

## Editor's introduction: Turkey's experience with neoliberal policies and globalization since 1980

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The six interesting papers in this Special Issue offer new insights on and aim at an overall evaluation of Turkey's experience with neoliberal policies and globalization since 1980. The first four of these were presented and discussed in a conference organized by the Chair for Contemporary Turkish Studies at the London School of Economics and Political Science and *New Perspectives on Turkey* in October 2011. Asaf Savaş Akat, Çağlar Keyder, Dani Rodrik, Zafer Yenil and Deniz Yüksek also contributed to that conference and the lively discussion for which we thank them.

The shift to neoliberal policies around the world began in the 1970s as the Bretton Woods system was disintegrating and the developed economies on the two sides of the Atlantic Ocean were searching for policies to deal with the combination of stagnation and inflation. The Thatcher government in the UK and the Reagan administration in the US led the movement away from Keynesian interventionism and towards a greater emphasis on markets in both macro and micro economic policy. In the international economy, neoliberal policies began to reduce the barriers in the way of trade and, even more importantly, the controls on international capital flows. These changes ushered in a new era known as the second wave of globalization, after the first wave that prevailed during the century before World War I.

As the papers included in this issue emphasize, Turkey's encounter with neoliberal policies and globalization began with the policy package prepared by Turgut Özal in January 1980 in response to the severe economic crisis at the end of the import substituting era. However, the new

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policies did not follow a linear path and their implementation has been far from simple. During the following three decades, Turkey's domestic politics have hugely influenced the trajectory of neoliberal policies and the ups and downs in the opening of the economy. In order to place these six papers in a historical context, I will suggest three distinct sub-periods for studying the new era since 1980.

In the first sub-period covering 1980-87, the new economic policies aimed to replace the interventionist and inward oriented model that had prevailed in Turkey since the 1930s with one that relied more on markets and was more open to international trade and capital flows. With the help of the military regime, which reduced wages and agricultural incomes, significant increases were achieved in exports of manufactures, and imports were also liberalized during this period. The achievements of the new policies in other areas were limited, however. Some liberalization occurred in banking and finance, but little progress was achieved in privatization or in other components of what would eventually be called the Washington Consensus.

The second sub-period 1987-2001 was characterized by a great deal of political and economic instability. The repression of domestic politics during the military regime had led to fragmentation on both the right and left of the political spectrum. As a result, the 1990s witnessed rivalries between large numbers of parties and a series of short-lived coalitions. One important outcome of political instability was the loss of fiscal discipline and the sharp rise in budget deficits, leading to high rates of monetary expansion and inflation, as well as high levels of public borrowing and debt accumulation. It was during this period that the public sector began to rely increasingly on inflows of hot money which greatly increased the fragility and vulnerability of the economy to external as well domestic shocks. The process of globalization thus turned into one of the most volatile and difficult periods in the history of modern Turkey, culminating in the last and most severe of four crises in 2001.

The AKP (*Adalet ve Kalkınma Partisi*—Justice and Development Party) era constitutes the third sub-period in Turkey's experience with neoliberal policies. The economic program of 2001 prepared in the aftermath of the economic crisis differed from the earlier programs reflecting the Washington Consensus. In addition to the markets, the new program explicitly recognized the role played by institutions and independent regulating agencies. As a result, it was supported by a series of reforms and new legislation. Another key feature of this period has been the emphasis placed by the AKP on macroeconomic stability; a policy which remained in place even after the global crisis of 2008. The

economic recovery and modest high growth rates of the last decade distinguish this sub-period from the previous one, as can be seen in Table 1. The AKP's economic policies since 2001 have barely moved beyond an emphasis on economic stability, however. Despite the above-average growth rates, growth in employment has been slow, female participation in the urban economy has remained low and declining domestic savings rates have led to very large current account deficits, making higher rates of economic growth unsustainable.

There is also the issue of evaluation. One could use a variety of measures to evaluate Turkey's experience with neoliberal policies during these three decades. One could look at indicators of employment, income distribution, human development and others just as Fikret Şenses does in the first paper in this issue. Because of the limitations of space and in the absence of a better single measure, however, I will use here GDP per capita, which continues to be the most popular single indicator of economic performance, even though its problems are well known. Table 1 summarizes the rates of increase in GDP per capita during the three sub-periods since 1980. It shows clearly the sharp fluctuations in the pace of economic growth in the globalization era. I used 2002 rather than 2001 as the end of the second and the beginning of the third sub-period in order to show that the differences between the sub-periods were not due to a one-year crisis. The contrasts between the second and the other sub-periods would have been even greater if 2001 were used as the end of the second sub-period.

**Table 1: Annual rates of change in Turkey's GDP per capita (in percent)**

|           |      |
|-----------|------|
| 1980-1987 | 3.2% |
| 1987-2002 | 1.5% |
| 2002-2010 | 3.4% |
| 1980-2010 | 2.4% |

Source: TÜİK's official national income statistics.

Table 2 compares Turkey against the global long-term rates of growth in the post-World War II era until 1980 and the period of neoliberal policies and globalization since. These summary statistics show that Turkey's long-term rates of increase of GDP per capita were slightly higher than world averages and close to the averages for the developing countries in both periods. Equally importantly, while all parts of the developing world did reasonably well in the three decades before 1980,

there emerged sharp contrasts within the developing world since 1980. East and South Asia have done very well in the neoliberal era, while the Middle East, South America and Africa have lagged behind. Table 2 shows that Turkey's experience of economic growth since 1980 falls somewhere between Asia on the one hand, and the Middle East, South America and Africa, on the other.

**Table 2: Average annual growth rates of GDP per capita (in percent)**

| Countries            | 1950-1980 | 1980-2010 | Countries   | 1950-1980 | 1980-2010 |
|----------------------|-----------|-----------|-------------|-----------|-----------|
| Turkey               | 3.1%      | 2.4%      | South Korea | 5.4%      | 5.4%      |
| World                | 2.6%      | 2.0%      | China       | 2.9%      | 6.7%      |
| Western Europe       | 3.5%      | 1.5%      | India       | 1.4%      | 4.2%      |
| US                   | 2.2%      | 1.7%      | Asia        | 2.9%      | 4.7%      |
| Developing Countries | 2.7%      | 3.4%      | Middle East | 3.7%      | 1.1%      |
| South America        | 2.6%      | 0.9%      | Africa      | 1.8%      | 0.7%      |

Source: Based on Angus Maddison, *Contours of the World Economy, 1-2030 AD: Essays in Macro-Economic History*, Oxford: Oxford University Press, 2007.

The first paper by Fikret Şenses provides a comprehensive and mostly critical assessment of Turkey's economic performance since 1980. After examining the salient features of Turkish economic development by making use of the basic economic and social indicators for this period and the main fragilities and problem areas of the economy today, he concludes that, after more than three decades of uninterrupted implementation, the neoliberal model has, with the possible exception of export growth, dismally failed to fulfill its promises, and, perhaps more significantly, has failed to match the performance of the previous import substituting industrialization strategy. Şenses also emphasizes that, after decades of neoliberal policies, Turkey's economy is confronted with a number of formidable problems today.

One of the important events in Turkey's experience with neoliberal policies was the decision in 1989 to fully liberalize the capital account or open the economy to financial globalization. It has been argued ever since that this premature step greatly magnified the economic problems during the 1990s. In his paper, Kurtuluş Gemici inquires why the policymakers went ahead with this move, especially in view of the difficult macroeconomic conditions at the time. Using in-depth interviews with a significant number of key decision-makers behind capital account

liberalization and employing archival material from news sources, he concludes that the main motivation behind the capital account liberalization was to gain access to short-term funds from the rest of the world. Capital account liberalization was a policy response to decreasing rates of economic growth and the demands by organized labor and public employees for better working conditions and higher wages. Gemicci concludes that distributional conflicts and the trajectory of economic growth were important determinants of the timing and scope of capital account liberalization in Turkey.

In the last three decades, Turkey has been transformed from a closed economy subject to widespread state intervention to an economy which is much more integrated into the global economy and one in which the market mechanism plays a more prominent role in the allocation of resources. The paper by İzak Atiyas examines the changes in the underlying economic institutions that accompanied this transformation. The author asks to what extent this transformation has been accompanied by new institutions that constrain the discretionary powers of the executive in economic policy. His investigation leads to the conclusion that the first two decades of the neo-liberal era were, by and large, a period of increased discretion at the expense of rules. By contrast, in the decade since the crisis of 2001 one witnesses a substantial amount of institutional change involving the delegation of decision-making power to relatively independent agencies, and the establishment of rules that constrain the discretion of the executive. This transformation has not been uniform across sectors, however, and Atiyas observes important divergences between the *de jure* rules and their *de facto* implementation today.

The paper by Erol Taymaz and Ebru Voyvoda focuses on the restructuring of Turkish manufacturing industry in the neoliberal period. Their analysis indicates that Turkish manufacturing industry has been successful in increasing output and productivity at a respectable but not extraordinary rate and in achieving structural change in output and exports, albeit at a slow pace, from the resource-intensive sectors (agricultural products and food) in the 1970s, to low technology industries (textile and clothing) in the 1980s, and towards medium technology sectors (machinery and automotive) since the mid-1990s. At the same time, however, they argue that Turkey has been only a “successful follower” during the neoliberal period, in the sense that the structure of manufacturing output and exports has changed towards a structure of manufacturing industry which has been declining in the more developed countries. The authors also identify the absence of a comprehensive in-

dustrial policy or an influential, proactive state and the reliance on market prices alone as the key determinants of the shortcomings in Turkey's industrialization since 1980.

The paper by Mustafa Kutlay makes use of the proactive/reactive state framework to offer a comparative study of the transformation of the financial sector in Spain and Turkey during the neoliberal era. It argues that while the "proactive" policies pursued by the Spanish state and the strategic coalition established between political elites and integrationist segments of finance capital resulted in the heterodox internationalization of Spanish firms, the "reactive" state policies in Turkey led to incomplete internationalization. The paper argues that, unlike in the Spanish case, state interventions in Turkey and the business elites' reactions to these interventions did not underpin the upward restructuring of Turkish political economy. On the contrary, the reactive state policies turned out to be the main creator of ambiguity in the economy, as a result of which business groups opted for clientelistic instead of rule-based economic relations. Kutlay also emphasizes that the recent Spanish financial crisis and Turkey's regulatory success after 2001 demonstrate that the same state may be both proactive and reactive across different policy fields over time.

The last article by Merih Angın and Pınar Bedirhanoğlu focuses on a key component of neoliberal policies and studies the block sale privatizations of large-scale state enterprises by successive AKP governments in the last decade. By focusing on the apparently technical and economic aspects of the block sale processes, such as valuation, efficiency enhancement, and marketing, the authors ultimately question whether increased concerns over their transparency can be seen as attempts to conceal the substantially corrupt nature of these processes. They also argue that the changing form and content of the political struggles that shaped the privatization processes of the four large state enterprises can tell a good deal about the changing historical trends in Turkish political economy. These privatizations have also had a constitutive political impact as they have turned into ideological moments within which the capitalist market has been praised as the main legitimate regulative framework in capital-labour-state relations in Turkey.

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