Rushing toward currency convertibility

Kurtuluş Gemici

Abstract

In 1989, Turkey became one of the first—and few—emerging economies to fully liberalize its capital account. Given the adverse macroeconomic conditions before the reforms, it is puzzling that Turkish policy-makers implemented policies amounting to a comprehensive and imprudent capital account liberalization. Using in-depth interviews with a significant number of key decision-makers behind capital account liberalization and employing archival material from news sources on the debates surrounding the reform process, this article examines the policy objectives and rationale behind the Turkish capital account liberalization. The main argument is that capital account liberalization represented a political rationality that put a premium on short-term expansion through funds from the rest of the world. This liberalization was a policy response to decreasing rates of economic growth and demands from organized labor and public employees for better working conditions and higher wages. Thus, this article shows that these distributional conflicts and the trajectory of economic growth were important determinants of the timing and scope of capital account liberalization in Turkey.

Keywords: *Capital account liberalization, currency convertibility, financial opening, Turkey, neoliberalism*

In 1989, Turkey became one of the first—and few—emerging economies to fully liberalize its capital account. This was an unexpected policy decision. Before capital account liberalization, the Turkish economy ran persistent trade deficits with the rest of the world. The public sec-

Kurtuluş Gemici, National University of Singapore, Department of Sociology, AS1, 11 Arts Link, 117570, Singapore, kgemici@nus.edu.sg.

New Perspectives on Turkey, no. 47 (2012): 33-55.

tor could only continue its operations by borrowing at increasing rates. The inflation rate was rising toward one hundred percent. Furthermore, capital accumulation in Turkey before financial opening had relied on public infrastructure investment, and the private sector's share in fixed capital investment was in decline. The political party in government, the Motherland Party, manifested a strong tendency to find recourse in economic populism. There was the risk that funds from the rest of the world would finance public sector borrowing and consumption, rather than promote productive investment.

The Turkish experience with capital account liberalization is part of a broader institutional transformation toward increasing financial integration with the rest of the world. In most developing and emerging countries, controls on international capital transactions were effective until the second half of the 1980s (some partial liberalization measures notwithstanding). The subsequent removal of capital controls culminated in a substantial level of financial openness by the end of the 1990s. While Turkey's adoption of capital mobility exhibits a number of similarities with capital account liberalization in other emerging economies, the scope of Turkey's reforms stands out. The difference is manifest especially when Turkey is compared with countries that adopted a gradual and cautious approach to capital account liberalization and differentiated between different types of capital flows, such as Chile and Taiwan.[1] Given the adverse macroeconomic conditions, it is puzzling that Turkish policy-makers implemented policies amounting to a comprehensive and imprudent capital account liberalization.

In this article, I address this question and explain the policy objectives and rationale behind the Turkish capital account liberalization. The literature on the consequences of this liberalization is rich, and there are excellent surveys of the main contours of financial openness since 1989.[2] However, while the economic consequences of capital account

1 Manuel R. Agosin, "Capital Inflows and Investment Performance: Chile in the 1990s," in *Capital Flows and Investment Performance: Lessons from Latin America*, eds. Ricardo Ffrench-Davis and Helmut Reisen (Paris: OECD, 1998); Ricardo Ffrench-Davis and José Antonio Ocampo, "The Globalization of Financial Volatility: Challenges for Emerging Economies," in *Financial Crises in "Successful" Emerging Economies*, ed. Ricardo Ffrench-Davis (Washington, DC: Brookings Institution Press, 2001).

2 C. Emre Alper and Ziya Öniş, "Financial Globalization, the Democratic Deficit, and Recurrent Crises in Emerging Markets: The Turkish Experience in the Aftermath of Capital Account Liberalization," *Emerging Markets Finance and Trade* 39, no. 3 (2003); C. Emre Alper and Ziya Öniş, "Emerging Market Crises and the IMF: Rethinking the Role of the IMF in Light of Turkey's 2000-2001 Financial Crisis," *Canadian Journal of Development Studies* 24, no. 2 (2003); Korkut Boratav, *Türkiye İktisat Tarihi: 1908-2002* (Ankara: İmge, 2003); Fırat Demir, "A Failure Story: Politics and Financial Liberalization in Turkey, Revisiting the Revolving Door Hypothesis," *World Development* 32, no. 5 (2004); Erinç A. Yeldan, *Küreselleşme Sürecinde Türkiye Ekonomisi: Bölüşüm, Birikim ve Büyüme* (İstanbul: İletişim Yayınları, 2001); A. Erinç

liberalization are well understood, few studies address the political determinants of this institutional reform.[3] I aim to fill this gap by using in-depth interviews with a significant number of key decision-makers behind capital account liberalization and by analyzing archival material from news sources on the debates surrounding the reform process.[4]

My main argument is that the capital account liberalization embodied a political rationality that put a premium on short-term expansion through funds from the rest of the world. This was a policy response to decreasing rates of economic growth and to organized labor's and public employees' demands for better working conditions and higher wages. In retrospect, the 1989 capital account liberalization was premature, and after it the Turkish economy sank deeper into a vicious cycle, in which short-term capital flows from the rest of the world fed economic booms that periodically ended in crises. The Turkish economy had two major financial crises in 1994 and 2001, and serious recessions in 1998-99 and in 2008-09. In 1994 and 2001, hot money was directly responsible for triggering the collapse of the Turkish financial markets. The boom-bust cycles subsided relatively in the years following the 2001 crisis, but portfolio and debt inflows and outflows continue to be a major source of vulnerability in the Turkish economy. In the following pages, I trace how expansionary and myopic concerns dominated the decision to liberalize capital movements across borders, and led to adverse consequences with long-term implications.

There is a consensus among various scholars that 1989 was a turning point for the Turkish economy.[5] The central characteristic of the post-1989 period was the increasing dependence of the Turkish economy on

Yeldan, "Neoliberal Global Remedies: From Speculative-Led Growth to IMF-Led Crisis in Turkey," *Review of Radical Political Economics* 38, no. 2 (2006).

3 Ümit Cizre and Erinç Yeldan, "The Turkish Encounter with Neo-liberalism: Economics and Politics in the 2000/2001 Crises," *Review of International Political Economy* 12, no. 3 (2005); Hasan Ersel, "The Timing of Capital Account Liberalization: The Turkish Experience," *New Perspectives on Turkey*, no. 15 (1996); Arvid Lukauskas and Susan Minushkin, "Explaining Styles of Financial Market Opening in Chile, Mexico, South Korea, and Turkey," *International Studies Quarterly*, no. 44 (2000); Ziya Öniş, "Globalization and Financial Blow-Ups in the Semi-Periphery: Turkey's Financial Crisis of 1994 in Retrospect," in *State and Market: The Political Economy of Turkey in Comparative Perspective*, ed. Ziya Öniş (İstanbul: Boğaziçi University Press, 1998).

4 The list of the interviews can be found in Appendix A. The main news source used are the weekly economic news bulletins of the Anka Agency in Ankara, Turkey, which I examined for the period between January 24, 1980 and April 15, 1994. I also consulted the national newspapers *Cumhuriyet* and *Hürriyet* for the years 1987, 1988, and 1989.

5 Erol Balkan and Erinç Yeldan, "Turkey," in *Financial Reform in Developing Countries*, eds. Jose Fanelli and Rohinton Medhora (New York, NY: St. Martin's Press, 1998); Korkut Boratav et al., "Turkey: Globalization, Distribution and Social Policy, 1980-1998," in *External Liberalization, Economic Performance, and Social Policy*, ed. Lance Taylor (Oxford: Oxford University Press, 2001); Gülten Kazgan, *Türkiye Ekonomisinde Krizler (1929-2001)* (İstanbul: Bilgi Üniversitesi Yayınları, 2005).

short-term capital flows. Throughout the 1990s, the external debt to GNP ratio remained around 40% (see Figure 1). However, the share of short-term debt in total external debt rose from 13.76% in 1989 to 25.74% in 1996. In the same period, domestic debt stock grew disproportionately (see Table 1).

Table 1: Domestic debt and its components as percentage of GNP, 1990-2000

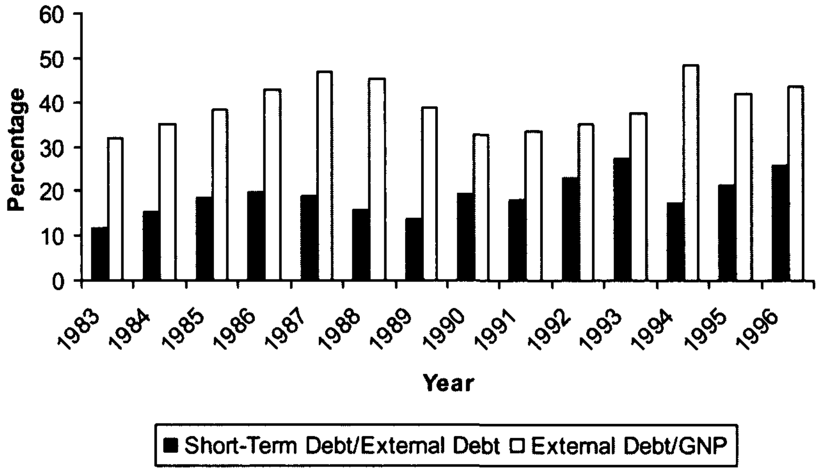
Year	Bonds[a]	Bills[b]	Domestic Debt Stock[c]
1990	4.7	1.4	14.4
1991	3.8	2.9	15.4
1992	7.8	3.8	17.6
1993	9.5	3.2	17.9
1994	6.2	7.8	20.6
1995	6.5	8.0	17.3
1996	8.3	10.2	21.0
1997	12.1	8.1	21.4
1998	10.8	10.9	21.7
1999	25.1	4.1	29.3
2000	27.4	1.6	29.0

Source: (State Institute of Statistics 2003: Table 20.9).

a Government bonds as share of GNP.
b Treasury bills as share of GNP.
c Domestic debt stock as share of GNP.

Furthermore, a vicious cycle characterized the Turkish economy after the capital account liberalization in 1989. This cycle started with short-term capital inflows that financed imports and public deficits. This financing led to a rise in interest rates and currency appreciation, which attracted more short-term capital inflows. As a result of this cycle, the economy's stability became vulnerable to market players' expectations of the government's ability to pay its debts. The 1994 financial crisis in Turkey occurred after such a cycle and the ensuing confidence crisis, triggered by the international credit agencies' lowering of Turkey's credit-rating.

Figure 1: Short-term debt, 1983-1996



Source: State Institute of Statistics (2003: Table 20.8).

Freshly created debt during the 1990s led to the rollover of the existing stock of debt, i.e., the rollover of public debt through short-term private sector borrowing from the rest of the world. In other words, the Turkish economy used capital flows from the rest of the world to finance interest and principal payments on its stock of debt. Although the addiction to cheap money from the rest of the world continued to characterize the Turkish economy during the 2000s, and although there were repeated calls to modify capital account policies, revising unrestrained financial openness has never been on the policy agenda. This stands in contrast to emerging economies such as Brazil that recently implemented capital controls. Understanding the political rationality underlying capital account reforms is a first step in deciphering why financial openness is persistent in Turkey.

This article is structured as follows: The first section develops the theoretical framework underlying the empirical analysis. The second section outlines the historical conditions that set the foundations for neoliberal reforms and capital account liberalization. The next section traces the uneven growth pattern during the 1980s and the increasing external dependence of the Turkish economy. The fourth section on the 1989 capital account liberalization reforms constitutes the bulk of the empirical analysis. In this section, I first show how decreasing economic growth rates, increasing political competition, and a contentious labor movement eliminated the hegemonic position of the Motherland Party in Turkish politics. I then document, using interviews with key decision-makers, the expectations and the political calculus behind the 1989 capital account liberalization reforms. The fifth section summarizes my conclusions.

Theoretical framework

The competing explanations of transitions to neoliberalism and capital account liberalization can be grouped into two camps.[6] On the one hand, there are scholars who emphasize domestic political-economic conditions and local institutions, and who examine global financial integration based on the policy preferences of various socioeconomic groups and economic sectors.[7] Instead of taking policy preferences as the starting point, sociologists in this camp tend to take a historical and institutionalist perspective on neoliberal reforms, asking how a particular policy rationality and set of goals are socially constructed. For example, Fourcade-Gourinchas and Babb show that policy-makers in Britain, Chile, France, and Mexico adopted broadly similar neoliberal reforms for quite different reasons and objectives because of the divergent ways these countries pursued economic growth and mediated distributional conflicts.[8]

On the other hand, there are studies that explicate capital account liberalization with reference to international factors, emphasizing the role of international organizations and agreements in imposing structural reforms on developing and emerging economies.[9] In addition, a recent wave of scholarship incorporates social constructivism and institutional theory in the study of neoliberal reforms.[10] Here, the rise of

6 See, for instance, Jeffrey M. Chwieroth, "Neoliberal Economists and Capital Account Liberalization in Emerging Markets," *International Organization*, no. 61 (2007); Barry J. Eichengreen, "Capital Account Liberalization: What Do Cross-Country Studies Tell Us?," *The World Bank Economic Review* 15, no. 3 (2001); Lukauskas and Minushkin, "Explaining Styles of Financial Market Opening in Chile, Mexico, South Korea, and Turkey"; Susan Minushkin, "Financial Globalization, Democracy, and Economic Reform in Latin America," *Latin American Politics and Society* 46, no. 2 (2008).

7 For an influential example in political science and international political economy, see Jeffry A. Frieden, "Invested Interests: The Politics of National Economic Policies in a World of Global Finance," *International Organization* 45, no. 4 (1991).

8 Marion Fourcade-Gourinchas and Sarah L. Babb, "The Rebirth of the Liberal Creed: Paths to Neoliberalism in Four Countries," *American Journal of Sociology* 108, no. 3 (2002).

9 See, for instance, Stephen Krasner, "The International Monetary Fund and the Third World," *International Organization* 22, no. 3 (1968); Joseph E. Stiglitz, "Capital-Market Liberalization, Globalization, and the IMF," *Oxford Review of Economic Policy* 20, no. 1 (2004).

10 Rawi Abdelal, *Capital Rules: The Construction of Global Finance* (Cambridge, MA: Harvard University Press, 2007); Mark Blyth, *Great Transformations: Economic Ideas and Institutional Change in the Twentieth Century* (New York, NY: Cambridge University Press, 2002); Jeffrey M. Chwieroth, *Capital Ideas the IMF and the Rise of Financial Liberalization* (Princeton, NJ: Princeton University Press, 2010).

neoliberalism is explained by the diffusion of neoliberal ideas and by the agency of epistemic communities of economists and technocrats trained in North American universities.[11] Such explanations posit that neoliberal reforms emerge due to an alignment and convergence of ideas and prescriptions on how to run an economy.[12]

The recent scholarship correctly underlines the importance of international factors and the global diffusion of neoliberal ideas. However, the case for the preponderance of domestic conditions in determining the nature, timing, and phases of neoliberal reforms is much stronger.[13] There are two reasons for this. First, despite the increasing influence of international institutions, local institutions and organizational structures—ranging from informal business practices to state agencies regulating economic life—still operate largely within the framework of nation-states. Second, without perfectly integrated labor and capital markets, economic reforms are evaluated and assessed according to their consequences within nation-states, even when the impetus for such reforms emanates from outside. This is important, as it restricts the geographical scope of political and social actors' beliefs and expectations concerning economic reforms.

If funds from the rest of the world are available, capital account liberalization allows emerging economies to spend and invest beyond their means. This may be highly beneficial, if the borrowed funds are channeled toward productive investment. Yet in emerging economies under capital mobility, the funds borrowed often finance consumption and government deficit. This is not sustainable in the long-run because it does not add to the productive capacity of these economies. In line with this explanation, Fourcade-Gourinchas and Babb's causal analysis of neoliberal reforms provides two crucial hypotheses for studying the Turkish capital account liberalization.[14] The first is concerned with the intensity of distributional conflict; intense political struggles over distribution of national income are likely to lead to the adoption of capital account liberalization because foreign lending offers an easy solution to distribu-

11 Peter M. Haas, "Epistemic Communities and International Policy Coordination," *International Organization* 46, no. 1 (1992).

12 See, for instance, Sarah L. Babb, *Managing Mexico: Economists from Nationalism to Neoliberalism* (Princeton, NJ: Princeton University Press, 2001); Sarah L. Babb and Bruce G. Carruthers, "Conditionality: Forms, Function, and History," *Annual Review of Law and Social Science* 4(2008); Beth A. Simmons et al., "Introduction: The International Diffusion of Liberalism," *International Organization* 60, no. 4 (2006).

13 See Fourcade-Gourinchas and Babb, "The Rebirth of the Liberal Creed: Paths to Neoliberalism in Four Countries," 533-536.

14 Ibid., 536.

tional conflicts and it is politically profitable. Second, the historical trajectory of economic growth shapes how policy-makers—technocrats or politicians—assess and value different policy options concerning capital account liberalization. Policy makers in countries that are on a path of debt- and consumption-driven economic growth are more likely to see capital account liberalization in favorable terms than are those in countries that prioritize export performance and trade surplus.

These hypotheses are not entirely novel to the study of capital account liberalization in Turkey,[15] but this paper differs from existing studies in arguing that the factors highlighted above are the most important determinants of the timing and scope of the 1989 capital account reforms. The rest of the article focuses on documenting the above theoretical claims.

Background conditions

Turkish industrialization occurred under state control, planning, and involvement in economic life. Although the industrialization effort was relatively successful, Turkish industries did not become competitive in world markets. As a result, Turkey faced recurring balance of payments problems arising from its dependency on imports for consumption and production. Fiscal and current account deficits accompanied this development trajectory in the 1960s and 1970s.[16] By the late 1970s, ISI (import substitution industrialization) strategies faced several bottlenecks due to foreign exchange shortages. The severe economic depression and balance of payments crisis was accompanied by increasing political polarization and violence.

In an economy like Turkey's, weakened by severe foreign exchange shortage and heavy debt, the political administration was vulnerable to pressures for market-oriented reforms.[17] On January 24, 1980, the

15 In particular, see Ümit Cizre-Sakallıoğlu and Erinç Yeldan, "Politics, Society and Financial Liberalization: Turkey in the 1990s," *Development and Change* 31, no. 2 (2000); Ersel, "The Timing of Capital Account Liberalization"; Öniş, "Globalization and Financial Blow-Ups."

16 See William M. Hale, *The Political and Economic Development of Modern Turkey* (New York, NY: St. Martin's Press, 1981), 166; Yakup Kepenek and Nurhan Yentürk, *Türkiye Ekonomisi* (İstanbul: Remzi Kitabevi, 2000), 172; Şevket Pamuk, "İthal İkamesi, Döviz Darboğazları ve Türkiye, 1947-1979," in *Krizin Gelişimi ve Türkiye'nin Alternatif Sorunu*, eds. Korkut Boratav, Çağlar Keyder, and Şevket Pamuk (Ankara: Kaynak Yayınları, 1984).

17 See Tosun Arıcanlı, "The Political Economy of Turkey's External Debt: The Bearing of Exogenous Factors," in *The Political Economy of Turkey: Debt Adjustment and Sustainability*, eds. Tosun Arıcanlı and Dani Rodrik (London: MacMillan, 1990); Emine Kıray, "Turkish Debt and Conditionality in Historical Perspective: A Comparison of the 1980s with the 1860s," in *The Political Economy of Turkey: Debt Adjustment and Sustainability*, eds. Tosun Arıcanlı and Dani Rodrik (London: MacMillan, 1990).

Demirel government introduced an ambitious liberalization program.[18] Market-oriented liberalization policies were actively sought by big businesses. The 1970s was the decade when industrialists, who had flourished under state tutelage in the previous decades, began expanding their operations and turning them into large conglomerates. In addition, international financial and economic organizations—the IMF, OECD, and World Bank—were pushing for stabilization and liberalization reforms.

The period of military rule between 1980 and 1983 saw the continuation of the liberalization reforms. It also shaped an important feature of Turkish politics in the following years; the insulation of politics from social groups.[19] This insulation was achieved through a number of legal means: the most crippling legal instrument was to ban all trade unions, voluntary associations, and public professional organizations from engaging in political activities.[20] Thus, the legal changes enacted by the National Security Council and the Consultative Assembly amounted to a restriction of the political sphere to parties and a severance of the link between civil society and political parties.[21] Furthermore, the 1982 constitution included an article banning the leading political cadres of the past—including the Prime Minister Demirel and opposition leader Ecevit—from entering politics for an extended period of time.[22] This ban effected a significant break with the political past.[23] It also created a political vacuum, which would play an important role in the ensuing rise of Turgut Özal as the most powerful politician of the 1980s.

This political environment guaranteed that, except for protest voting, there was no mechanism that allowed workers, farmers, and public em-

18 See Yılmaz Akyüz, "Financial System and Policies in Turkey in the 1980s," in *The Political Economy of Turkey: Debt, Adjustment and Sustainability*, eds. Tosun Arıcanlı and Dani Rodrik (London: MacMillan, 1990); Yaman Aşıkoğlu, "Strategic Issues in Exchange Rate Liberalization: A Critical Evaluation of the Turkish Experience," in *Economics and Politics of Turkish Liberalization*, eds. Tevfik N. Nas and Mehmet Odekon (Cranbury, NJ: Associated University Presses, 1992), 106; Balkan and Yeldan, "Turkey," 131-133; Peter N. Snowden, "Financial Reform in Turkey Since 1980: Liberalization Without Stabilization," in *The Economy of Turkey Since Liberalization*, eds. Subidey Togan and V. N. Balasubramanyam (New York: St. Martin's Press, 1996), 67.

19 See Cizre-Sakallıoğlu and Yeldan, "Politics, Society and Financial Liberalization," 494.

20 Ergün Özbudun, "The Post-1980 Legal Framework for Interest Groups Associations," in *Strong State and Economic Interest Groups: The Post-1980 Turkish Experience*, ed. Metin Heper (Berlin: Walter de Gruyter, 1991), 42.

21 Ibid., 43.

22 William M. Hale, "Transition to Civilian Governments in Turkey: The Military Perspective," in *State, Democracy and the Military: Turkey in the 1980s*, eds. Metin Heper and Ahmet Evin (New York: Walter de Gruyter, 1988), 171-172.

23 Kemal H. Karpat, "Military Interventions: Army-Civilian Relations in Turkey Before and After 1980," in *State, Democracy and the Military: Turkey in the 1980s*, eds. Metin Heper and Ahmet Evin (New York: Walter de Gruyter, 1988).

ployees to participate in politics. This, in turn, had a dire consequence: the overwhelming power of privileged political actors and the wielders of industrial, commercial, and financial capital.[24] As such, it is not surprising that the period after 1980 was characterized by an alliance between capitalists and privileged political actors.[25] However, even in such an alliance, the balance of power favored the political actors.[26]

The 1983 elections following the military rule were a victory for Özal and his center-right party. The Motherland Party, established by Özal, was the only "genuine political organization" in the elections. This party was "a conglomeration of social groups from the middle classes, ranging from small entrepreneurs to capitalists and from moderate traditionalists to activist nationalists and Islamists."[27] It was the embodiment of a new rising bourgeoisie with a strong conservative appeal because of its espousal of traditional and Islamist values.[28] Thus, the Motherland Party was a new breed of political right in Turkey, which had been more powerful than the left since the end of the one-party period. Unlike the old center right, the Justice Party of Demirel, the Motherland Party embraced liberalism and broke away from the statist tradition.[29]

Uneven growth and external dependence

The Motherland Party's unrivaled power in Turkish politics emboldened the agenda of liberal economic reforms. The party's market-oriented reforms comprised various orthodox and unorthodox elements. As such, the liberalization reforms that the Motherland Party implemented produced some results that contradicted the liberal rhetoric they espoused.[30]

24 For the analysis of primary and secondary relations of distribution in distinguishing different social classes and segments of classes in Turkey during the 1980s, see Korkut Boratav, "Inter-Class and Intra-Class Relations of Distribution Under 'Structural Adjustment': Turkey During the 1980s," in *The Political Economy of Turkey: Debt, Adjustment and Sustainability*, eds. Tosun Arıcanlı and Dani Rodrik (London: MacMillan, 1990).

25 See Boratav, *Türkiye İktisat Tarihi: 1908-2002*; Cizre-Sakallıoğlu and Yeldan, "Politics, Society and Financial Liberalization."

26 Metin Heper, "Interest Group Politics in Post-1980 Turkey: Lingering Monism," in *Strong State and Economic Interest Groups: The Post-1980 Turkish Experience*, ed. Metin Heper (Berlin: Walter de Gruyter, 1991).

27 Karpat, "Military Interventions," 155.

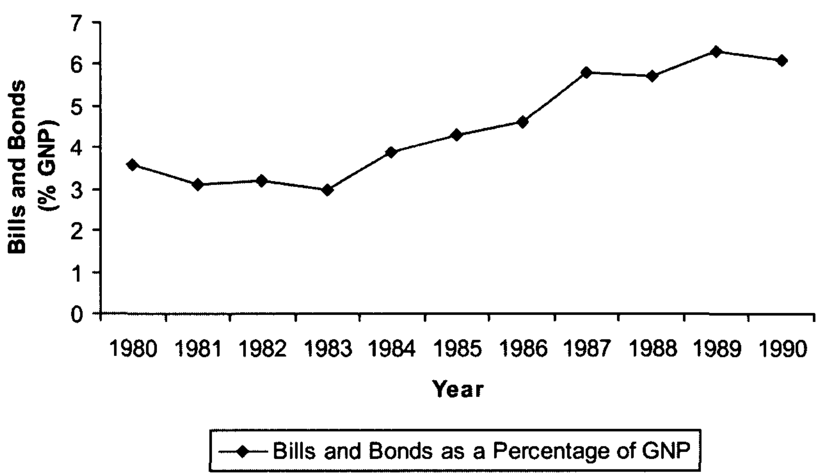
28 See Çağlar Keyder, *State and Class in Turkey: A Study in Capitalist Development* (Guildford, UK: Verso, 1987).

29 Üstün Ergüder, "The Motherland Party, 1983-1989," in *Political Parties and Democracy in Turkey*, eds. Metin Heper and Jacob M. Landau (London: I.B. Tauris, 1991).

30 See Ziya Öniş, "Political Economy of Turkey in the 1980s: Anatomy of Unorthodox Liberalism," in *Strong State and Economic Interest Groups: The Post-1980 Turkish Experience*, ed. Metin Heper (Berlin: Walter de Gruyter, 1991); Ziya Öniş, "The Dynamics of Export Oriented Growth in a Second Generation NIC: Perspectives on the Turkish Case, 1980-1990," *New Perspectives on Turkey*, no. 9 (1993).

First, capital accumulation occurred mostly through public investment rather than private investment. Second, although the Turkish economy was experiencing an increasing integration with the world economy, especially in the financial markets, the financial system itself grew more dominated by state institutions such as public banks. Third, a major source of growth for the economy was the expansion of the domestic and foreign debt stock. In 1980, the sum of government bonds and treasury bills amounted to 3.6% of GNP (see Figure 2). This ratio fell between 1981 and 1983. It increased to 4.3% in 1985 and to 5.8% in 1987. While the public sector was relying increasingly on domestic debt to finance its infrastructure investment, it was also accumulating a large amount of foreign debt. The external debt to GNP ratio increased from 31.8% in 1983 to 46.79% in 1987 (State Institute of Statistics 2003: Table 20.8). In other words, the Turkish economy grew in the 1980s, but it grew by accumulating large amounts of debt. Since the Turkish economy did not run trade surpluses during this period, the increasing debt was possible only insofar as the economy could attract more foreign capital. That is to say, the Turkish economy entered into a debt trap in the 1980s.

Figure 2: Treasury bills and government bonds as a percentage of GNP, 1980-1990



Source: State Institute of Statistics (2003: Table 20.9).

https://doi.org/10.1017/S0896634600001692 Published online by Cambridge University Press

In terms of social dynamics, the increasing domestic debt constituted a regressive income transfer mechanism. The public sector borrowing requirement showed a continuous increase under the Motherland Party. The financing of the public sector through domestic debt enabled propertied social groups that could buy and sell government bonds and treasury bills to enjoy high interest revenues.[31] Such policies amounted to net income transfers from workers and peasants to the capitalist class, as it was the limited tax income of the public sector that enabled the interest payments on mounting domestic debt.[32] Furthermore, there were corresponding net income transfers to the big business groups, as they controlled the banking and finance sector.[33] Thus, wage earners, fixed-income groups, and farmers were the main victims of Turkish liberalization in the 1980s.[34]

1989: Capital account liberalization

In August 1989, the Motherland Party government announced an economic reform package, which included measures on the trade regime and capital account. The package was the most comprehensive set of reforms of the current and capital accounts since the January 24, 1980 program. While the measures on the trade regime were bold, the most surprising element of the reforms was Decree No. 32 on the Law for the Protection of Turkish Lira, which removed all restrictions—except for some quantitative limits that would be lifted later—on capital movements in and out of Turkey.[35] In fact, Decree No. 32 meant that the Turkish lira was practically convertible and that the Turkish capital account was fully open beginning in August 1989.

Since there was no prior discussion or consultation with the private sector, the package of economic reforms came as a surprise. Furthermore, the Turkish authorities did not distinguish between different types of capital movements, and did not plan a gradual opening of the capital account. Given that the Turkish economy featured a very high stock of foreign and domestic debt, astronomical inflation, and persistent trade

31 Hasan Kazdağlı, "Özal'ın İktisadi Reformları," in *Kim Bu Özal? Siyaset, İktisat, Zihniyet*, eds. İhsan Sezal and İhsan Dağı (İstanbul: Boyut, 2001).

32 "Management of fiscal debt may be viewed as an income transfer mechanism, transferring income away from wage-labour and the peasantry, to domestic 'rentiers'." Cizre-Sakallıoğlu and Yeldan, "Politics, Society and Financial Liberalization," 489.

33 *Cumhuriyet*, September 12, 1988.

34 Öniş, "Political Economy of Turkey," 34-35.

35 See *ANKA Economic Bulletin*, August 9, 1989; İstanbul Stock Exchange, *From the Foundation of the Republic to the Present*, vol. II, Turkish Financial History From the Ottoman Empire to the Present (İstanbul: İstanbul Stock Exchange, 1999), 402-403. Decree No. 32 was published on August 11, 1989 in the Official Gazette No. 20249. The most important changes concerning capital account liberalization are in the third and fourth articles.

and budget deficits, the decision to liberalize the capital account in one (and sudden) step did not reflect sound macro-economic policy.

The comprehensive and abrupt capital account liberalization emerged as a policy response to a number of economic and political developments. First, until 1987, the Motherland Party enjoyed a dominant position in Turkish politics—partly due to the ban on the activities of politicians who had been influential before the 1980 military intervention. In 1987, a referendum restored the rights of these politicians and thus spurred intensified political competition. Second, the rapid growth between 1983 and 1987 ended in 1988. Economic slowdown also brought to the surface the contradictory consequences of rapid economic growth under Motherland Party rule: (1) wages were repressed, (2) rapid growth did not stimulate private investment and capital accumulation, (3) the Turkish economy accumulated an increasing stock of debt, and (4) the public sector relied heavily on domestic and foreign debt to finance its operations. Third, the repression of wages that enabled high profitability between 1980 and 1987 was no longer operative in 1988 and 1989. As a consequence, distributional conflicts—in the form of greater demands for real wage increases—intensified. Fourth, the 1989 local elections were a failure for the Motherland Party. The approaching presidential elections, which provided an opportunity for Özal to become the president of the Turkish Republic, and the Party's electoral failure, both made economic growth and meeting distributional demands highly important. These economic and political conditions led Turgut Özal and a small number of politicians and technocrats (1) to seek recourse in increasingly populist policies, and (2) to form positive expectations for capital account liberalization. Özal and his team believed that foreign capital flows would stimulate the Turkish economy. Intent on boosting economic growth, they did not heed the objections of the Central Bank, State Planning Organization, and Turkish industrialists.

Political opening and slowdown in growth

Despite the ban on their political activities, the political leaders of the 1960s and 1970s resurfaced on the political scene from 1983 onwards. By 1985, an increasing number of parties, including parties that ostensibly followed the heritage of political parties before the 1980 military intervention, were established. In 1986, the True Path Party obtained seats in the National Assembly and began a vocal opposition to the Motherland Party government.[36]

36 Birol Ali Yeşilada, "Problems of Political Development in the Third Turkish Republic," *Polity* 21, no. 2

The increasing presence of old political divisions in the Assembly and in the Turkish political scene culminated in a National Assembly vote to remove the restrictions to the political participation of the pre-1980 era leaders. 50.3% of voters approved removing the restrictions, while 49.7% voted to keep them.[37] Özal announced early elections immediately after the referendum. The Motherland Party obtained 36.3% of votes in the 1987 elections, which reinforced the party's hold on power in Turkish politics. However, despite the electoral victory, 1987 was also the beginning of a new political era. Until 1985, the Motherland Party faced no real political competition and opposition. As a result, the Motherland Party refrained, to a certain extent, from pursuing populist economic policies.[38] This situation began to change in 1985, with the entry of new parties into political life. The 1987 referendum, which legitimized the return of old politicians and deep-seated political divisions, marked the end of this era for the Motherland Party. In that sense, 1987 was the first turning point in Turkish politics since the 1980 military coup d'état.

Meanwhile, the strong growth of the 1980s ended in 1988 with the appreciation of real wages. Turkey had a stagnant economic environment in 1988, with high inflation and low GDP growth.[39] At the same time, the burden of domestic and foreign debt payments became a serious concern for the economic bureaucracy and the government.[40] Because the tax base deflated under the Motherland Party government, the share of tax income in the government budget had declined.[41] Given the decreasing tax income, Turkish macroeconomic policy became focused on finding resources to finance public borrowing requirements.[42]

The Özal government created the much-needed resources partly by enlarging the money supply in an uncontrolled fashion. The annual inflation rate was 29.6% in 1986 and 32% in 1987.[43] The rate of inflation surged to 68.3% in 1988, and by 1989 it was up to 69.6%. July 1989 saw the highest inflation rate in the history of the Turkish Republic: 6.2%.[44] Such policies show the influence of pragmatism and myopia in

(1988): 369.

37 Ergüder, "The Motherland Party," 157-158.

38 Frank Tachau, "An Overview of Electoral Behavior: Toward Protest or Consolidation of Democracy," in *Politics, Parties, and Elections in Turkey*, eds. Sabri Sayarı and Yılmaz Esmer (Boulder, CO: Lynne Riener, 2002).

39 Boratav et al., "Turkey," 323.

40 Boratav, *Türkiye İktisat Tarihi*, 178.

41 Oğuz Oyan, *Dışa Açılma ve Mali Politikalar, Türkiye: 1980-1989* (Ankara: Verso, 1989).

42 Boratav, *Türkiye İktisat Tarihi*, 178.

43 State Institute of Statistics, *Statistical Indicators, 1923-2002* (Ankara: State Institute of Statistics, 2003), Table 18.14.

44 *Cumhuriyet*, August 28, 1989.

the Motherland Party's economic management. The pragmatism that the Özal government espoused was driven by political concerns. As such, the Motherland Party government did not hesitate to implement economic measures that would save the day in the short run but create larger problems in the long run.

Rushing toward full convertibility

Thus, the Motherland Party government faced increasing economic challenges by 1989. First, the economy had severe domestic and foreign debt. Second, the growth rate was low, even negative in several quarters of 1988 and 1989. Third, the inflation rate was marching toward one hundred percent. In such an environment, almost all government decisions on the economy were motivated by short-term concerns. The main problem in the short run was finding the means to finance foreign debt service and domestic debt payments. The slowdown in economic activity along with persistent high inflation exacerbated the debt trap of the Turkish economy.

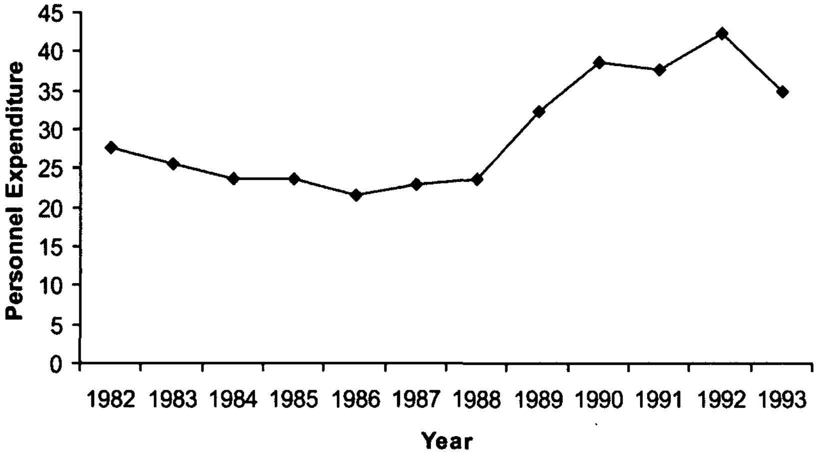
At the same time, 1988 and 1989 were the years in which the repressed labor sector began demanding better wages and work conditions through concerted collective action. Hence, the Motherland Party government could no longer maintain low real wages and exercise repression of wage-earners.[45] The political pressures on the Motherland Party intensified during this period. The elections in March 1989 brought defeat for many of its local candidates; a heavy blow to the Motherland Party government. It became clear that the Motherland Party was in the process of losing its dominant position in Turkish politics. The immediate consequence of the March 1989 electoral defeat was a leap into populism. The Motherland Party government, motivated by their defeat in the local elections, boosted public employee salaries by an increment ranging from 56 to 95%.[46] Increases in the support purchase prices for agricultural products followed the wage increases.[47] Such increases were not entirely sufficient to reverse the results of wage repression that had existed since 1980. However, they constituted a considerable burden on the consolidated public budget. This can be seen in Figure 3. While personnel expenditure was 23.6% of the total consolidated budget in 1988, it rose to 32.3% in 1989.

45 Boratav, *Türkiye İktisat Tarihi*, 175.

46 *Cumhuriyet*, July 8, 1989.

47 Boratav, *Türkiye İktisat Tarihi*, 175.

Figure 3: Personnel expenditure's share in total consolidated budget expenditures, 1982-1993



Source: State Institute of Statistics (2003: Table 20.6).

In addition to electoral pressures, the presidential election was scheduled for the end of 1989. Since the president was elected by the General Assembly and since the Motherland Party held the majority in the Assembly, Turgut Özal had a strong chance of being elected as the president of the Turkish Republic. In other words, this provided an opportunity for Turgut Özal to find relief from the intensified political competition. The Motherland Party's economic policies grew increasingly dominated by political concerns. For example, Ekrem Pakdemirli, then the Minister of Finance and one of the closest associates of Turgut Özal, suggests that the primary motivation in high wage increases and agricultural support prices during 1989 was to build public support for the upcoming presidential elections.[48]

In this political and economic environment, the administration was eager to revitalize the economy. Foreign capital flows provided such an opportunity. Prime Minister Özal had a large role in the decision process leading to Decree No. 32, and he expected the capital account liberalization to provide finance and fuel economic growth. Clearly Özal perceived full capital account liberalization and currency convertibility

48 Interview with Ekrem Pakdemirli, August 2006.

as an important step in modernizing the Turkish economy. It can even be speculated that he saw a convertible Turkish lira as an element of a "modern" and "Western" economy. Özal's aspirations for the comprehensive liberalization and integration of the Turkish financial system with the world economy were also echoed in several of the interviews conducted with his close associates.[49] Mahfi Eğilmez, then the deputy undersecretary at the Treasury Department, even suggested that Özal viewed full convertibility as the ultimate solution to the foreign exchange shortages Turkey had experienced in the past.[50]

Despite Özal's aspirations for the liberalization of the capital account, care should be taken in evaluating such enthusiasm, especially regarding the influence of free-market ideologies. While Özal's ideological orientation was important, it should be remembered that Özal was not consistent in his ideological beliefs and commitment to free markets.[51] He instead espoused liberalism with great fervor when such an ideology served his political interests. At other times, he also did not hesitate to implement policies that were contradictory to liberalism and stifle the liberalization of markets. One example is the public infrastructure drive, which quickly became corrupt and a vehicle for patron-client relations. Another example is the enlargement of the public sector in the financial system, which prevented the development of private capital markets in Turkey.

The real reasons for Özal's determination to liberalize the Turkish capital account should be sought in his concrete expectations concerning the outcome of financial opening. Özal had rosy expectations about the consequences of full capital account liberalization. At the time, various economists and the media worried about capital flight and the resulting potential foreign exchange shortage. Özal took the opposite view:[52]

> I declare, without ambiguity, that the restrictions have been removed, and that [the Turkish lira] has become another foreign currency; for example the currency of a Western country. With this event, the Turkish economy will be taking a great stride forward in the 1990s. Turkey's foreign exchange resources will increase further. The entry of foreign capital into Turkey will increase. Turkish entrepreneurs

49 Interviews with Kaya Erdem, Ekrem Pakdemirli, Hüsnü Doğan, Gazi Erçel, Ali Tigrel, Güneş Taner, and Işın Çelebi, July-August 2006.

50 Eğilmez further adds that Özal saw a connection between foreign exchange shortages and military interventions. According to this interpretation, Özal envisaged full convertibility as a solution to recurrent problems of Turkish democracy with the military forces. Such an interpretation is not unlikely, but evidence for it is difficult to find. Mahfi Eğilmez, *Light Günlük* (İstanbul: OM Yayınevi, 2001), 231-233.

51 Osman Ulagay, *Özal'ı Aşmak İçin* (İstanbul: AFA, 1988).

52 *Cumhuriyet*, August 12, 1989.

> will find better investment opportunities within the country; opportunities for foreign credit will come much more easily. Restrictions have been removed, and bureaucratic interventions have been reduced to a minimum. With this event, exportation will be conducted in a more liberal fashion.[53]

The political determination was mainly Özal's but was also shared by Güneş Taner. Immediately after Decree No. 32, Güneş Taner expressed his expectation that the decision would lead to economic revival in Turkey.[54] The Treasury Department, largely under the control of Özal and Taner, was optimistic about the consequences of capital account liberalization. For example, Selçuk Demiralp, one of the designers of the reform and later the Undersecretary of the Treasury Department, stated that the Treasury expected the capital account liberalization in 1989 to stimulate foreign savings to flow into Turkey.[55]

Unlike the liberalization reforms of January 24, 1980, the 1989 capital account liberalization was implemented without IMF pressure. The Turkish economy had no foreign exchange crisis in 1989. Furthermore, it was not in a standby agreement with the IMF. Although the OECD recommended capital account liberalization to high-level bureaucrats, such recommendations did not come as a condition for international credit arrangements. As such, the influence of international economic organization did not go beyond general recommendations.[56]

Not all organizations in the Turkish economic bureaucracy had optimistic expectations. The hesitant and cautious stance of the economic bureaucracy is articulated by Rüşdü Saraçoğlu, then Governor of the Central Bank:[57]

> It is a very important revolution for the people's liberty, but (...) we had told Mr. Turgut that we were afraid of it. We were afraid not because foreign exchange would leave the country, but because excessive foreign exchange would come. And that is what happened. All of a sudden, foreign exchange started flowing into the country, in quantities Turkey was not used to receiving in those times. When foreign exchange flows in, even if you do not supply credit to the public sec-

53 Translated from Turkish. Unless otherwise noted, all translations are mine.

54 *ANKA Economic Bulletin*, August 11, 1989.

55 Interview, August 2006.

56 Interview with Selçuk Demiralp, former Undersecretary of the Treasury Department, July 2006.

57 Quoted in Fatma Doğruel and A. Suut Doğruel, *Türkiye'de Enflasyonun Tarihi* (Ankara: TCMB, 2005), 199.

tor, the Central Bank creates money by buying foreign exchange; the creation of money thus continued.[58]

Saraçoğlu's statement shows that the Central Bank recognized some of the risks associated with capital account liberalization in 1989. The Central Bank was not alone in its apprehension. The State Planning Organization (SPO) shared a similar attitude toward capital account liberalization. For example, the head of the SPO at the time, Ali Tiğrel, emphasized that the SPO was not enthusiastic about capital account liberalization.[59]

Both Güneş Taner and Turgut Özal were dismissive of the cautionary approach of the SPO and the Central Bank.[60] Such an approach by Özal and Taner was in line with the history of financial reform in Turkey. Rather than being the outcome of a thorough and careful design, financial reforms in Turkey were embarked upon as "magic solutions" to pressing problems.[61]

In stark contrast to the enthusiasm of the government for the reforms, Turkish industrialists and their interest associations vehemently opposed the decision to fully liberalize the capital account and to further reduce import tariffs. In fact, the announcement of the economic reform package resulted in confrontation between various chambers of industry, business interest associations, and the government.

The most vocal opposition to the capital account liberalization reforms came from Cem Boyner, the president of the Turkish Industrialists' and Businessmen Association (TÜSIAD), who accused the government of lacking rationale and credibility in its economic administration.[62] Other important business associations, such as TOBB (The Union of Chambers and Commodity Exchanges of Turkey), also delivered harsh criticism of the timing of the reforms.[63] Local chambers protested with equal fervor. For example, one of the biggest chambers of industry, the Aegean Region Chamber of Industry, declared on September 3, 1989, that the removal of restrictions on capital mobility was "shocking." It stressed that the decision was premature and surprising in a contracting economy.[64]

It should be observed that the government and the economic bureaucracy were equally hostile toward industrialists and their associations.

58 Translated from Turkish.

59 Interview, July 5, 2006.

60 Interviews with Ali Tigrel and Zekeriya Yıldırım, July 2006.

61 Cizre-Sakallıoğlu and Yeldan, "Politics, Society and Financial Liberalization," 484.

62 *Cumhuriyet*, August 14, 1989.

63 *Cumhuriyet*, August 10, 1989.

64 *Cumhuriyet*, September 3, 1989.

https://doi.org/10.1017/S0896634600001692 Published online by Cambridge University Press

The Treasury Undersecretary Namık Kemal Kılıç accused Turkish businessmen of loving "to weep and whine."[65] Similarly, Prime Minister Özal issued warnings to business associations on multiple occasions following the criticisms of the economic reform package.[66] Such confrontation with the most powerful segment of the Turkish capitalists indicated the government's determination to pursue capital account liberalization, even at the expense of inflicting damage on Turkish industry.

Conclusion

This article examines the imprudent capital account liberalization that Turkish authorities implemented in 1989. Several economic, social, and political developments under Motherland Party governments during the 1980s led to the comprehensive financial opening in Turkey. The Motherland Party came to power after the 1980 military intervention, successfully exploiting the lack of political competition. Under the leadership of Turgut Özal, this political party advanced a bold liberalization reform. It nurtured big businesses and export industries while repressing workers and farmers. It relied on center-right political rhetoric, rapid economic growth, and high levels of public sector spending to build a successful political coalition.

As the leaders of the previous era returned to politics in 1987, the Motherland Party's dominant position in Turkish politics faced significant challenges. The rapid economic growth of the mid-1980s turned out to lack a solid base, and the Turkish economy became increasingly unstable in 1988. Public sector borrowing, which contributed greatly to the economic growth in the 1980s, reached an unprecedented percentage of the Turkish GDP. The result was an increasing public sector borrowing requirement in an economy with high inflation and low economic dynamism. At the same time, workers and farmers began to recover from a decade of political repression. The Motherland Party government reacted to these pressures by implementing populist policies, which further stimulated inflation and growing debt stock. It was under these conditions that the Motherland Party and Turgut Özal chose to liberalize the Turkish capital account in the hopes of relaxing restrictions on external borrowing and stimulating economic growth.

The Turkish case is an example of how financial opening due to expansionary and myopic concerns can lead to adverse consequences in the long-run. Instead of taking a cautionary approach to capital account

65 *Cumhuriyet*, August 28, 1989.

66 *Cumhuriyet*, August 15, 17, 1989.

liberalization, the Turkish authorities opted for a comprehensive liberalization that did not distinguish between different types of capital flows. The subsequent course of the Turkish economy demonstrates the substantial risks that this approach entails. The Turkish economy became dependent on external capital flows—especially the short-term variety—during the 1990s, but such dependence carried costs. Within a span of thirteen years, the Turkish economy experienced two massive financial crises that were directly linked to short-term capital flows. The 1990s was Turkey's "lost decade" largely because of the capital account liberalization in 1989.

Appendix A: List of interviews

Sümer Oral, former Minister of Finance.
Zekeriya Temizel, former Minister of Finance.
Hasan Kılavuz, former CEO of a public bank.
Osman Şıklar, former Governor of the Central Bank.
Biltekin Özdemir, former Undersecretary to the Minister of Finance.
Işın Çelebi, former Minister of Treasury.
Zekeriya Yıldırım, former Vice-President of the Central Bank.
Yavuz Canevi, former Governor of the Central Bank, former Secretary of Treasury.
Kaya Erdem, former Minister of Finance, former Vice Prime Minister.
Ekrem Pakdemirli, former Minister of Finance, former Secretary of Treasury.
Güneş Taner, former Minister of Treasury.
Selçuk Demiralp, former Secretary of Treasury.
Hikmet Uluğbay, former Minister of Treasury, former Vice Prime Minister.
Nevzat Saygılıoğlu, former Head of the Revenues Department of the Ministry of Finance.
Ali Tiğrel, former Head of the State Planning Agency.
Gazi Erçel, former Governor of the Central Bank.
Hüsnü Doğan, various ministerial positions in Motherland Party governments.

References

Abdelal, Rawi. *Capital Rules: The Construction of Global Finance.* Cambridge, MA: Harvard University Press, 2007.

Agosin, Manuel R. "Capital Inflows and Investment Performance: Chile in the 1990s." In *Capital Flows and Investment Performance: Lessons from Latin America*, edited by Ricardo Ffrench-Davis and Helmut Reisen, 111-146. Paris: OECD, 1998.

Akyüz, Yılmaz. "Financial System and Policies in Turkey in the 1980s." In *The Political Economy of Turkey: Debt, Adjustment and Sustainability*, edited by Tosun Arıcanlı and Dani Rodrik, 98-131. London: MacMillan, 1990.

Alper, C. Emre, and Ziya Öniş. "Emerging Market Crises and the IMF: Rethinking the Role of the IMF in Light of Turkey's 2000-2001 Financial Crisis." *Canadian Journal of Development Studies* 24, no. 2 (2003): 267-286.

——. "Financial Globalization, the Democratic Deficit, and Recurrent Crises in Emerging Markets: The Turkish Experience in the Aftermath of Capital Account Liberalization." *Emerging Markets Finance and Trade* 39, no. 3 (2003): 5-26.

ANKA Economic Bulletin, August 9, 1989; August 11, 1989.

Arıcanlı, Tosun. "The Political Economy of Turkey's External Debt: The Bearing of Exogenous Factors." In

The Political Economy of Turkey: Debt Adjustment and Sustainability, edited by Tosun Arıcanlı and Dani Rodrik, 230-253. London: MacMillan, 1990.

Aşıkoğlu, Yaman. "Strategic Issues in Exchange Rate Liberalization: A Critical Evaluation of the Turkish Experience." In *Economics and Politics of Turkish Liberalization*, edited by Tevfik N. Nas and Mehmet Odekon, 101-123. Cranbury, NJ: Associated University Presses, 1992.

Babb, Sarah L. *Managing Mexico: Economists from Nationalism to Neoliberalism*. Princeton, NJ: Princeton University Press, 2001.

Babb, Sarah L., and Bruce G. Carruthers. "Conditionality: Forms, Function, and History." *Annual Review of Law and Social Science* 4 (2008): 13-29.

Balkan, Erol, and Erinç Yeldan. "Turkey." In *Financial Reform in Developing Countries*, edited by Jose Fanelli and Rohinton Medhora, 129-155. New York, NY: St. Martin's Press, 1998.

Blyth, Mark. *Great Transformations: Economic Ideas and Institutional Change in the Twentieth Century*. New York, NY: Cambridge University Press, 2002.

Boratav, Korkut. "Inter-Class and Intra-Class Relations of Distribution Under 'Structural Adjustment': Turkey During the 1980s." In *The Political Economy of Turkey: Debt, Adjustment and Sustainability*, edited by Tosun Arıcanlı and Dani Rodrik, 199-229. London: MacMillan, 1990.

——. *Türkiye İktisat Tarihi: 1908-2002*. Ankara: İmge, 2003.

Boratav, Korkut, A. Erinç Yeldan, and Ahmet H. Köse. "Turkey: Globalization, Distribution and Social Policy, 1980-1998." In *External Liberalization, Economic Performance, and Social Policy*, edited by Lance Taylor, 317-363. Oxford: Oxford University Press, 2001.

Chwieroth, Jeffrey M. *Capital Ideas the IMF and the Rise of Financial Liberalization*. Princeton, NJ: Princeton University Press, 2010.

——. "Neoliberal Economists and Capital Account Liberalization in Emerging Markets." *International Organization*, no. 61 (2007): 443-463.

Cizre-Sakallıoğlu, Ümit, and Erinç Yeldan. "Politics, Society and Financial Liberalization: Turkey in the 1990s." *Development and Change* 31, no. 2 (2000): 481-508.

Cizre, Ümit, and Erinç Yeldan. "The Turkish Encounter with Neo-liberalism: Economics and Politics in the 2000/2001 Crises." *Review of International Political Economy* 12, no. 3 (2005): 387-408.

Cumhuriyet, July 7, 1989; July 8, 1989; August 10, 1989; August 12, 1989; August 14, 1989; August 15, 17, 1989; August 28, 1989; September 3, 1989; September 12, 1988.

Demir, Fırat. "A Failure Story: Politics and Financial Liberalization in Turkey, Revisiting the Revolving Door Hypothesis." *World Development* 32, no. 5 (2004): 851-869.

Doğruel, Fatma, and A. Suut Doğruel. *Türkiye'de Enflasyonun Tarihi*. Ankara: TCMB, 2005.

Eğilmez, Mahfi. *Light Günlük*. İstanbul: OM Yayınevi, 2001.

Eichengreen, Barry J. "Capital Account Liberalization: What Do Cross-Country Studies Tell Us?" *The World Bank Economic Review* 15, no. 3 (2001): 341-365.

Ergüder, Üstün. "The Motherland Party, 1983-1989." In *Political Parties and Democracy in Turkey*, edited by Metin Heper and Jacob M. Landau, 152-169. London: I.B. Tauris, 1991.

Ersel, Hasan. "The Timing of Capital Account Liberalization: The Turkish Experience." *New Perspectives on Turkey*, no. 15 (1996): 45-64.

Ffrench-Davis, Ricardo, and José Antonio Ocampo. "The Globalization of Financial Volatility: Challenges for Emerging Economies." In *Financial Crises in "Successful" Emerging Economies*, edited by Ricardo Ffrench-Davis, 1-37. Washington, DC: Brookings Institution Press, 2001.

Fourcade-Gourinchas, Marion, and Sarah L. Babb. "The Rebirth of the Liberal Creed: Paths to Neoliberalism in Four Countries." *American Journal of Sociology* 108, no. 3 (2002): 533-579.

Frieden, Jeffry A. "Invested Interests: The Politics of National Economic Policies in a World of Global Finance." *International Organization* 45, no. 4 (1991): 425-451.

Haas, Peter M. "Epistemic Communities and International Policy Coordination." *International Organization* 46, no. 1 (1992): 1-35.

Hale, William M. *The Political and Economic Development of Modern Turkey*. New York, NY: St. Martin's Press, 1981.

——. "Transition to Civilian Governments in Turkey: The Military Perspective." In *State, Democracy and the Military: Turkey in the 1980s*, edited by Metin Heper and Ahmet Evin, 159-175. New York: Walter de Gruyter, 1988.

Heper, Metin. "Interest Group Politics in Post-1980 Turkey: Lingering Monism." In *Strong State and*

Economic Interest Groups: The Post-1980 Turkish Experience, edited by Metin Heper, 163-176. Berlin: Walter de Gruyter, 1991.

İstanbul Stock Exchange. *From the Foundation of the Republic to the Present*. Vol. II, Turkish Financial History From the Ottoman Empire to the Present. İstanbul: İstanbul Stock Exchange, 1999.

Karpat, Kemal H. "Military Interventions: Army-Civilian Relations in Turkey Before and After 1980." In *State, Democracy and the Military: Turkey in the 1980s*, edited by Metin Heper and Ahmet Evin, 137-158. New York: Walter de Gruyter, 1988.

Kazdağlı, Hasan. "Özal'ın İktisadi Reformları." In *Kim Bu Özal? Siyaset, İktisat, Zihniyet*, edited by İhsan Sezal and İhsan Dağı, 443-470. İstanbul: Boyut, 2001.

Kazgan, Gülten. *Türkiye Ekonomisinde Krizler (1929-2001)*. İstanbul: Bilgi Üniversitesi Yayınları, 2005.

Kepenek, Yakup, and Nurhan Yentürk. *Türkiye Ekonomisi*. İstanbul: Remzi Kitabevi, 2000.

Keyder, Çağlar. *State and Class in Turkey: A Study in Capitalist Development*. Guildford, UK: Verso, 1987.

Kıray, Emine. "Turkish Debt and Conditionality in Historical Perspective: A Comparison of the 1980s with the 1860s." In *The Political Economy of Turkey: Debt Adjustment and Sustainability*, edited by Tosun Arıcanlı and Dani Rodrik, 254-268. London: MacMillan, 1990.

Krasner, Stephen. "The International Monetary Fund and the Third World." *International Organization* 22, no. 3 (1968): 670-688.

Lukauskas, Arvid, and Susan Minushkin. "Explaining Styles of Financial Market Opening in Chile, Mexico, South Korea, and Turkey." *International Studies Quarterly*, no. 44 (2000): 695-723.

Minushkin, Susan. "Financial Globalization, Democracy, and Economic Reform in Latin America." *Latin American Politics and Society* 46, no. 2 (2008): 151-165.

Oyan, Oğuz. *Dışa Açılma ve Mali Politikalar, Türkiye: 1980-1989*. Ankara: Verso, 1989.

Öniş, Ziya. "The Dynamics of Export Oriented Growth in a Second Generation NIC: Perspectives on the Turkish Case, 1980-1990." *New Perspectives on Turkey*, no. 9 (1993): 75-100.

——. "Globalization and Financial Blow-Ups in the Semi-Periphery: Turkey's Financial Crisis of 1994 in Retrospect." In *State and Market: The Political Economy of Turkey in Comparative Perspective*, edited by Ziya Öniş, 513-529. İstanbul: Boğaziçi University Press, 1998.

——. "Political Economy of Turkey in the 1980s: Anatomy of Unorthodox Liberalism." In *Strong State and Economic Interest Groups: The Post-1980 Turkish Experience*, edited by Metin Heper, 27-40. Berlin: Walter de Gruyter, 1991.

Özbudun, Ergün. "The Post-1980 Legal Framework for Interest Groups Associations." In *Strong State and Economic Interest Groups: The Post-1980 Turkish Experience*, edited by Metin Heper, 41-53. Berlin: Walter de Gruyter, 1991.

Pamuk, Şevket. "İthal İkamesi, Döviz Darboğazları ve Türkiye, 1947-1979." In *Krizin Gelişimi ve Türkiye'nin Alternatif Sorunu*, edited by Korkut Boratav, Çağlar Keyder and Şevket Pamuk, 36-68. Ankara: Kaynak Yayınları, 1984.

Simmons, Beth A., Frank Dobbin, and Geoffrey Garrett. "Introduction: The International Diffusion of Liberalism." *International Organization* 60, no. 4 (2006): 781-810.

Snowden, Peter N. "Financial Reform in Turkey Since 1980: Liberalization Without Stabilization." In *The Economy of Turkey Since Liberalization*, edited by Subidey Togan and V. N. Balasubramanyam, 67-87. New York: St. Martin's Press, 1996.

State Institute of Statistics. *Statistical Indicators, 1923-2002*. Ankara: State Institute of Statistics, 2003.

Stiglitz, Joseph E. "Capital-Market Liberalization, Globalization, and the IMF." *Oxford Review of Economic Policy* 20, no. 1 (2004): 57-71.

Tachau, Frank. "An Overview of Electoral Behavior: Toward Protest or Consolidation of Democracy." In *Politics, Parties, and Elections in Turkey*, edited by Sabri Sayarı and Yılmaz Esmer, 33-54. Boulder, CO: Lynne Riener, 2002.

Ulagay, Osman. *Özal'ı Aşmak İçin*. İstanbul: AFA, 1988.

Yeldan, A. Erinç. "Neoliberal Global Remedies: From Speculative-Led Growth to IMF-Led Crisis in Turkey." *Review of Radical Political Economics* 38, no. 2 (2006): 193-213.

Yeldan, Erinç A. *Küreselleşme Sürecinde Türkiye Ekonomisi: Bölüşüm, Birikim ve Büyüme*. İstanbul: İletişim Yayınları, 2001.

Yeşilada, Birol Ali. "Problems of Political Development in the Third Turkish Republic." *Polity* 21, no. 2 (1988): 345-372.