*New Perspectives on Turkey* (2022), **66**, 180–190
doi:10.1017/npt.2022.5

CAMBRIDGE
UNIVERSITY PRESS

COMMENTARY

# The long and bitter fall: an account of events that shook the Turkish economy during September–December 2021

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**Keywords:** Currency crisis; exchange rate; interest rate; structural problems; short- and longer-term perspective

The problems that the Turkish economy faced during the September–December 2021 period, which attracted a great deal of attention at home and abroad, was in essence a currency crisis with far-reaching implications for almost all aspects of the political economy. As the Central Bank reduced its policy rate from 19 percent in September to 14 percent in December through successive monthly announcements, the Turkish Lira (TL) experienced an unprecedentedly sharp depreciation—should one say collapse?—from 8.30 TL to the US dollar (US$) at the beginning of September to 8.86, 9.55, and 13.36, at the beginning of the successive months, and continued to fall daily to 17.50 TL on 20 December with no sign of a slowdown in sight.[1] The government attempted to halt this fall by selling a total of around US $6 billion of Central Bank reserves during the 1–17 December period, but to no avail. After the announcement by the government of a new scheme—exchange rate protected time deposits (ERPTD)—on the evening of 20 December, there was a sharp fall in the dollar/TL parity to 13.05 TL the following day which has stabilized at around 13.50 TL since then.

The new scheme was aimed at reducing the demand for foreign currency by increasing the attractiveness of the Lira. It was intended to protect TL time depositors with three-month, six-month, and one-year terms against the depreciation of the Lira by guaranteeing to compensate them fully (in TL) for depreciation over and above their interest earnings. Whether it was this scheme alone that facilitated this sharp fall remains a matter of conjecture. The most plausible explanation offered so far is that on that day, the Central Bank and public sector banks together sold a total of around US$7 billion dollars. It seems that swap agreements with a number of Gulf

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[1] Exchange rates given in this paragraph are indicative selling rates of the Central Bank, announced each day at 15:30 hours.

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states and others, as of mid-January 2022, to the amount of around US$30 billion, have also helped to keep the exchange rate below 14 TL.

Exchange rate volatility on this scale in such a short period of time has had its most devastating impact on the price level, with wide-ranging implications for the goods, money, and labor markets as well as on income distribution and poverty.

Given Turkey's heavy dependence on imports for energy and most other intermediate goods, exchange rate pass-through to the domestic price level is high, estimated at around 25 percent. The official Consumer Price Index (CPI) announced by the Turkish Statistical Institute (TÜİK, Turkish acronym) rose by 13.6 percent in December alone, taking the year-on consumer price inflation to 36.1 percent, with a much higher rate for the food and non-alcoholic beverages (43.8 percent) and transportation (53.7 percent) categories, with special implications for the low-income population. For the same period, producer price inflation was announced as 79.9 percent. Agriculture was also hit sharply as a result of big increases in the prices of its key imported inputs such as diesel fuel, seed, feed, and fertilizers. Although there was a general upward trend in inflation in most countries, Turkey's inflation was by far one of the highest.

After lengthy tripartite negotiations between the representatives of the government, the private sector, and "docile" trade unions towards the end of December, the minimum wage was increased sharply by around 50 percent, accompanied by less generous salary and pension increases. This was followed by the announcement in the small hours of the New Year of record-high price hikes for electricity and sharp increases for natural gas, gasoline, and diesel fuel as well as various toll charges, fees, and taxes. The timing of this announcement was aimed at excluding the effect of these price increases from the 2021 inflation rate to which wages, salaries, and pensions are tied.

The erosion of the price mechanism through the spread of administered prices in a so-called market economy was not confined to the goods market. Contrary to the government's commitment to low interest rates and its determination to lower them, deposit and lending interest rates of the banking system as well as the borrowing rates of the Treasury rose far above the policy rate of the Central Bank. The new scheme announced on 20 December was rightly interpreted as an implicit rise in interest rates and as a face-saving device for the government. The sharp rise in the minimum wage, providing some relief for workers at the bottom of the pay scale (constituting a massive 43 percent of workers) distorted the whole structure of wages and salaries. Other groups anxious to protect their differentials began to make claims for wage and salary increases.

The collapse of the Lira and the ensuing rise in inflation has had a devastating impact on poverty and income and wealth distribution. Poverty became more visible, with the mass media showing pictures of poor people collecting leftover fruit and vegetables from open-air markets, picking food items from trash cans, and spending long hours in cold weather in front of municipality kiosks to buy heavily subsidized bread. This formed a painful contrast with neighboring Bulgarians and Georgians visiting border cities on daily shopping sprees to buy Turkish goods at much lower prices than before the currency crisis hit Turkey.

As for income distribution, exchange rate volatility of such proportions provided ideal grounds for speculation and *insider-trading*, aptly described as "casino

https://doi.org/10.1017/npt.2022.5 Published online by Cambridge University Press

capitalism." Although the lack of information on the details of the transactions involved makes them hard to quantify, it is highly likely that windfall gains were made by those who had access to the necessary funds. Apart from its questionable legality and its potential burden on the Treasury, the ERPTD scheme can also be interpreted as a mechanism to transfer public money to a small minority of depositors.

These developments added a new dimension to the highly polarized social and political life of the country, leading to sharp exchanges between opponents and proponents of the government. While the government and its supporters drew attention to the impressive growth rate and the record-high increase in exports, others pointed to the havoc in financial markets, galloping inflation, and the hardship faced by major sections of the population. The academic economists who became more visible in the mass media, on the other hand, tried to bring some academic wisdom to this otherwise barren debate.

Drawing on this debate and the ensuing stock of knowledge, this commentary aims to provide a reappraisal of these developments on the basis of the following questions. What were the main external and domestic factors behind the events that reached crisis proportions in December? What were the effect of these developments on the main macroeconomic and socioeconomic indicators? What was the reaction of the government and other key economic partners such as the business community and trade unions? What lies ahead for the Turkish economy in the short and medium term? What is to be done?

## Factors behind the crisis

The factors behind the crisis can be discussed under three headings. *First*, at the beginning of September 2021 the economy was in the grip of deep *structural problems* which were aggravated by an array of short-term problems. Among the structural problems, the most prominent were low levels of savings and domestic and foreign investment; balance of payments problems headed by falling but still high current account deficits; high external debt and debt service obligations of the government; high unemployment; poverty; and severe inequality of opportunity, wealth, incomes, and regional standards of living. These were accompanied by a high level of public sector deficits and high and rising inflation. Growth that was long propelled by the construction sector was showing big fluctuations from one year to the next. Public finance was bedeviled by dollar-based obligations to a handful of contractors undertaking lavish investment projects to build bridges, motorways, tunnels, airports, and hospitals under murky schemes reminiscent of the BOT (build operate and transfer) schemes of the 1980s. Pressures on the exchange rate arising from these developments had recently required the selling of precious Central Bank reserves to a massive total of US$128 billion.

*Second*, negative *developments in the outside world* were also imposing a heavy burden on the economy. An important factor that aggravated the bleak picture outlined above was the Covid-19 pandemic that hit Turkey quite hard. This required, although less generous than in some of the developed countries, still costly stimulus packages, fueling further the inflationary trends. Increasing global energy, food, and commodity prices and freight charges together with inflationary trends in the country's main trading partners were, in a highly import-dependent country, instrumental in

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increasing the pressure on the balance of payments and introducing an "imported" component to the inflationary picture. Although some spokespersons from government circles ascribed to the view that there was an external conspiracy to destabilize the economy through a speculative attack on the Lira and tried to implicate the "interest rate lobby" as the chief culprit behind the crisis, there was no evidence to prove this.

*Third*, the factors behind the current crisis were also traceable to *domestic phenomena*, most notably to the "Turkish style" presidential regime that came into force in June 2018. This regime represented a sharp change from the previous one and gave the president, Recep Tayyip Erdoğan, unprecedentedly high executive and legislative powers, and considerable leeway to extend them over the judiciary. The authoritarianism of the political regime, which has tended to increase further after the 2016 coup attempt, became visible in almost all aspects of economic as well as sociopolitical life.

The all-powerful president soon began to extend his influence over institutions in the field of economics. TÜİK, which is currently managed by its fifth president since March 2016, lost much of its credibility in the eyes of the public when it was charged with publishing doctored statistics, especially pertaining to the rate of inflation. Likewise, there was little left of the "independence" of the Central Bank of Turkey, which was also subjected to presidential interference bordering on sending directives to its governors. If these directives were not listened to, the governors were publicly reprimanded and sacked by the president. Three governors, together with other high-level officials of the Bank, were removed from office during the past three years. This is indicative of the fact that this key institution has come increasingly under the spell of an all-powerful president.

The president adhered to the overly simplistic and ill-conceived view that "interest rates are the cause and inflation is the result" and propagated this repeatedly during the September–December period, increasingly with Islamic references. This resulted, as mentioned before, in the lowering of the Central Bank policy rate by five percentage points in the course of four months during which inflation was high and rising. This created an upheaval in major markets. *The Economist*'s comment on this set of events was: "The Turkish president is at war with the markets."[2]

Even on the basis of the official inflation rate, the reduction in the policy rate meant a highly negative *real* rate of interest. The combined result of these developments in the face of increasing domestic demand following the loosening of anti-Covid-19 measures and growing inflationary expectations was increased demand for hard currencies. Given Turkey's shallow foreign exchange markets, the inevitable result was the sharp depreciation of the Lira which culminated in its collapse on 20 December.

We may conclude that, unlike the 2008 crisis in which negative external factors played a major role, the current crisis was predominantly a self-generated and "self-inflicted" domestic one due to gross mismanagement which also went a long way towards aggravating the existing structural problems. Mismanagement of the challenging problems of an increasingly complex economy in a clearly pedestrian

[2] Erdogan's zany monetary experiment is impoverishing Turkey, *The Economist*, 27 November 2021.

https://doi.org/10.1017/npt.2022.5 Published online by Cambridge University Press

way is hard to understand given Turkey's current stock of highly qualified economists and other experts in related fields at home and abroad.

## The response of economic partners

The response of economic partners to the currency crisis can also be discussed under several headings. *The government* (together with its supporters in the mass media), which was initially somewhat impervious to the simmering crisis, subsequently developed a number of defense mechanisms accompanied by inconsistent statements from different parts of its administration. For example, it was widely propagated that the government was implementing the "Chinese model" by which it was meant that the depreciation of the Lira together with low interest rates and wages were going to boost exports and investment and yield rapid growth. Given the fact that the government had announced one of many of its unsuccessful medium-term programs only recently, the use of the word "model" was met with surprise by most observers. The latter rightly pointed out the medium- and long-term nature of a meaningful economic model, which requires lengthy preparations that take into full consideration the complexities and trade-offs involved, not to mention the need to incorporate the views of different economic partners. When they also explained the details of the intricacies and multifaceted nature of the actual Chinese model, the government's spokespersons soon backtracked from this misconceived position.

Desperate to find a plausible explanation for the crisis, the government began to blame supermarket chains and stockers for "exorbitant" prices and even resorted to policing price tags in supermarkets. Finally, by way of supplementing its religious rhetoric, the government began to argue that it was waging "an economic war of independence," to appeal to the nationalist component of its power base.

*Political parties'* response to the crisis, not surprisingly, reflected the deep polarization of political life. The ruling Justice and Development Party wholeheartedly defended the government's stance and kept a low profile by avoiding direct contact with the population. Opposition parties, on the other hand, became increasingly vociferous in their criticism of the government's policies. They effectively challenged the government's argument that the depreciation of the Lira was a deliberate policy to boost exports by asking "if that was so, why did you then run down precious Central Bank reserves to support the Lira, to the amount of 128 billion dollars during the 2019–20 period, and continued to do so thereafter?" Opposition parties have made frequent visits to different parts of the country to meet small businesses and ordinary people face-to-face on economic "grievance hearing missions." They also called for immediate presidential and general elections (due in June 2023)—a call which the government has so far ignored.

The main complaint of the *business community* was, as expected, directed at the uncertainty that surrounded their current activities and future plans, caused by exchange rate volatility and high and rising inflation, which during a short period in December almost brought business activity to a standstill. In mid-December, the Istanbul Chamber of Industry and the Turkish Union of Chambers and Commodity Exchanges, as the main private sector organizations, and the Turkish Industry and Business Association, representing big business, declared one after the other their criticisms of government policies by airing their complaints about the unstable

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and uncertain economic environment. As expected, Erdoğan's reaction to these criticisms was to publicly rebuke and reprimand these organizations.

There was a mixed reaction from *trade unions and other civil society organizations*. The Confederation of Progressive Trade Unions of Turkey (DİSK, Turkish acronym) has levelled more comprehensive and sharper criticisms of government policies compared to its main rival, Türk-İş, which has had a closer and more cooperative relationship with the government. As a result of its amicable relations with the government, it was Türk-İş that took part in the tripartite negotiations as the main representative of the labor movement. A minimum wage determination process once again showed the deep difference between the two organizations, with DİSK demanding a much higher increase than Türk-İş. DİSK took every opportunity to make its presence felt through demonstrations and by taking a strong stance in reflecting the grievances of its members as well as those of other disadvantaged groups. Both organizations have published hunger and poverty thresholds on a regular basis. The 50 percent rise in the minimum wage was initially hailed as a successful development by Türk-İş, but this euphoria soon petered out once sharp price hikes began to erode much of this increase.

The *mass media*, like the political parties, was also sharply divided in its assessment of and reaction to the crisis. The *population at large* shied away from mass street-level demonstrations and confined themselves to individual reactions, most notably on social media. Public demonstrations by medical personnel, civil servants, and pensioners constituted the major exceptions to this malaise. The relative calm of the population in the face of severe hardship experienced during the crisis was in sharp contrast with the experience of some other countries. I may conjecture that this was in part due to the authoritarianism of the government and the restrained attitude of opposition parties, but, most importantly, to the population's preference to show its reaction, as the experience of previous economic crises has amply demonstrated, through the ballot box.

## What lies ahead?

Although, the government has so far not declared a clearly spelled-out policy framework, let alone a detailed and comprehensible economic strategy, one can still detect three topics that will be of primary concern for it in the near future. Expected to form the main objectives and pillars of the government's policy stance, these are: stability of the exchange rate, coping with inflation, and attaining high rates of growth, which we shall now discuss in turn.

It must be stated right at the outset that although the relative stability of the *TL/dollar parity* at around 13.50 TL as of the end of January 2022 has provided some breathing space for all concerned, it still represents a sharp depreciation of the Lira—by some 62.7 percent—over its level at the beginning of September. Naturally, this would have a positive effect on net exports (exports-imports) and the current account balance. In fact, with exports rising sharply, reaching an all-time record of US$225.4 billion in 2021, deficits in foreign trade and current account have both narrowed significantly. With prospects of the pandemic slowing down, tourism revenues are expected to gain new momentum in the summer. The government, on the basis of its foreign policy initiatives to improve its relations with the United Arab

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Emirates and Saudi Arabia, seems to expect an inflow of funds from them. The government also has high hopes of inflows coming from real estate sales (and perhaps distress sales of other assets) to foreigners and its offer of Turkish citizenship to those who bring a certain minimum amount of dollars to Turkey and buy real estate.

The optimism attached to the above factors is outweighed by negative prospects in other spheres. Although the ERPTD scheme has led to the transfer of some bank deposits from foreign currency into TL, this has not generated a big change in the overall picture *as a major portion of bank deposits* are still kept in foreign currency. The increasing dollarization trends in the Turkish economy during the past few years may gain a new momentum given the highly negative real rate of interest offered for TL deposits.

The erosion of the confidence of potential investors may prevent Turkey from drawing on short-term capital inflows from the big financial centers which were a major factor behind Turkey's rapid growth in the past. If anything, successive interest rate hikes by the US Federal Reserve Board (FED) which are expected in 2022 and 2023 may lead to an outflow of short-term capital. Even when short-term capital becomes available, its terms may not be so easy given the high and rising risk premium that may be attached to it, as indicated by the high and rising CDS (Credit Default Swap) indicator.

Prospects for Foreign Direct Investment (FDI) in the near future are also dim, as the declining trend of FDI in the world economy in recent years has been aggravated by the pandemic. In the case of Turkey, these poor prospects are augmented by the poor investment climate associated with uncertainty emanating from the recent economic developments as well as factors like the erosion of the rule of law.

More importantly, current production, investment, and exports are highly dependent on imports. Import dependence of current production and exports is estimated at around 50 percent and 70 percent, respectively. Intermediate goods and raw materials, headed by energy and chemicals, account for a massive 90 percent of imports. Increasing trends in international prices for petroleum and other commodities also contribute to this grim picture.

Import dependence of the energy sector in particular is highly problematic. For example, in January 2022 the supply of electricity to industrial enterprises was interrupted for a few days due, allegedly, to a cutback of natural gas from Iranian sources. For some time now, agricultural production, in which Turkey was for many years renowned for self-sufficiency, has also become highly import dependent, bringing food security to the agenda on top of energy security.

High levels of external debt (US$448.4 billion, accounting for 61.5 per cent of GDP as of the first quarter of 2021), heavy debt servicing, and plummeting foreign exchange reserves are among other factors that do not augur well for exchange rate stability in the near future. The expected dollar/TL parity for the end of 2022 of around 16 TL based on the Central Bank's Market Participants Survey may therefore prove to be overly optimistic.

Influenced strongly by the set of events in December, the situation on the *inflation* front is also bleak. It must be stated at once that the official inflation rates for 2021 are much lower than those announced by the Inflation Research Group (ENAG, Turkish acronym), a group consisting mainly of academicians. ENAG announced the rise in CPI as 19.4, 82.8, and 35.8 percent, for December, the year as a whole, and the food and

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non-alcoholic beverages category, respectively. Although Nureddin Nebati, the Minister of Treasury and Finance, has optimistically claimed that inflation will slow down "towards the summer" and will decline to single digits by June 2023, current indicators imply a somewhat different picture, even when the potential for consumer demand restraint is taken into consideration. Moreover, the Minister's expectation is somewhat inconsistent, with an expected inflation rate of around 30 percent for the end of 2022, as revealed by the Central Bank survey.

Among factors that are expected to exert upward pressure on the inflation rate, the most prominent are those pertaining to monetary and fiscal policy. The Central Bank's ability to implement an independent monetary policy—in fact its independence as a whole—exists now only on paper. Minister Nebati, in his address to a group of economists on 22 January, claimed that the policy rate "has lost its significance" and, in breach of the Central Bank Act, declared: "you say Central Bank independence; it simply does not exist. We, as politicians are the responsible ones. From now on interest rates will not rise." Although the Central Bank has given an impression that policy rate reductions may not be necessary during the first quarter 2022, what will happen is anybody's guess as the President keeps on reiterating his commitment to low (implying reduced) interest rates. The fact that even the Monetary Policy Committee members are hand-picked to obey presidential directives means that one cannot expect the conventional anti-inflationary tool of monetary restraint to be in force. In fact, with presidential and general elections due in June 2023 (at the latest), one can expect monetary policy to take an inflationary direction with lavish use of Central Bank resources.

Fiscal policy does not give much hope for restraint either and for the same reasons. Fiscal deficit is expected to rise as a result of public sector wage and salary increases, recently announced tax exemptions, and large payments to contractors as well as to service public sector debt. The Treasury's commitments to depositors under the ERPTD scheme also has the potential to increase the fiscal burden.

The supply-side shock on the price level arising from the sharp depreciation of the domestic currency in a highly import-dependent country does not seem to have abated even after the relative stability in the exchange rate since 20 December. Prices have once again proven to be sticky in a downward direction. If anything, huge price increases for electricity and natural gas announced in the small hours of the New Year, with their wide effects felt throughout the economy, together with the extra cost imposed on producers through the sharp increase in the minimum wage, will inevitably contribute to future inflation. Core inflation for 2021, standing at 31.9 percent and showing a rising trend, and the big gap between the rate of inflation based on producers' prices and consumer prices are instrumental in raising inflationary expectations further.

It seems that inflation in Turkey will be under the spell of a combined demand side (looming election effect) and supply side (cost-push) inflation (exchange rate pass through and import prices) as well as a strong expectational one.

High and rising rates of inflation have strong implications for the welfare of major sections of the population and thereby for income distribution. The sharp rise in the minimum wage does not seem to have generated a rise in real terms when one considers that it has lagged far behind the (unofficial) inflation rate and that much of it has been eaten away by the sharp rise in prices of food and other basic items such as

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electricity and natural gas. This implies that the fall in the share of labor in functional income distribution will continue to exhibit a falling trend. Moreover, such a sharp rise in the minimum wage may prompt employers to press their workers to accept lower wages and resort to replacing them with workers from the large pool of migrants and refugees who would be willing to accept lower wages. The loss of welfare for salary earners and pensioners is expected to be even higher as the rate of increase of their earnings was only one half of that of minimum wage earners. The vast pool of poor and unemployed people and other disadvantaged groups will continue to be dependent on social assistance and condemned to severe hardship.

For *growth* to be sustained, private investment is of crucial importance. However, to boost investment, the government seems to have placed its hopes only on low nominal rates of interest rate. The government's policy of encouraging investment by instructing the Central Bank to reduce the policy rate has backfired as all interest rates, including lending rates, began to rise sharply in the aftermath of the measures of 20 December. Banks, borrowing from the Central Bank at a rate slightly above the policy rate and lending at much higher rates, have emerged as the chief beneficiary at the expense of household and corporate borrowers as well as the government, also borrowing at high(er) rates.

With both the nominal deposit and credit rates of interest still below the inflation rate, real interest rates are negative. In such a "financially repressed" economy, it is a possibility that investors will take the (negative) real interest rate as the main yardstick in their investment decisions. Even then, placing the interest rate, nominal or real, at center stage is a highly simplistic view of the determinants of investment which require the inclusion of other essential variables, ranging from the exchange rate to the level of company profits, on the one hand, to expectations and institutional variables such as the legal environment, on the other.

The economy registered a respectable rate of growth in 2021, with the latest available data showing an impressive 7.4 percent growth in the third quarter which was higher than the growth rate (6.7 percent) attained in the corresponding period of the previous year. It seems that net exports, as expected, was the major contributor to this performance. However, forecasts for 2022 indicate that the rate of growth will not be as high for 2022 and 2023. For example, the Central Bank's Market Participants' Survey of January 2021 envisages a rate of growth of only 3.7 percent in *2022*, revised downward from 4.1 percent in the previous survey.

The positive contribution of net exports notwithstanding, prospects for sustaining high rates of growth in the near future are indeed rather dim in the face of an unstable economy, low levels of savings, and a poor investment climate. Domestic obstacles to rapid growth may be heightened by unfavorable developments in the international economy such as the ongoing pandemic, bottlenecks in supply chains, expectations of high and rising food and commodity prices, much slower growth in international trade, falling rates of growth in the main middle- and high-income countries, and political tensions simmering in countries around Turkey.

## What is to be done?

The series of events during the September–December 2021 period should provide important lessons for policymakers both at home and abroad. These lessons should

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constitute the basis for both short-term and longer-term policy frameworks. As a first step, it is important to return to and maintain policy rationality which requires strict adherence to the teachings of economic science. The daily operations and decisions of key institutions of a modern society should be carried out by competent and highly qualified teams of experts and should not be subjected to the directives of political leaders. Rational policies require reliable data. Interference with the technical studies of institutions such as TÜİK transmit wrong signals to the market operatives and may also have negative international repercussions.

Fiscal and monetary policy, widely recognized as important tools for controlling the direction of economic indicators, above all for maintaining short-term stability, are too important to be subjected to unscientific remarks. As a long-time observer and student of the Turkish economy, I, for one, am fully convinced that had not President Erdoğan repeatedly made such ill-conceived remarks about interest rates and directed the Central Bank to act accordingly, the currency crisis would not have reached the depths that it did. The independence of the Central Bank should be restored and this key institution should be equipped with qualified personnel.

Rule of law, transparency, accountability, and confidence are key concepts for the operation of a market economy. The independence of the judiciary, characterized at present by political interference at the highest level, important for all citizens, is also vital for the establishment of an appropriate investment climate for domestic and foreign investors alike.

Details of BOT-like agreements with a handful of contractors and agreements with the Gulf states in particular should be announced as a first step towards restoring the transparency of public administration. Transparency is an effective means to prevent corruption and counter corruption allegations.

The Turkish government has been announcing so-called medium programs at frequent intervals, whose targets soon lose their relevance and are shelved, leading to a loss of confidence and creating deep uncertainty. Such programs require detailed and careful preparation, expertise, and consultation with all economic partners. The Central Bank has been publishing economic targets that are far from convincing to its economic partners. For example, until recently its inflation target for 2022 was maintained at 5 percent, in total disregard of the deep economic crisis.

The neglect and relegation to the background of long-term issues since the onset of neoliberal transformation in 1980 has reached new heights more recently. The precious time and energy of the rank and file are being lost on following stock markets, interest and exchange rates, and even the decisions of the FED. There is an urgent need to restore longer-term issues such as income and wealth distribution, labor markets, structural and technological change, reform of the system of education at all levels, and sustainable development to the top of the socioeconomic agenda. The currency crisis should not overshadow these issues.

I, along with a handful of my colleagues, have for many years drawn attention to the importance of these long-term issues which unfortunately has fallen on deaf ears. Here, from a longer-term perspective, I can only reiterate those by way of simply listing the cornerstones of an alternative path. Structural change through pushing industrialization towards intermediate and capital goods in medium and high technology categories is the only way for Turkey to escape the so-called middle-income trap. Even in an environment in which free-markets and free international trade

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fetishism still prevail, the role of the state and importance of public investment in industrialization-based development should not be overlooked. Proactive state intervention in devising economic strategies and policies as well as in supervising their implementation should be high up on the agenda. Even when the economy is under the spell of the broad contours of neoliberalism, one can generate a program of balanced growth of the agricultural and industrial sectors, implement a combined strategy of import-substitution and export orientation through a harmonious and symbiotic cooperation between the public and private sectors, and deal at the same time with pressing problems such as unemployment, poverty, and inequality at all levels. These need to be complemented by radical reforms in tax structure and education at all levels, supported by a selective FDI policy.

Admittedly, the simultaneous realization of these objective may not be possible in the absence of a political will to deal with them. Economics is a science of trade-offs, offering ways and means for overcoming them. The most effective and comprehensive way of dealing with short-term stability and longer-term structural issues is through planning—with the full participation of all major economic actors. While implementing this program, planners and policymakers should closely follow the vast literature on criticisms of and challenges to neoliberalism and be watchful of paradigm shifts away from it to relieve themselves of its remaining restrictions.

**Cite this article:** Şenses, Fikret (2022). The long and bitter fall: an account of events that shook the Turkish economy during September–December 2021. *New Perspectives on Turkey* **66:** 180–190. https://doi.org/10.1017/npt.2022.5