

CRISES AND TRANSFORMATIONS IN TURKISH POLITICAL ECONOMY

This paper attempts to provide a general framework to understand the broad features of Turkish political economy by focusing on key crises and their political and economic consequences. Attention is drawn to the transformative impact of the major crises in terms of both shifts in the broad thrust of economic policies and the nature of Turkish private sector development. The paper concludes by underlining the importance of democratic consolidation as a means of overcoming the cyclical nature of economic growth experienced so far, with its far-reaching and costly political and human consequences.

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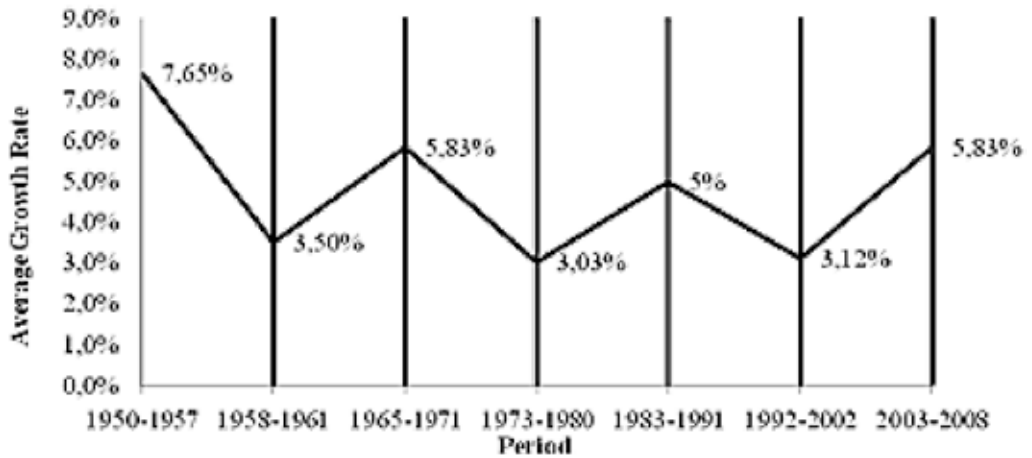
The Nature of Post-War Economic Growth

There is a debate on the beginnings of modern economic growth in the Turkey. The years between 1908 and 1922 are often identified as a turning point in terms of the development of a national entrepreneurial class. Similarly, the decade of the 1930s is identified as critical in terms of Turkey experiencing its first wave of import-substituting industrialization (ISI) policies with the state assuming a leading entrepreneurial role. The Great Depression of the 1930s created opportunities for the first major wave of industrial growth in many countries of the periphery, including Turkey.¹ Yet, the real breakthrough came in the 1950s. The previous decades provided the preconditions for sustained economic growth by creating the beginnings of a domestic industrial base driven by an emerging private entrepreneurial class and managerial elite in the public sector. However, significant structural change and economic transformation are primarily post-war phenomena.

Turkey is a case of moderate economic growth. The post-war growth has been on average in the order of four to five percent per annum. If long-term performance is taken into consideration, it is obvious that although there have been periods or spurts of high growth, they have not been sustainable. Periods of high growth were followed by periodic economic crises which pulled the average rate of growth down by a significant margin.² Graph 1 illustrates the volatile nature of economic growth in Turkey. To a certain extent, the Turkish experience resembles Latin American patterns in terms of a common experience of prolonged import substituting industrialization and forced transition to export-oriented growth following a major economic crisis. Turkey, like its major Latin American counterparts, has experienced considerable economic and political instability. Chronic inflation was the norm in Turkey for nearly three decades from the early 1970s onwards. Similarly, Turkey has experienced costly breakdowns of its democratic regimes and painful military interludes. Nevertheless, by Latin American standards Turkey represents a case of “stable instability” since Turkey has not gone through as extreme hyperinflationary waves as Brazil or Argentina encountered. Moreover, military interludes in Turkey, whilst costly in terms of their consequences, were shorter than Latin American standards.

¹ Korkut Boratav, *Türkiye İktisat Tarihi 1908-2007*, (Ankara: Imge Kitabevi, 2009)

² Ziya Öniş and Fikret Şenses, “Global Dynamics, Domestic Coalitions and a Reactive State: Major Policy Shifts in Post-War Turkish Economic Development”, *METU Studies in Development*, Vol. 34 No. 2, 2007, pp. 251-286.

Graph 1: Turkey's Post-war Growth Performance

Source: GNP data at constant prices are obtained from TUIK, İstatistik Göstergeler-1923-2007.

Turkey has failed to match the kinds of growth that the East Asian “tigers” have accomplished on a sustained basis during their crucial take-off phase which enabled their per capita incomes to converge with the levels of advanced economies. In spite of a major transformation of its economic structure over the past six decades, Turkey is still in the “emerging markets” category with some distance to go to meet the living standards of advanced economies.

More recently, the Turkish experience has resembled the pattern of the post-communist EU member states of Eastern Europe. The key element in this context is a pattern of externally driven economic growth based on significant inflows of foreign capital and a powerful external anchor in the form of EU membership. The recent global financial crisis, however, has exposed the limitations of this model. Countries which had more balanced economic structures with high domestic saving ratios have been able to weather the storm more effectively than Turkey or new EU member states.

Finally, the Turkish experience draws attention to the links between quality of democracy and long-term economic performance. In terms of its political regime, Turkey is a moderate performer which has already achieved democratic transition but still falls short of democratic consolidation. Such countries find it more difficult to maintain economic and political stability compared to some countries with deeply rooted authoritarian regimes (i.e. China) or most established/fully consolidated democracies. This, in turn, has a negative influence over long term growth performance. In retrospect, Turkey’s democratic deficits have been a source of economic and political instability and have exerted a downward bias on the country’s economic performance.

Major Policy Phases and Transformation of Turkish Capitalism

Turkey's post-war development experience may be conceptualized in terms of four major policy phases.³ The 1950s correspond to the liberal turn in Turkish economy involving an attempt to reverse the statist and protectionist policies of the inter-war era. The emphasis especially in the early part of the decade was on integrating with the post-war international economy reconstructed under U.S. hegemony, as a producer and exporter of agricultural products. The second phase, under successive five-year plans implemented during the 1960s and 1970s, represents a shift to national developmentalism and ISI-based strong protectionism of the domestic market. This phase resulted in the institutionalization of the domestic market. The third phase, the 1980s and the 1990s, corresponds to Turkey's encounter with neoliberal policies and the logic of the Washington consensus which is based on the liberalization of key sectors of the economy. The fourth and final phase constitutes the regulatory phase of neo-liberalism with policy-makers emphasizing strong regulatory institutions and paying more attention to social protection. This phase reflects Turkey's encounter with the emerging post-Washington consensus. Major policy shifts are typically associated with deep economic and political crises accompanied by costly human consequences. At each stage, crises mark the breakdown of the previous model and create the conditions for a new policy coalition to support a revised model of development.

Turkish development experience has historically been based on an alliance between the state and national capital, with foreign capital playing a secondary role, at least until recently. One of the striking features of these four broad policy phases is that they correspond to different stages in the transformation of domestic capital (Table 1). Turkish big business was transformed over time from an agrarian or commercial orientation (early 1950s) to domestic market based industrial capital (the 1960s and the 1970s). This was followed by a shift towards export-orientation in phase three (the 1980s and the 1990s) and the growing "transnationalization" of Turkish big business in the final phase (the post-2001 era). Another interesting pattern concerns the development of small and medium sized business. The coalition of winners from neo-liberal globalization expanded from the early 1990s onward to include small and medium term enterprises from inner Anatolia, the so called "Anatolian tigers". The stage by stage transformation of Turkish capitalism is a crisis-ridden process which involves a radical reordering of state-society relations and frequent crises and breakdowns of democracy along the way.

³ Öniş and Şenses (2007), p. 265.

There is also a high degree of continuity and overlap between the different policy phases. For example, before it became the official development policy, in the post-war period, in the late 1950s, ISI started to be implemented in a piecemeal manner, with governments resorting to protectionism as a short-term response to growing balance of payments. A significant level of continuity with the initial two policy phases exists, most visible in the emphasis on the mixed economy, and the nature and scale of the state enterprise sector. Similarly, the transition to neo-liberalism was associated with significant “export protectionism” (i.e. heavy subsidies to promote exports) in the 1980s, clearly representing a line of continuity with the previous policy phases. Yet another element concerns the transnationalization of Turkish big business, meaning the growing ability to invest beyond the home base and enter into strategic alliances with foreign partners, a process which started in earnest with Turkey’s Customs Union with the EU in the mid-1990s. This point also reflects the considerable continuity in the neo-liberal era in terms of its emphasis on de-regulation and integration into global markets.

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Each policy phase may be usefully decomposed into several sub-phases. For example, the ISI period may be analyzed in terms of two separate phases involving the early and the more difficult phases of ISI, with the latter broadly corresponding to the post-1973 era. The Washington Consensus era may also be decomposed into sub-phases with the critical decision to open the capital account fully in 1989 proving to be a watershed event. Another interesting pattern is that, following each crisis, there is a concentration of power in the technocratic elite which becomes the principal agent in accomplishing the major policy shift. In the early phase of Turkish neo-liberalism, during the 1980s, a narrow bureaucratic elite under the leadership of Turgut Özal played a key role in the policy transformation process. More recently, following the 2001 crisis, a similar re-concentration of power occurred with Kemal Derviş and his economic team playing a key role in the transition to regulatory neo-liberalism. The difference between the two periods is that the former case involved a re-concentration of power in an authoritarian environment, whereas in the latter case the shift occurred within a democratic environment, as a coalition government assigned a transnational technocrat armored with extraordinary ministerial powers.

	Policy Phase	Transformation of Big Business
1950-1959	Liberalization and agriculture-based integration to the world economy	Agrarian and commercial orientations in the early part of the decade; the rise of industrial capital towards the end of the decade
1960-1979	The neo-etatist era; import-substituting industrialization and natural developmentalism under five year plans	The consolidation of domestic market oriented industrial capital under heavy protectionism
1980-2001	Neo-liberal restructuring and deregulation in the age of Washington consensus; liberalization and integration into the world economy. The period itself can be divided into several sub-phases; Turkey's encounter with financial globalization following the 1989 capital account opening decision	The rise of export-oriented capital; broadening of the neoliberal coalition in the 1990s to include small and medium sized export-oriented capital (Anatolian tigers); beginnings of transnationalization of Turkish big business especially with the Customs Union.
2001 and Beyond	Regulatory neo-liberalism in the age of post-Washington consensus; the growing power of independent regulatory agencies	Accelerated transnationalization of Turkish big business; growing role of foreign direct investment especially in the context of banking and privatization of state economic enterprises

Table 1: Principal Policy Phases and Transformation of Turkish Big Business

Economic Crises and Political Breakdowns

The political implications of economic crises and the economic implications of political crises have been extensively studied by students of Turkish political economy.⁴ In the present paper the focus is on the former. A cursory examination of Table 2 suggests a strong association between major economic crises and political crises in the Turkish context. Major economic crises in Turkey had significant political consequences.

The contrast between the pre-neoliberal era of 1950-1980 and the post-1980 neoliberal era can be discerned from Table 2. The former has been characterized by two major economic crises each involving a deep balance of payments crisis and subsequent recourse to IMF assistance. Both crises could be classified as "crises of economic governance" exposing the limits to trying to achieve economic

⁴ Ümit Cizre-Sakallıoğlu and Erinç Yeldan, "Politics, Society and Financial Liberalization: Turkey in the 1990s", *Development and Change*, Vol. 31, 2000, pp. 481-508; Hurşit Güneş, *Siyasal Krizlerin Ekonomik, Ekonomik Krizlerin Siyasal Temelleri İlişkilerinin İç İçeliği: Türkiye Örneği (1950-2002)*, (İstanbul: Osmanlı Bankası Arşiv ve Araştırma Merkezi, 2009), pp. 101-126.

stability within the framework of democratic institutions in a country going through early stages of institutionalizing and consolidating its democratic regime. The economic crisis of 1958 was accompanied by a military coup in 1960. Similarly, the deeper economic crisis of 1978-1979 was followed by a military coup in 1980. The interesting anomaly is the military intervention of 1971 which occurred in the absence of a deep economic crisis, again highlighting the fact that the relationship between economic crises and military coups are complex and multi-dimensional in nature.⁵ Military coups were also accompanied by a major restructuring of the developmental model. The 1960 coup paved the way for the institutionalization of development planning and the ISI strategy. The 1980 coup played an important role in Turkey's radical neo-liberal restructuring. The military interlude of 1980, perhaps more so than the previous interludes, had drastically negative human consequences. In the short-term, it was effective in overcoming "the crisis of governance" of the late 1970s by force and dismantling the distributional stalemate of the late 1970s by engineering a major decline in real wages which clearly facilitated the transition to an export-oriented economy. This kind of shift was not unique to Turkey. In Brazil, Argentina and Chile, the underlying crisis of the ISI model and the associated political and distributional stalemate resulted in similar military interventions with drastic consequences. From a longer term perspective, the military intervention of 1980 left a deep imprint on the subsequent political trajectory of Turkey in undermining the country's "democratic capital"⁶ by imposing an authoritarian constitutional framework, de-institutionalizing the party system, and presenting a major setback for the country's quest for EU membership.

⁵ Even in this context, one could refer to a slowing down of economic growth towards the end of the 1960s. Indeed a major devaluation in 1970 preceded the military intervention of 1971.

⁶ Sumru Altuğ, Alpay Filiztekin and Şevket Pamuk, "Sources of Long-term Economic Growth for Turkey, 1880-2005", *European Review of Economic History*, Vol. 12 No. 3, December 2008, pp. 393-430.

	Major Economic Crises	Political Breakdowns
1958	Fiscal and balance of payments crisis followed by an IMF stabilization program	Collapse of democracy with a majority government in power; A military coup in 1960 partly linked to economic crisis and the ensuing IMF program
1978-1979	Fiscal and balance of payments crisis as well as a deepening crisis of the ISI model; radical restructuring in association with the IMF, WB and the OECD.	Significant economic and political instability under coalition governments in the late 1970s followed by a military coup in 1980; the longest military interlude (1980–1983)
1994	The first major crisis of the neo-liberal era; fiscal and balance of payment crisis followed by an IMF program	Contributed to the rise of the Islamist Welfare Party; tangential link to the so called “post-modern coup” of February 1997 which was a reaction to the Welfare Party as the dominant component of the coalition government at the time.
2000-2001	The second and third crises of the neo-liberal era with the 2001 crisis being the most profound of the three crises; fiscal and balance of payment crisis coupled with major structural problems in the banking sector; radical restructuring in association with the IMF, WB and the EU	No breakdown of democracy. The crisis in line with the EU membership process stimulated a wave of major democratization reforms. The three parties forming the coalition government faced heavy defeats in the ensuing elections of November 2002.
2008-2009	The fourth and the unusual crisis of the neo-liberal era; crisis of the real sector with negative growth and rising unemployment	No direct and pronounced political impact although the government lost part of it firm majority in the ensuing local government elections of March 2009; political crises are frequent during the 2000-2009 period, but are not directly linked to economic crises.

Table 2: Major Economic Crises and Political Breakdowns

The links between economic crises and political breakdowns appear to be much more blurred and indirect during the post-1980 neoliberal era. For example, there was no collapse of democracy following the 1994 crisis. A subtle link can be established between the negative distributional consequences of the 1994 crisis, the rise of the Islamist Welfare Party and the “post-modern coup” of February 1997 aimed at dismantling the coalition government that had the Welfare Party

as its dominant partner. Yet, the link is much less clear and direct than the previous wave of military interventions. The post-1980 military interventions were much more indirect in nature and did not involve an explicit take-over of power by the military.

The most severe crisis of the neo-liberal era, the 2001 crisis, was accompanied by a major wave of democratization reforms as part of formal Europeanization process. This process effectively started with the Customs Union in the mid-1990s and gathered further momentum in 1999 with the EU's Helsinki decision recognizing Turkey as a candidate country. The economic crisis had a deep political impact by penalizing the three parties in the incumbent coalition government in the 2002 elections. However, the political impact was certainly not in the form of a military coup. Finally, the latest case was the "e-intervention" by the military in April 2007 on the eve of the election of the new president. This occasion was not motivated by economic factors; rather it was an attempt to counter the alleged threats to the secular nature of the regime.

The framework presented above enables us to draw two broad conclusions. First, the development and maturation of Turkish democracy over time, in spite of its continued shortcomings, helps to limit the power of the military by breaking the previously observed linkage between economic crises and direct military interventions. Second, the military continues to be an important political actor in Turkish politics in the post-1980 era. However, its interventions tend to be more subtle and indirect and much more oriented towards overcoming existentialist threats to the regime such as the secular character of the constitutional order. Accordingly, "crises of identity" replace "crises of governance" as the principal source of political instability or breakdowns.

Single-Party versus Coalition Governments and Linkage to Instability

A striking feature of Turkey's political economy is the link between the type of government and overall economic performance. Majority governments have clearly outperformed coalition governments in terms of economic growth. Turkey's growth spurts have been associated with majority governments in the dominant center right tradition (Table 3), which started with the Democrat Party (the DP) in the 1950s and continued with the Justice Party (the AP) in the second half of the 1960s. The Motherland Party (the ANAP) was the successor to this tradition during the early years of Turkish neo-liberal experience. More recently, the Justice and Development Party, with some qualification concerning its Islamist origins, constituted the latest stage of the line of majority governments in the center right tradition since 2002. The growth figures in Graph 1 clearly illustrate the trend of stronger economic expansion in Turkey during these four episodes.

“Narrow policy coalitions” such as the ISI coalition of the 1960s and the 1970s encompassing major industrialists, bureaucrats and organized labor are numerically not strong enough to generate winning electoral coalitions in the context of multi-party democracy. Center-right parties in Turkey have been successful in extending the domain of narrow policy coalitions to broad electoral coalitions. These parties have used patronage politics to distribute resources to wide segments of society.⁷ They have also successfully appealed to religious and nationalist sentiments to generate widespread political support. The problem with these governments, however, is that they have proved to be inherently unsustainable. The DP, after a golden age period in the early 1950s, progressively lost its early momentum in terms of both economic performance and electoral popularity. Indeed, the period ended with a major economic crisis and then the collapse of the democratic regime. Similarly, the golden age of the AP (1965-1971) came to a halt with a military intervention in 1971. The military interlude of 1971-1973 was followed by a major wave of economic instability under weak coalition governments in the late 1970s, again culminating with a major economic crisis in the late 1970s and the subsequent breakdown of democracy in 1980. A similar pattern was evident in the neo-liberal era. The golden age of ANAP was the period from 1983 to 1987, when the party started to lose its popularity. There was no military takeover as in the earlier phases. However, the end of ANAP rule signified a new wave of coalition governments in the 1990s associated with varying degrees of economic and political instability, leading to three successive economic crises in 1994, 2000 and 2001. The AKP so far proves to be an exception in that the party is still in office after eight years. The AKP has also been more successful in containing fiscal deficits compared to its predecessors. Nevertheless, the second phase of the AKP rule since 2007 has been less impressive in terms of political stability, reform orientation and economic performance compared to its golden age during 2002-2005.

⁷ Ersin Kalaycıođlu, “Turkish Democracy: Patronage versus Governance”, *Turkish Studies*, Vol. 2, No. 1, (Spring 2001), pp. 54-70.

Type of Government	Period	Economic Performance	Sustainability
A. Single-Party Governments (center-right)			
Democratic Party	1950–1960	Fast growth, especially in early years	Declining popularity after 1958. Weakening of economic growth and rising inflation culminated in an economic and political crisis followed by a military take-over.
Justice Party	1965–1971	Reasonably good growth	Not sustainable. Period ends with a military coup.
Motherland Party	1983–1991	Reasonably good growth based on an export boom	Weakening of economic performance and rising instability towards the end of the 1980s. The party loses its electoral edge and the period is followed by a wave of coalition governments.
The Justice and Development Party	2002–2010 and beyond	Good growth coupled with single digit inflation for the first time for several decades	Weakening of economic performance during the second phase of the government; signs of weakening popularity. However, the support base is still robust; it appears to be more durable than previous center-right governments, but may lose its electoral edge in the face of continuing economic and political challenges.
B. Coalition Governments			
Four governments, the duration of the longest two years	1973–1980	Weak performance; low growth; rising instability	Short-duration of governments
Seven governments, the duration of the longest three and a half years	1991–2002	Weak performance; significant instability	Short-duration of governments

Table 3: Single-Party versus Coalition Governments and Linkage to Economic Instability

Turkey has the experience of a record number of coalition governments. These governments correspond to three relatively short periods: namely the early 1960s, the second half of the 1970s and throughout the 1990s. The number and short duration of governments is clearly evident from the following figures. Four separate coalition governments were in office between November 1961 and October 1965. Five separate coalition governments occupied office between October 1973 and September 1980. More recently, seven coalition governments have occupied office over a comparatively longer period from November 1991 to November 2002.

"The fact that coalition governments in Turkey have been largely unsuccessful should not necessarily imply that coalition governments are always prone to economic and political instability."

Out of these three separate waves, the experiences of the late 1970s and the 1990s proved to be extremely unstable, both in political and economic terms. Indeed, the two major economic crises of the post-war era, from 1978-1979 and 2000-2001, both erupted at the end of successive waves of coalition governments. Compared to single-party majority governments, coalition governments have found it much more difficult to impose macroeconomic discipline and create an environment of political stability conducive to long-term economic growth.

The experience of the most recent coalition government, involving the Democratic Left Party (the DSP), the Nationalist Action Party (the MHP) and the ANAP, is interesting and raises difficult questions for interpretation. Certainly, it is the longest coalition government in office with a period of three and a half years. During its early phase, the government failed to undertake the drastic measures needed and failed to prevent the dual crises of 2000 and 2001. Yet, in the aftermath of the 2001 crisis, this government was also responsible for some of the major economic and democratization reforms in recent Turkish history. This scenario offers support to the interpretation that coalition governments, in principle, are capable of undertaking major economic and political reforms. The obvious qualification is that economic and political reforms were largely driven by key external actors such as the IMF and the EU and a deep crisis empowered external actors by helping to break resistance to reform among key segments of the coalition government.⁸

⁸ Ziya Öniş, "Beyond the 2001 Financial Crisis: The Political Economy of the New Phase of restructuring in Turkey", *Review of International Political Economy*, Vol. 16 No. 3, August 2009, pp. 409-432.

The fact that coalition governments in Turkey have been largely unsuccessful should not necessarily imply that coalition governments are always prone to economic and political instability. There are successful cases of coalition governments in countries such as Italy, Belgium and the Netherlands that have been quite effective in terms of managing their economies and contributing to political stability. Moreover, such governments have managed to retain office over long periods of time. This comparison suggests that the problem lies not with coalition governments *per se* but with the quality of democracy or the level of democratization. Turkey's democratic deficits in terms of the weakness of democratic institutions and checks and balance mechanisms as well as the weakness of democratic culture are at the heart of the problem. As liberal democracy is consolidated in Turkey over time, it is no longer inevitable that future coalition governments will necessarily be associated with endemic political and economic instability.

The unstable nature of center-right governments in Turkey highlights a problem not unique to center right majority governments *per se*, and points towards the underlying weaknesses of the democratic regime and its institutions. The fiscal crises successive center right governments have failed to control in their quest to build large electoral coalitions are a clear manifestation of the weaknesses of the democratic regime. In line with the strengthening of democratic institutions and policymaking mechanisms, this pattern is likely to change. The AKP government, in spite of its shortcomings, has a better record than its predecessors in terms of managing the economy and imposing macroeconomic discipline.

The Unique Nature of the 2008/2009 "Crisis"

Turkey found itself in a unusual situation following the onset of the global financial crisis in September 2008. Unlike "the global crises of the periphery" of the 1990s, the 2008 crisis was a "global crisis of the center". The crisis, originating from the United States, was rapidly transmitted to Europe and the rest of the world. Turkey suffered from a fall in capital inflows as well as a dramatic loss in export revenues, the latter being the result mainly of a demand shock from the European Union. Together with several Eastern European countries, Turkey was among the most affected group in the emerging markets category, with a collapse of growth and a parallel increase in unemployment in 2009.

The 2008-2009 crisis was quite different from the previous crises experienced by Turkey (Table 4). The previous crises were typically domestically generated crises, although external shocks and dynamics had a magnifying impact. They were the products of the expansionary phase of the "populist cycles".⁹ A combination of

⁹ Ziya Öniş, "Domestic Politics versus Global Dynamics: Towards a Political Economy of the 2000 and 2001 Financial Crises in Turkey", in Ziya Öniş and Barry Rubin (eds.), *Turkish Economy in Crisis*, (London: Frank Cass, 2003), pp. 1-30.

large fiscal and current account deficits were at the heart of each major crisis. Typically, the crises manifested themselves as balance of payments crises; however, underlying each crisis was a deeper problem of the “fiscal crisis of the state”. Again, each crisis necessitated external financial assistance for the subsequent recovery process making the encounter with the IMF and the World Bank inevitable. Key external actors were heavily involved in the post-stabilization and restructuring process of Turkey, with the role of the EU being particularly pronounced after 2001. Financial assistance from external actors was linked to “policy conditionality” which contributed to the subsequent recovery process, but also limited some of the heterodox policy choices such as controls over short term capital flows that Turkey could implement in the absence of a major crisis. What made the 2008-2009 experience rather unusual was that the Turkish economy did not find itself in an immediate crisis situation. There was no balance of payments crisis requiring immediate IMF assistance. The robustness of the banking and financial sector improved considerably following the reforms in the aftermath of the 2000-2001 crisis. The fact that Turkey did not experience a single bank failure in the aftermath of the global financial crisis helped to boost the confidence of policymakers that Turkish economy was in strong shape and would be marginally affected by the crisis. The policymakers’ mindset was clearly conditioned by previous experience; the contours of the 2008-2009 experience did not seem to conform to the previous pattern. If there was no balance of payments crisis, no bank failure and no immediate need to sign an IMF standby agreement, the logical conclusion was that Turkey had largely avoided a crisis which originated from outside and was largely beyond its own control. Given this perception, it was not surprising that the government’s policy response was much more reactive rather than pro-active. Several measures have been implemented to alleviate the impact of the crisis, the most important element being the engineering of temporary cuts in consumption taxes to stimulate consumption. The recovery in economic growth illustrates the short-term bias in government’s policy response. Certainly, we do not observe in the Turkish context the kinds of vigorous growth-oriented fiscal stimulus packages implemented in the vast majority of G-20 countries in the aftermath of the global financial crisis.¹⁰

The one element of pro-active response by the AKP government to the crisis involved its assertive foreign policy. A key element underlying these foreign policy initiatives was a search for new markets and economic opportunities in Turkey’s immediate neighborhood, notably in the Middle East and North Africa. Key private sector associations such as TOBB and TUSKON were actively involved in this process. Perhaps, we can add a fifth phase to Table 1 representing the transnationalization of small and medium-sized Anatolian capital in response to the latest crisis, driven largely by external forces.¹¹ Pro-active foreign policy, however, may not be sufficient to bring about a sustained improvement in Turkey’s economic fortunes in the absence of equally pro-active macroeconomic and industrial policies.

¹⁰ Ziya Öniş and Ali Burak Güven, “Global Crisis, National Responses: The Political Economy of Delay and Divergence in Turkey”, *New Political Economy*, Vol. 18 No. 5, 2011 (forthcoming).

¹¹ Ziya Öniş, “Multiple Faces of the New Turkish Foreign Policy: Underlying Dynamics and a Critique”, *Insight Turkey*, 2011 (forthcoming).

	Previous Crises	2008 - 2009 Crisis
Source of the Crises	Predominantly domestically generated crises although negative external shocks also had some impact.	Predominantly externally generated although weaknesses of the domestic economic performance also had an impact.
Nature of the Crises	Typically a combination of fiscal and balance of payment crisis together with banking sector problems in 2000-2001; financial and fiscal crises with significant negative ramifications for the real economy.	Absence of a balance of payment crisis and bank failures; weakening fiscal stance but not sufficiently to create a major crisis; leading to policy makers' failure to diagnose it as a "crisis" in the real sense of the term; external demand shocks creating a crisis of the real sector.
Relations with the IMF	Crises inevitably led to IMF stabilization programs. Other key external actors were also involved. The implementation of IMF programs also limited the options available to governments such as a tax on short-term capital flows.	No immediate need for the IMF; the government postponed an IMF program and displayed this as a sign of strength and the ability to implement an independent stance and a sign of national sovereignty.
Nature of post-crisis Recovery	Typically quite rapid due to a combination of previously delayed major policy adjustments and significant external financial assistance.	V-shaped recovery in the short-run ; Turkey bounced back from the crisis in 2010. Yet, a return to a high growth trajectory may prove to be more difficult in the face of an unfavorable external environment and continuing structural weaknesses.

Table 4: Turkey's 2008–2009 Crisis versus Previous Economic Crises

The AKP government has managed to maintain its popularity in the face of negative growth and a parallel increase in unemployment during the course of 2009. The party lost part of its large electoral coalition in the municipal elections of March 2009, but still maintains a comfortable majority. The continued electoral support for the AKP was due to the weakness of the opposition parties, which failed to capitalize on the downturn of the economy. The principal opposition parties, notably the Republican People's Party (CHP), focused primarily on political issues such as the nature of the regime and the threats to the secular constitutional

order. Furthermore, the AKP government was quite effective in terms of its political management of the economic crisis. The government was able to present the crisis as a purely externally generated phenomenon in spite of the fact that the performance of the Turkish economy was on a downward course from early 2007 onwards. Indeed, Turkey experienced a mini-populist cycle in the period leading up to the parliamentary election of July 2007 and in the period leading up to the municipal elections of March 2009, even though growing fiscal instability was not in the order of previous cycles in terms of its ability to cause a crisis on its accord. The government capitalized on the strength of the banking sector and presented an image of the Turkish economy which had progressively become much more robust over time. Similarly, the government continually delayed the signing of an IMF program in spite of pressures from big business that a program would be desirable in terms of enhancing confidence and generating additional external resources. The systematic delay in signing an IMF program was projected as a sign of strength of the Turkish economy and a sign of growing national autonomy. Turkey was no longer in need of an IMF program to help it out of a major crisis. In addition, the government's progressive and reformist image was bolstered by the revitalization of democratization initiatives in the aftermath of March 2009 as well as the proactive foreign policy stance to improve economic and political relations with neighboring countries in the Muslim Middle East and the post-Soviet world.

Effective political management of the crisis does not imply, however, that the government managed to address the longer-term, structural problems of the Turkish economy effectively during the crisis period. The recent "crisis" is predominantly a crisis of the real sector. Although there are signs of a pronounced recovery during 2010, Turkey may still find it difficult to escape a slow growth-high unemployment equilibrium with potentially destabilizing consequences in the medium-run, particularly given the demographic structure of a large proportion of young people. Growth rates in the order of three to four percent per annum will not be sufficient to catch up with the living standards of advanced economies within a reasonable time span. The AKP government has so far managed to evade the storm and is likely to maintain its broad-based electoral coalition in the run-up to the 2011 general elections. The post-2011 phase, however, may prove to be more difficult.

Turkey's encounter with the global financial crisis helped to expose some of the structural weaknesses of its growth performance in the post-2001 era, disguised by unusually favorable global liquidity conditions. These included excessive dependence for growth on external financial resources in the face of weak domestic savings and the inability to channel sufficient resources to research and technological development to improve the long-term competitiveness of the real sector. Turkey has made progress in strengthening its regulatory institutions in the aftermath of the 2001 crisis. The developmental arm of the state, however, has

remained relatively weak. To reactivate a process of high growth, in the order of six to seven percent per annum, Turkish governments clearly need to implement structural reforms such as a major tax reform and an educational reform to mobilize public resources for investment and raise the quality of labor force drastically. Similarly, the reestablishment of the EU anchor is also important in economic terms by consolidating stability, attracting long-term capital on a sustained basis and providing a framework for mutually reinforcing economic and political reforms.

Conclusion

Turkey's post-war development trajectory illuminates the difficulties of accomplishing large-scale economic transformation in an emerging democratic polity. Significant transformation has occurred in the nature of Turkish capitalism over the past few decades; but this was a costly and crisis-ridden project. One of the key lessons is that Turkey's democratic deficits have prevented the achievement of high economic growth. Turkey has the characteristics of an emerging tiger in terms of its young population, geo-political position, level of entrepreneurship, and the quality of human capital. However, so far it has displayed the characteristics of a "temporary star" with rapid growth taking place in terms of brief spurts followed by periods of deep instability and crises.¹² The consolidation and deepening of liberal democracy in Turkey is likely to contribute to better economic performance by helping to prevent the costly stop and go cycles, an endemic feature of Turkey's political economy in the post-war period.

"Significant transformation has occurred in the nature of Turkish capitalism over the past few decades; but this was a costly and crisis-ridden project."

¹² Ziya Öniş and İsmail Emre Bayram, "Temporary Star versus Emerging Tiger? Turkey's Recent Economic Performance in a Global Setting", *New Perspectives on Turkey*, No. 39, Fall 2008, pp. 47-84.