primary aim of privatization in the Turkish context has become generating additional funding for the budget deficit rather than increasing the efficiency in the market. In the letter of intent to IMF dated December 18, it was explicitly stated that "our privatization program remains guided by the need to improve economic efficiency, and reduce the domestic and external *borrowing requirement* of the public sector.

¹⁸ The government, in its letter of intent to IMF dated June 26, 2001, clearly displayed the path to be followed in its economic program and the groups who will carry the burden. It is stated that; "Wage negotiations for public sector workers were concluded in late May. We estimate that the two-year agreement will lower the ratio of average net salaries of public sector workers and civil servants from 2.6 in 2000 to 2.2 in the first contract year before raising it to 2.3 in the second contract year.

Regarding policy efforts, in May we raised VAT rates as planned, and increased the minimum contribution base relevant for social security payments by 40%, while increasing the contribution ceiling from four to five times the minimum contribution. We also raised petroleum consumption taxes by over 20% in May and by 16% in June, more than originally planned."

¹⁹ The workers in the informal sector are unregistered and work at below market rates without access to any means of social security. For an analysis on the size of the informal sector, see e.g. Celesun, 1989; Derdiyok, 1993. Also, for a detailed discussion on the effects of the distorted labour market structure on employment and wages, see Bulutay, 1995; Senses, 1996; Yeldan, 2000.

²⁰ For an in depth analysis of the repressive nature of the Turkish tax system see e.g. Senatar et al, 1991; Ozmucur, 1992; Onder et al, 1993.

²¹ Kazgan (1990) provides a historical overview of the underlying reasons behind the distorted income distribution in the country.

²² The cost of the last two crises has been an increase in the country's already high unemployment figures by 42% comparing to the previous year, which means almost 700,000 new jobless people. (Milliyet 04/08/2001).

²³ For a detailed analysis of the development paths of the informal sector and its effects on the labour market, see e.g. Senses, 1996; Ozmucur, 1992; Derdiyok, 1993.

²⁴ Despite the last general tax amnesties, only 35% of total 4.5 billion accrued tax liability could be collected (Radikal 17/07/2001).

²⁵ A businessman could easily spend \$1 million on a party in Istanbul to celebrate his son's circumcision while millions barely afford their living with the country's \$85 minimum wage level.

²⁶ The president A.N.Sezer, for instance, vetoed the legislation proposal to reduce subsidies for tobacco farmers to avoid deepening the already too much suffering among agricultural workers. On the other hand, the military dominated National Security Council-which is an institution established after the 1980 military

coup and where the threats to national security issues are the primary topic-discussed the potential for social uprisings and unrest in public in its closed meeting (Radikal, 26/07/2001).

²⁷ In addition to these, there are other sources from which the fund generates income for its expenditures. For instance, Turkish men can exempt themselves from compulsory military service by making a lump-sum payment to the state. A share of these payments is deposited to DISF. Tragic-comic events also take place in Turkey when we start digging the sources of the flow of funds to the military. For instance, during Muslim's biggest holiday, the festival of sacrifice, muslim families in Turkey sacrifice farm animals such as sheep and cows. The furs of these animals are used to be donated to religious non-profit organizations and mosques for fund raising. In this donation market, where the total value of donations reaches millions of dollars every year, military was also a competitor with such religious organizations through its fund raising activities to get these donated furs. The organization of this operation was done via Turkish Air Foundation (TAF)-another sister organization of the military. Despite official commercials and wide spread military-government announcements to encourage the fur donations to this organization, TAF was able to obtain only a small share from this profitable cake. In 1998, however, to rectify this ongoing rivalry, the ministry of justice, upon the advice of the NSC, issued an order making it illegal to collect-accept the fur donations by any other organization other than TAF (Yuksel, 1999).

²⁸ Some of the companies OYAK owns are; a supermarket chain, 47% of OYAK Renault-one of the country's two dominant automobile makers, 10% of Turkey's cement making capacity, 12% of tire company Good year, 63% of a leading transportation company, etc. For a detailed account of the subsidiaries and the companies linked to OYAK see, <http://www.oyak.org.tr>

²⁹ After the February crisis in 2001, the number of failed private banks transferred to state ownership because of the 100% state guarantee on all bank deposits reached a number of twelve. In June, 2001, OYAK started the negotiations with the independent banking agency to overtake the ownership of Demirbank-the 12th biggest bank of the country which was the triggering source of the crisis in December 2000- and concluded the process by purchasing the bank at a price lower than the market value. Hence, Demirbank has become the second bank owned by OYAK in the Turkish banking sector (Sabah, 27/06/01; Milliyet, 6/6/01).

³⁰ European Union has been criticizing the role of the military in Turkish politics and making proposals to limit its size as a precondition for EU membership that the country has been trying to enter. Also, human rights organizations have been confronting with the country's undemocratic legislations giving the military the upper hand and enabling the army conduct operations in the Kurdish regions of the country without being subject to the general laws. The Southeastern part of Turkey where Kurds constitute the majority of the population has been under marshal law since the 1980 military takeover (for a discussion on the military and the human rights conflict in Turkey, see e.g. Kilic, 1998; White, 1998; Barkey, 1998; Parla, 1998; Gabelnick, 1999)

³¹ The February crisis struck the military in the midst of its largest spending on weapons procurement, which was expected to total \$31 billion in the next eight years and reach \$150 billion by year 2030. After the crisis hit the country, the military announced that it postponed defense projects worth \$19 billion. Again, the civilians are not informed about the accounts which are declared to be postponed (Associated Press, May 11, 2001).

³² Despite the insistence of IMF to downside and reduce the state involvement in the market through deregulation and privatization programs, there is no single comment on the market distortions created by the privileged military companies.

³³ MGK plays an important role in institutionalizing these continuous military interventions to the country's political life.

³⁴ Ex-president of the Central Bank of Turkey, for instance, has been accused of making illegal gains by using his position in exchanging his TL60 billion holdings to dollar on the very last day just before the devaluation in February. While his case is now being processed by the court, it is found out that he is not the only one benefited from the last devaluation. Ex-president of the biggest state bank-Ziraat bank, also exchanged his TL102 billion to dollar two days before the devaluation (Radikal, 8/1/01; Ozgur Politika, 16/4/01; Ozgur Politika, 23/4/01). It is currently a highly debated issue in the country that the central bank is being asked-by public- to announce the names of the buyers of the \$5billion sale just prior to the devaluation.

³⁵ He was later to be first prime minister and then the president of the country.

³⁶ It is claimed that the idea of choosing K. Dervis as the minister of economy came from S. Fisher, president of IMF, to gain the international community's trust and support.

³⁷ Countless parliamentary investigation committees have been set up in the 90s to investigate ongoing abuses in the public sphere. However, these committees which themselves had no sanctioning power, faded away as a result of political negotiations among groups involved in the abuses and were to be investigated.

³⁸ The Asian experience in 1997 supported the above claim that even the countries with sound macro-economic performance and low public debt are also subject to speculative debt in the presence of lack of the required regulatory institutional bodies.

³⁹ "...one might compare capital account liberalization to putting a race car engine into an old car and setting off without checking the tires or training the driver. Perhaps with appropriate tires and training, the car might perform better, but without such equipment and training, it is almost inevitable that an accident will occur. One might actually have done far better with the older, more reliable engine: performance would have been slower, but there would have been less potential for an accident, similarly, the international economic architecture must be designed to "work" not just in the presence of perfect economic management, but with the kind of fallible governments and public officials that in fact occur in democratic societies." One more thing needs to be added to this statement which is the fact that the governments, in most of the developing countries, are not an independent unit from the capitalist class and play an important role in directing the rent distribution from the working class to the capitalists" (Stiglitz, 2000).

BIBLIOGRAPHY

Akyuz, Y. (1990), Financial System and Policies in Turkey in the 1980s, in T. Aricali and D. Rodrik,(eds), *The Political Economy of Turkey*, London and New York: Macmillan.

Atiyas, I. (1995), Uneven Governance and Fiscal Failure, in L. Frischtak and I. Atiyas (eds.), *Governance, Leadership and Communication: Building Constituencies for Economic Reform*, pp.223-251, Washington, D.C.: The World Bank.

Balkan, E. and Erinc Yeldan (1998), Financial Liberalization in Developing Countries: The Turkish Experience, in R. Medhara and J. Fanelli (eds.), *Financial Liberalization in Developing Countries*, pp.129-155, London and Basingtoke: Macmillan.

Baskaya, F. (1986), "Turkiye Ekonomisinde Iki bunalim Donemi, Devletcilikten 24 Ocak Kararlarina (Two Crises Era in the Turkish Economy, From Etatism to September, 24 Decisions)", Birlik Yayıncılık, Ankara.

Barkey, H.J. (1998), "The People's Democracy Party (HADEP): The Travails of a Legal Kurdish Party in Turkey", *Journal of Muslim Minority Affairs*,18(1):129-137.

Bird, G. (1998), "Convertibility and Volatility: The Pros and Cons of Liberalizing the Capital Account", *Economic Notes* 2:1-33.

Boratav, K., K.O.Turel, and E. Yeldan (1996)," Dilemmas of Structural and Environmental Policies under Instability: Post-1980 Turkey", *World Development* 24(2):373-393.

Boratav, K. (1990), Inter-Class and Intra-Class Relations of Distribution Under "Structural Adjustment": Turkey During the 1980s, in *The Political Economy of Turkey*, T. Aricanli and D. Rodrik(eds.), St. Martin's Press, New York.

Boratav, K. (1993), "State and Class in Turkey: A Study in Capitalist Development", *Review of Radical Political Economics* 25(1):129-147.

Brauer, J. (2001), Survey and Review of the Defense Economics Literature on Greece and Turkey: What Have We Learned?, *Defense and Peace Economics* (forthcoming).

Bugra, A. (1994), "State and Business in Modern Turkey", Albany, N.Y. : State University of New York Press.

Bugra, A. (1997), "The Claws of Tigers", *Private View* 1(2): 50-55.

Carvalho, F.J.C. (2000), "The IMF as Crisis Manager: An Assessment of the Strategy in Asia and of its Criticism", *Journal of Post Keynesian Economics* 23(2): 235-266, (Winter)

Calvo, G.; L. Leiderman and C. Reinhart (1996), "Inflows of Capital to Developing Countries in the 1990s, Journal of Developing Countries in the 1990s", *Journal of Economic Perspectives* 10(2):123-139.

Celesun, Merih and Dani Rodrik (1989), Debt, Adjustment and Growth in Turkey, in J. Sachs and S.M. Collins (eds.), *Developing Country Debt and Economic Performance, Country Studies*, Chicago and London, The University of Chicago Press.

Celesun, M. (1989), "Income Distribution and Employment Aspects of Turkey's Post-1980 Adjustment", *METU Studies in Development* 16(3-4):1-32.

Central Bank of Republic of Turkey (CBRT), Survey Statistics, (see <http://www.tcmb.gov.tr>)

Cizre-Sakallioglu, Umit; Erinc Yeldan (2000), "Politics, Society and Financial Liberalization: Turkey in the 1990s", *Development and Change* 31:481-508.

Cizre-Sakallioglu, U. (1991), Labour: The Battered Community, in Metin Heper (eds.), *Strong State and Economic Interest Groups: The Post-1980 Turkish Experience*, Berlin and New York: De Gruyter, pp.57-69.

Cizre-Sakallioglu, U. (1997), "The Anatomy of the Turkish Military Autonomy", *Comparative Politics* 29(2):151-166.

Derdiyok, T. (1993), "Turkiyenin Kayit Disi Ekonomisinin Tahmini (The Estimate of Turkey's Informal Economy)", *Iktisat*, (Mayis): 54-63.

Dornbush, R. (1992), "The Case for Trade Liberalization in Developing Countries", *Journal of Economic Perspectives*, Vol.6, No.1, Winter, pp.69-85.

Ersel, H. (1996), "The Timing of Capital Account Liberalization: The Turkish Experience", *New Perspectives on Turkey* 15:45-64.

Edwards, S. (1998), "Interest Rate Volatility, Capital Controls and Contagion", *NBER Working Paper* no.6756, (October), Cambridge, MA: NBER.

Eichengreen, B. (2000), "Taming Capital Flows", *World Development* 28(6):1105-1116.

Frankel, J. (1997), "The Order of Economic Liberalization", in K. Brunner and A.H. Meltzer (eds.), *Economic Policy in a World of Change*, North-Holland.

Felstein, M. (1999), "Self Protection for Emerging Market Economies", *NBER Working Paper* no.6907, (January), Cambridge, MA: NBER.

Frantz, D. (January 14, 2001), Military Bestrides Turkey's Path to the European Union, *The New York Times*

Gabriele, A.; Korkut Boratav; Ashok Parikh (2000), "Instability and Volatility of Capital Flows to Developing Countries", *The World Economy*, 23(8): 1031-1056, (August).

Gabeilnick, T. (1999), "Turkey: Arms and Human Rights", *Foreign Policy In Focus* 4(16), (May).

Huntington, S. P. (1968), "Political Order in Changing Societies", New Haven, Yale University Press.

IMF, Letter of Intent of Turkey, (April 30, 2001; December 18, 2000; December 9, 2000; January 30, 2001; June 26, 2001).

IMF News Brief, (July 12, 2001), No.01/57.

Kasnokoglu, Z. (1997), "Who Gets What", *Private View* 1(2):56-62.

Kazgan, G. (1990), "Turkiyede Gelir Bolusumu: Dun ve Bugun (Income Distribution in Turkey: Today and Yesterday)", Istanbul: Fiedrich Ebert Foundation.

Keyder, C. (1987), "State and Class in Turkey: a study in capitalist development", London, New York: Verso.

Kilic, A. (1998), "Democratization, Human Rights and Ethnic Policies in Turkey", *Journal of Muslim Minority Affairs* 18(1):91-109.

Kumcu, E. (1997), "Degisen Dunya'da Degismeyen Devlet mi?" (Is it State Unchanged in a Changing World), *Ekonomide Durum* 3(4):10-25.

Knight, M. (1998), "Developing Countries and the Globalization of Financial Markets", *World Development* 26(7):1185-1200.

Kirkpatrick, C., Ziya Onis (1991), "Turkey and The World Bank: Aid and Power", in Mosely, Paul, Jane Harrigan and John Toye (eds.), *Aid and Power: The World Bank and Policy Based Lending*, Vol.2, pp.9-37, London and New York: Routledge.

Milliyet, 04/08/2001.

Milliyet, 6/06/2001

Ministry of Finance (1998), Annual Report, Ankara.

McKinnon, R. (1982), "The Order Of Economic Liberalization: Financial Control in the Transition to a Market Economy", Baltimore, John Hopkins University.

Ozgun Politika, 23April, 2001, Dolarla Cevik Bir Gecis (A fast skip to the dollar).

Ozgun Politika, 16 April, 2001, Tunaboylu da Dovizci.

Onis, Z. (1991), "Privatization and the Logic of Coalition Building, A Comparative Analysis of the State Divestiture in Turkey and the United Kingdom", *Comparative Political Studies*, 24(1): 231-253.

Onis, Z. (1992), "Redemocratization and Economic Liberalization in Turkey: The Limits of State Economy", *Studies in Comparative International Development*, 27(2):3-23.

Onis, Z.; J. Riedel (1993), "Economic Crisis and Long Term Growth in Turkey", Washington D.C.: The World Bank.

Onis, Z.; Steve Webb (1994), Turkey, Democratization and Adjustment from Above, in Stephan Haggard and Steve B. Webb (eds.), *Voting for Reform, Democracy, Political Liberalization and Economic Adjustment*, , pp.128-184, New York: Oxford University Press.

Onis, Z. (1996), "Globalization and Financial Blow Ups in the Semi-Periphery: Turkey's Financial Crisis of 1994 in Retrospect", *New Perspectives on Turkey*, 15(Fall): 1-23.

Onis, Z. (1997), "Democracy, Populism and Chronic Inflation in Turkey: The Post-Liberalization Experience", *Yapi Kredi Economic Review* 8 (June):38-50.

Onis, Z. (1998), "Political Economy of Turkey in the 1980s, Anatomy of Unorthodox Liberalism", in *State and Market*, pp.183-196, Bogazici University Press, Istanbul.

Onis, Z. A. F. Baysan (2000), "Neoliberal Globalization, the Nation State and Financial Crisis in the Semi-Periphery: A Comparative Analysis", *Third World Quarterly*, 21(1):119-139.

Onder, I., Oktar Turel, Cem Somel, and Nazim Ekinci (1993), "Turkiyede Kamu Maliyesi, Finansal Yapı ve Politikalar (Public Finance, Financial Structure and Politics in Turkey)", Istanbul, Tarih Vakfi Yurt Yayinlari.

Oyan, O., Ali Riza Aydin (1997), "Istikrar Programindan Fon Ekonomisine (From Structural Adjustment Program to Fund Economics)", Ankara, Verso.

Ozmucur, S. (1992), "Pricing and Income Distribution in an Economy with and Important Public Sector", *Bogazici University Research Papers*, 92(12).

OECD (2001), <http://www.oecd.org/eco/surv/pdf/turkey01-1.pdf>

Ozatay, F. (1997), "The Lessons of the 1994 Crisis in Turkey: Public Debt (Mis)Management and Confidence Crisis", *Yapi Kredi Economic Review* 7:21-38.

Ozmucur, S. (1996), "Turkiyede Gelir Dagilimi, Vergi Yuku ve Macroeconomic Gostergeler" (Income Distribution, Tax Burden and Macroeconomic Indicators in Turkey), Istanbul: Bogazici University Press.

Parla, T. (1998), "Mercantile Capitalism in Turkey 1960-1998", *New Perspectives on Turkey*, (Fall), 19:29-52.

Rasich, R. (2000), "Globalization and Private Capital Movements", *Third World Quarterly* 21(6):943-961.

Rodrik, D. (1988), "Turkiyenin Ihracat Patlamasi Ne Kadar Hayali?" (How Much of Turkish Export Boom is Virtual?), *Toplum ve Bilim* 42.

Rodrik, D. (1990a), "Premature Liberalization and Incomplete Stabilization: The Ozal Decade in Turkey", *Center for Economic Research Working Paper*, No: 402, London.

Rodrik, D., Tosun Aricanli (1990b), "The Political Economy of Turkey", St. Martin's Press, New York.

Rodrik, D. (1996), "Understanding Economic Policy Reform", *Journal of Economic Literature* 34(1):9-41.

Rodrik, D. (1998), Who Needs Capital Account Convertability? In P. Kenen (eds), *Should the IMF Pursue Capital Account Convertability?*, Essays in International Finance 207, International Finance Section, Department of Economics, Princeton University (May):55-65.

Radikal, 26/07/2001, MGK'da Patlama Tespiti (Explosion Warning in MGK).

Radikal, 8/1/01, Ercel'e Cifte Sok (Double Shock to Ercel).

Radikal, 17/07/2001.

Radikal, 8/01/2001.

Sabah, 06/27/01 Sumerbank da Gitti (Sumerbank has been gone too).

Selcuk, F., Ahmet Ertugrul (2001), "A Brief account of the Turkish economy:1980-2000", *Russian and East European Finance and Trade*, (Feb).

Senatalar, B., Izzettin Onder, Oguz Oyan, Veysi Sevig (1991), "Turkiyede 1980 Sonrasi Vergi Politikasi (Taxation Policy in Turkey after 1980)", Istanbul, Tuses.

Senses, F. (1994), "Labour Market Responses to Structural Adjustment and Institutional Pressures: The Turkish Case", *METU Studies in Development* 21(3):405-448.

Senses, F. (1996), "Structural Adjustment Policies and Employment in Turkey", Middle East Technical University, *ERC Working Paper*, 96(01).

Schams, H.E. (1999), "Distributional Coalitions and the Politics of Economic Reform in Latin America", *World Politics* 51(January):236-268.

Schick, I.C.; E. A. Tonak (1987), *The International Dimension: Trade, Aid, and Debt*, in I.C.Schick and E.A.Tonak (eds.), "Turkey in Transition", pp.333-365, Oxford University Press.

Strange, S. (1986), "Casino Capitalism", Oxford: Basil Blackwell.

Stocholm International Peace Research Institute (SIPRI) Year Book 2001.

Stiglitz, J.E. (2000), "Capital Market Liberalization, Economic Growth, and Instability", *World Development* 28(6):1075-1086

Sonmez,M. (1998), "The Story of Eastern and Southeastern Turkey", *Private View* 2(6):54-64.

State Institute for Statistics (SIS), Household, Labour Force and Income Distribution Surveys (various years), Ankara: SIS (see, <http://www.die.gov.tr>)

State Planning Organization (SPO), Main Economic Indicators (various years), Ankara: SPO (see, <http://www.dpt.gov.tr>)

State Planning Organization (SPO)(1998), Economic and social Indicators 1950-1997, Ankara: SPO, (see <http://www.dpt.gov.tr>)

The Associated Press, May 11, 2001, "Turkish Military's Shrinking Budget Likely to be Felt by U.S. Defense Firms".

Tukel, H. (1997), "Waiting for Macroeconomic Stability", *Private View* 1(2): 24-28.

Under-secretariat of Treasury and Foreign Trade (UTFT), Main Economic Indicators (various years), Ankara: UTFT (see, <http://www.hazine.gov.tr>)

World Bank (1997), “The Road to Financial Integration: Private Capital Flows to Developing Countries”, Oxford University Press, Oxford.

White, P. J. (1998), “Economic Marginalization of Turkey’s Kurds: The Failed Promise of Modernization and Reform”, *Journal of Muslim Minority Affairs* 18(1):139-158.

Yenturk, N. (1996), “Impacts of Capital Flows on Savin and Investment: A Comparison of Turkey and Latin American Countries”, *METU Studies in Development* 23(1):151-169.

Yenturk, N. (1997), “Destined to be in Crisis”, *Private View* 1(2): 38-43.

Yeldan, E. (1992), “The Economic Structure of Power in Turkey; Price, Growth and Accumulation”, *Bilkent University Department of Economics Discussion Paper*, 92(5) (April).

Yeldan, E. (2000), “Kuresellesen Turkiye Ekonomisinde Devlet Sermaye ve Ucretli Emek Acisindan Bolusum ve Birikim Iliskileri (Distribution and Accumulation Relations from the Perspective of State, Capital and Labour in the Globalizing Turkish Economy ”, *Birikim*, Agustos.

Yeldan, E. (2001), “Kuresellesme Surecinde Turkiye Ekonomisi Bolusum, Birikim ve Buyume (Turkish Economy in the Process of Globalization, Accumulation and Growth”, *Iletisim Yayinlari*, Istanbul.

Yilmaz, T. (06/06/01), Sumerbank’ta Ibre OYAK’tan Yana (the scale in Sumerbank is towards OYAK), *Milliyet*.

Yuksel, E.(1999), “Cannibal Democracies, Theocratic Secularism: The Turkish Version”, *Cordazo Journal of International and Comparative Law*, 423