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Neoliberal Populism in Turkey and Its Crisis

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Ümit Akcay

Abstract

Turkey was shown as a model country by Western capitals in the early 2000s because it successfully embraced the neoliberal economic path and “moderate Islamist” values. In the last couple of years, however, Turkey has been in a state of turmoil, which has included the failure of the so-called democratization process and a rapid rise in authoritarianism. Surprisingly, the Justice and Development Party (AKP) of Turkey has been among a few political parties worldwide which have managed to stay in office, despite implementing a neoliberal economic model since 2002. This paper suggests that the “neoliberal populism” framework can be applied to understand the seemingly contradictory dynamics of the so-called success story of the AKP. First, the paper explains the main features of the neoliberal populist model in Turkey. This model is characterized by the implementation of neoliberal austerity measures alongside the introduction of a new welfare regime and the widening of financial inclusiveness. The main result of neoliberal populism is the enfeeblement of labor movement. Second, the paper argues that once the neoliberal populist model was established, it changed the structure of the political conflict. In this new structure, power struggles have taken the form of intra-elite conflict, rather than class struggle. The paper also suggests that a recent change to the executive presidential system in Turkey should be understood in the context of a continuing power struggle among the ruling classes, one that has been unfolding since 2007.

Keywords: Neoliberal populism, financial inclusion, social inclusion, Turkey

JEL Codes: P16, I38, J38, D74, H53

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Introduction

Over the past five years, Turkey has been in a state of unceasing turmoil. It has witnessed a mass uprising at Istanbul's Taksim Gezi Park in 2013, a local election in March 2014, a presidential election in August 2014, two general elections in June and November 2015, a failed coup attempt in July 2016, the declaration of a state of emergency in that same month, and finally, the April 16, 2017 referendum, which consolidated the rule of President Recep Tayyip Erdoğan.

These events signaled nothing less than a crisis of the so-called "Turkish model," which had been in place since Erdoğan's tenure began in the early 2000s, and was once acclaimed by the Western media as a successful harmonization of moderate Islam and neoliberal policies.¹ How this model descended into crisis, and how Erdoğan managed to consolidate power, thereby salvaging his rule for the time being, is a puzzle not only for the Turkish Left, but also for progressives more generally. Only a few years ago, it seemed that his particular blend of Islam and neoliberalism was on the verge of imploding. The mass protest at Gezi Park in Istanbul threatened to topple the ruling Justice and Development Party (the AKP), and with it, Erdoğan himself. It further appeared to revitalize the moribund Left. However, this revitalization of the Left failed to materialize, popular forces soon lost steam, and the locus of opposition shifted from the streets to factions within the state. The threat to Erdoğan's power came not in the form of ongoing mass politics, but from power grabs by factions of the political elite in the form of a coup attempt. This, too, failed, and in the wake of the coup attempt in the summer of 2016, Erdoğan had not only survived all challenges, but had marginalized any apparent opposition, both within and outside of the state.

In this paper, I present an analysis of the structure of politics under Erdoğan's AKP. I propose that the key to the AKP's success in remaining in power for the last sixteen years is a result of the particular neoliberal economic policy it followed, which atomizes the working class while also securing its partial consent through a limited welfare regime. This model, which – following other

¹ Editorial, "A Turkish Success Story," *New York Times*, January 24, 2004, accessed March 22, 2017, www.nytimes.com/2004/01/28/opinion/a-turkish-success-story.html: "Under the leadership of Prime Minister Recep Tayyip Erdoğan, an Islamic politician who favors democratic pluralism, it has enacted far-reaching reforms that are intended to meet the exacting admission criteria of the European Union"; Sabrina Tavernise and Michael Slackman, "Turkey Goes From Pliable Ally to Thorn for U.S.," *New York Times*, June 8, 2010, accessed March 14, 2017, www.nytimes.com/2010/06/09/world/middleeast/09turkey.html: "Turkey is now a vibrant, competitive democracy with an economy that would rank as the sixth largest in Europe"; Editorial, "Is Turkey Turning its Back on the West?," *The Economist*, October 21, 2010, accessed March 26, 2017, <http://www.economist.com/node/17309065>: "In short, Turkey is heading in a good direction. It remains a shining (and rare) example in the Muslim world of a vibrant democracy with the rule of law and a thriving free-market economy."

analysts – I refer to as “neoliberal populism,” has managed to mute interclass conflicts, as Erdoğan intended. But it did so while exacerbating the conflict between interest groups within the ruling elite. Put another way, the main political dilemma of the AKP’s neoliberal populism is that, rather than eliminating political conflict, it has merely shifted its locus upward: from the workplace and neighborhoods to the upper echelons of the political class. Thus, power struggles have taken place in the form of intra-elite conflict, most pointedly in an attempted coup, rather than through class struggle. Explaining how this came about, and how Erdoğan overcame the threat to his power, is the focus of this essay.

Neoliberal Transformation by Dictatorship

The military coup d’état of September 12, 1980, and the rule by the military that continued until 1983, was a turning point in both the political and economic history of Turkey. On the one hand, it dealt a crushing blow to the Left; it also inaugurated a change in the national economic strategy, away from the import substitution industrialization (ISI) policy that had been in place since the 1960s to a strategy based on exports. The latter was embedded in a larger turn toward a market-based neoliberalism, pushed through by the new military regime. This included liberalization of trade and interest rates, privatization of State Economic Enterprises (SEEs), and the cutting of agricultural subsidies. Another crucial component of the new neoliberal policies was the 1989 liberalization of the capital account, which allowed free capital inflows and outflows. Along with these steps, the Turkish economy was integrated into the international financial system, and thus became open to speculative attacks from international finance capital.² The International Monetary Fund (IMF) and World Bank (WB) actively supported this program with stand-by agreements and structural adjustment packages.³

² Korkut Boratav and Erinc Yeldan, “Turkey, 1980–2000: Financial Liberalization, Macroeconomic (In)Stability, and Patterns of Distribution,” in *External Liberalization in Asia, Post-Socialist Europe, and Brazil*, ed. Lance Taylor, (Oxford New York: Oxford University Press, 2006), 417-455.

³ Irvin Cemil Schick and Ertugrul Ahmet Tonak, “The Political Economy of Quicksand: International Finance and the Foreign Debt Dimension of Turkey’s Economic Crisis,” *Critical Sociology* 10 (1981): 59-79.

One of the chief goals of this neoliberal turn was the enfeeblement of labor, which, despite the regime's efforts, was not entirely effective.⁴ Labor managed to strike back toward the end of the 1980s, and even made economic gains, as evidenced by a recovery in real wages in the early 1990s.⁵ While the 1980s was a decade of the Motherland Party's (ANAP) hegemony, the 1990s turned out to be the decade of coalition governments: governments which were still largely committed to a neoliberal agenda, though now less able to push it through. The result was a decade of chronic political instability.⁶ In the course of the 1990s, Turkey witnessed the formation of no fewer than ten coalition governments, each trying to square the neoliberal agenda with the continuing demands for redistribution, and none able to succeed. The state was thus caught in what I describe as a "structural adjustment dilemma," in which one cabinet after another fell under the combined weight of pressure from above, calling for full marketization, and the stubborn persistence of popular pressure from below, demanding a more inclusive economic agenda.

2001 Crisis as a Game Changer

The 2001 economic crisis, one of the most severe that Turkey has ever experienced, proved to be a watershed in breaking the impasse of the 1990s. In the post-crisis period, a new economic program emerged to enable a sustainable neoliberalism in line with the post-Washington Consensus framework.⁷ The key to this new policy framework was the promulgation of a series of measures that managed to politically neutralize the working class, not by military means, but through political and economic atomization. These measures enabled the new regime, led by Erdoğan and the fledgling AKP, to achieve the political stability that had eluded the governments of the preceding decade. Turkey could now push ahead with the IMF-backed economic restructuring that it had attempted in the 1990s, but only partially succeeded in implementing. Erdoğan engineered a variant of neoliberal governance that differed somewhat from the more

⁴ Korkut Boratav, "The Turkish Bourgeoisie under Neoliberalism," *Research and Policy on Turkey* 1, (2016): 1-10, 3.

⁵ Mustafa G. Dogan, "When Neoliberalism Confronts the Moral Economy of Workers: The Final Spring of Turkish Labor Unions," *European Journal of Turkish Studies*, [Online] 11, (2010), accessed April 24, 2017, <http://ejts.revues.org/4321>.

⁶ Ümit Cizre-Sakallıoğlu and Erinç Yeldan, "Politics, Society and Financial Liberalization," *Development and Change* 31, (2000): 481-508.

⁷ Ziya Öniş and Fikret Şenses, "Rethinking the Emerging Post-Washington Consensus," *Development and Change*, 36/2, (2005): 263-290.

authoritarian versions pioneered by South American dictatorships of the 1970s. While he pushed through market reforms much as the South American regimes had, he did so without wholesale political repression or restrictions on political rights. In fact, as I will show below, the state complemented privatization with a partial welfarism, which amounted to a series of measures designed to blunt the force of liberalization by providing income supports and easier credit to poor households. This policy model thus constituted a kind of *neoliberal populism*.⁸ As a result, in the 2000s, the Turkish state was more successful in achieving its goal of taming the labor movement.

Erdoğan's effort to modulate his economic liberalism was not motivated simply by a concern about labor's potential disruptive power; he also had to take note of the influence still wielded by traditional Kemalist forces within the state, and of their base of support in the secular Turkish business community. For more than four decades, these had been the core of a political bloc that had upheld the import-led development model advocated by a secularist political establishment. The first opening toward the old establishment's displacement came on the electoral front, as the economic crisis witnessed the formation of the fledgling AKP, which emerged from the political Islamist tradition in Turkey. The AKP rose to power in 2002 under Erdoğan's leadership, and in so doing, weakened the Kemalist forces within the state. The changing power balance within the state was complemented by the AKP's cultivation of a new base of support in the business community. As a political Islamist party, the AKP initially had close ties with the Independent Industrialists' and Businessmen's Association (MÜSİAD), which had an Islamic orientation. But soon after achieving power, Erdoğan established a new alliance with the more traditional association of Turkish big business: the Turkish Industry and Business Association (TÜSİAD), which had previously anchored the Kemalist forces.⁹ The motivation behind this new alliance was a joint commitment to a more thorough liberalizing agenda.

⁸ For similar cases in Latin America and Asia see: Kenneth M. Roberts, "Neoliberalism and the Transformation of Populism in Latin America: The Peruvian Case," *World Politics* 48/1, (1995): 82-116, 92; Robert R. Barr, "The Persistence of Neopopulism in Peru? From Fujimori to Toledo," *Third World Quarterly* 24/6, (2003): 1161-1178; Robert R. Barr, "Populists, Outsiders and Anti-Establishment Politics," *Party Politics* 15/1, (2009): 29-48; Renato Cruz De Castro, "The 1997 Asian Financial Crisis and the Revival of Populism/Neo-Populism in 21st Century Philippine Politics," *Asian Survey* 47/6, (2007): 930-951; Kanishka Jayasuriya and Kevin Hewison, "The Antipolitics of Good Governance," *Critical Asian Studies* 36/4, (2004): 571-590, 574; Kurt Weyland, "Neopopulism and Neoliberalism in Latin America: Unexpected Affinities," *Studies in Comparative International Development* 31/3, (1996): 3-31.

⁹ Ümit Akçay, *Para, Banka, Devlet: Merkez Bankası Bağımsızlaşmasının Ekonomi Politikası*, [Money, Bank, State: The Political Economy of the Independence of Central Bank] (İstanbul, SAV Press, 2009), 261.

Erdoğan came to power with a two-pronged power strategy to bring Turkey out of the impasse of the 1990s. First, he pushed for Turkey's accession to the European Union (EU). This was part of a strategy designed to subordinate the military to civilian — i.e., Erdoğan's — authority. Erdoğan's insistence on the EU membership was a brilliant maneuver that at once further reduced the influence of the Kemalists, while also securing a victory in the court of public opinion by presenting Erdoğan as a champion of democracy. As Isabel David observes, "Reforms aiming at complying with the Copenhagen criteria directly targeted the very heart of Kemalist power (namely the military, the judiciary, the Constitution/legal system and the Presidency) and were instrumental in securing the AKP's supremacy."¹⁰ What is more, EU reforms committed Turkey to a rule-based technocratic structure, and changing civilian-military relations to the advantage of the former.¹¹ The icing on the cake was that the apparently democratizing reforms also secured the support of liberal and left-liberal elites within Turkey, thus further stabilizing the AKP's base of support.¹²

The second pillar of Erdoğan's strategy was a push further in the direction of economic liberalization. For this, the adjustment program recommended by the IMF provided both a blueprint and political cover. The blueprint came in the form of the IMF's stand-by arrangement, the Transition to a Strong Economy, which formed the backbone of the AKP's economic policies.¹³ Erdoğan sought to follow the monetarist template of freeing the central bank from political control; in the words of Kemal Derviş, former vice president of the World Bank, who was invited to Turkey to take ministerial seat after the 2001 crisis, "Politics has highly interfered with

¹⁰ Isabel David, "Strategic Democratisation? A Guide to Understanding AKP in Power," *Journal of Contemporary European Studies* 24/4, (2016): 478-493, 482.

¹¹ İsmet Akça and Evren Balta-Paker, "Beyond Military Tutelage? Turkish Military Politics and the AKP Government" in *Debating Security in Turkey. Challenges and Changes in the Twenty-First Century*, ed. Ebru Canan-Sokullu (New York: Lexington Books, 2009), 77-92.

¹² William Hale and Ergun Özbudun, *Islamism, Democracy and Liberalism in Turkey* (London and New York: Routledge, 2010); Metin Heper, "The European Union, the Turkish Military and Democracy," *South European Society and Politics* 10/1, (2005): 33-44.

¹³ Republic of Turkey, Prime Ministry, Undersecretariat of Treasury, *Transition of the Strong Economy*, April 15, 2001, accessed May 17, 2017, <http://www.tcmb.gov.tr/wps/wcm/connect/c1e0d048-983a-4a2a-a2b5-a0c24089be91/strengteningecon.pdf?MOD=AJPERES&CACHEID=ROOTWORKSPACE-c1e0d048-983a-4a2a-a2b5-a0c24089be91-m4ucbm9>.

economics in Turkey. We must separate economics and politics... The process of the exploitation of economics by politics should be stopped”.¹⁴

But more important was the fact that Erdoğan could rely on the IMF in a variety of ways: he could present his liberalizing policy as something forced upon him by the crisis, and mandated by the IMF in return for access to emergency assistance; and he could draw upon their cadre of technocrats for their expertise and advice in the ongoing liberalizing process. This new alliance between the AKP and international technocracy was also instrumental for Erdoğan in his struggle with the old establishment in Turkey.

The 2001 crisis, the AKP’s electoral victory, Turkey’s membership negotiations with the EU, and Erdoğan’s cultivation of TÜSİAD combined to turn the balance of power away from the traditional Kemalist elite and toward the new constellation around the AKP. But this new constellation should not be viewed as a political revolution. The old forces were down, but not out. They had built up a power base within and outside of the state apparatus over the course of several decades and still wielded considerable influence. Nevertheless, the combination of the post-crisis conjuncture and Erdoğan’s maneuvering gave him enough leverage to push through a series of neoliberal reforms which had hitherto been impossible to achieve. In that sense, the 2001 crisis was a game changer. It changed the parameters of the “structural adjustment dilemma,” which had created constant economic and political instability in the 1990s.

The AKP’s Neoliberalism

Erdoğan’s adroit political maneuvers provided him the opening needed to push through the economic liberalization sought by Turkish big capital. At the core of the new wave of economic liberalization were three kinds of policies typical of economic orthodoxy: tight monetary policy, now made possible by the newly independent Central Bank; the liberalization of labor markets; and the privatization of state enterprises. This was complemented by a regime of stringent fiscal

¹⁴ Kemal Derviş, ““Siyasetle Ekonomiye Mutlaka Birbirinden Ayırmalıyız [We Should Absolutely Separate Economics and Politics],” *Milliyet Newspaper*, April 23, 2001, accessed May 5, 2017, www.milliyet.com.tr/2001/04/22/son/soneko06.html.

austerity, which successfully reduced Turkish public debt from 76.1 percent of GDP to 28.2 percent between 2001 and 2017.¹⁵

Labor reforms and the new monetary policy went hand in hand. As part of the neoliberal economic program of the AKP, the central bank inflation targeting system, which formed the monetary framework for a low-wage policy, was implemented alongside a new labor regime after 2003. One of the main features of the New Labor Act Number 4857 of 2003 was the legalization of flexible and part-time work, and subcontracting implementations.¹⁶ In this way, working conditions changed according to the requirements of international competitiveness and the demands of the big bourgeoisie of Turkey. With these new regulations, the working class's potential organizational foundations were weakened by enforcing market discipline on working class members.

A central consequence of the new labor regime was that, in addition to weakening the existing working-class organizations, it also raised the barriers to the formation of new ones.¹⁷ This was the most crucial determinant for the formation of the neoliberal populist regime. According to OECD data, trade union density in Turkey decreased from 29.1 per cent in 2001 to 6.3 per cent in 2015,¹⁸ an indicator of the AKP's successful drive against labor. Further, under the inflation targeting system, wage increases were effectively limited by the central bank's inflation target. Therefore, in terms of the management of labor, two important results of the neoliberal reforms were precarious work conditions and stagnant real wages.¹⁹

The privatizations fit into the AKP's agenda for overcoming the old establishment. As Bedirhanoglu and Yalman point out, "In accordance with the neoliberal understanding of the state, it is pretended that the state's tutelage over society will be eroded as the hold of the state over the

¹⁵ Republic of Turkey, Prime Ministry, Undersecretariat of Treasury, *General Government Debt Stock Statistics Defined By European Union*, accessed December 25, 2017, <https://www.treasury.gov.tr/public-finance-statistics>.

¹⁶ Ali Murat Özdemir and Gamze Yücesan Özdemir, "Labour Law Reform in Turkey in the 2000s: The Devil is not Just in the Detail But Also in the Legal Texts," *Economic and Industrial Democracy* 27, (2006): 311-331.

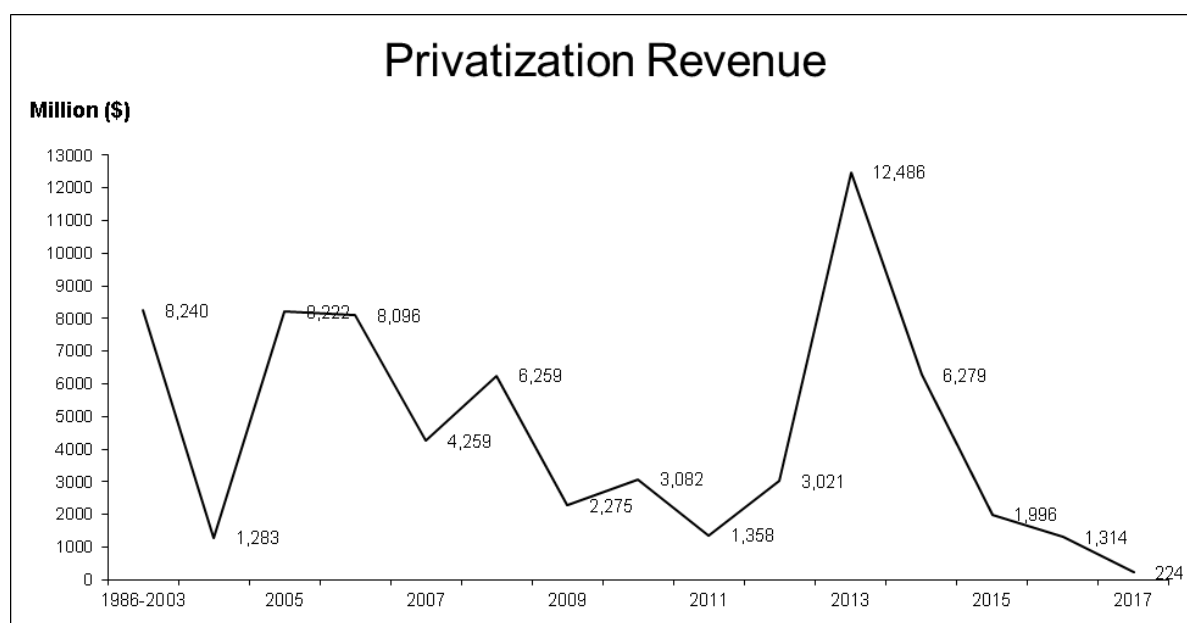
¹⁷ Aziz Çelik, "Turkey's New Labour Regime under the Justice and Development Party in the First Decade of the Twenty-First Century: Authoritarian Flexibilization," *Middle Eastern Studies* 51/4, (2015): 618-635.

¹⁸ OECD, *Employment Outlook 2017*, accessed June 22, 2017, www.keepeek.com/Digital-Asset-Management/oecd/employment/oecd-employment-outlook-2017_empl_outlook-2017-en#page15.

¹⁹ Pınar Bedirhanoglu et. al. "Comparative Perspective on Financial System in the EU, Country Report on Turkey," *Financialization, Economy, Society and Sustainable Development (FESSUD)*, (2013): 364, accessed May 17, 2017, <http://fessud.eu/>.

economy will be diminished through the policies of privatization.”²⁰ As a typical component of Washington Consensus policies, privatization not only aimed to reduce the public debt, but also to liquidate SEEs. As Graph-1 illustrates, the AKP has achieved an unprecedented level of privatization throughout the Turkish economy.

Graph-1: Privatization Revenue in Turkey (1986 – 2017)



Source: Privatization Administration of Turkey, accessed June 22, 2017, <http://www.oib.gov.tr/>

As intended, because the SEEs had been a stronghold of the labor movement, their privatization facilitated the weakening of organized labor. Moreover, products and services produced by the SEEs at lower prices became more expensive due to the re-commodification of goods and services. Both developments negatively affected the working conditions of a large majority of workers. On the one hand, privatization of the SEEs liquidated the most organized and militant parts of the trade unions. On the other hand, commodification of public goods and services, which were produced by the SEEs prior to privatization, created an extra burden on household budgets.

²⁰ Pınar Bedirhanoglu and Galip Yalman, “Neoliberal transformation in Turkey: State, class and discourse” in *Economic Transitions to Neoliberalism in Middle-Income Countries Policy Dilemmas, Crises, Mass Resistance*, ed. Alfredo Saad-Filho and Galip Yalman (London: Routledge, 2010): 107-127, 121.

The Populist Cushion

While the measures described above weakened organized labor, its power did not dissolve overnight. The decline in union density was steady, but it unfolded over the course of fifteen years, as labor was not willing to go down without a fight. Before and during the 2001 crisis, there were massive demonstrations involving craftsmen and shopkeepers. Moreover, memories of an intervention by the military into the civilian political realm, which pushed the coalition government to resign in 1997, were still fresh in the minds of the AKP's leadership.²¹ To dramatically worsen workers' economic condition in this situation would only increase the likelihood of a convergence of opposition forces, thus undermining all the political gains Erdoğan had made. Hence, a traditional neoliberal policy package, as typically witnessed in the IMF's economic restructuring measures, was deemed unwise. Neoliberal orthodoxy was thus modulated by a series of measures designed to further atomize the working class and tie its members to the regime's economic agenda.

The Expansion of Welfare

The measures to soften the blow of the austerity and privatization program involved two basic streams of policies: one consisting of redistributive welfare measures and the other aimed at entry of working-class households into financial markets. Under the previous welfare regime, workers in the informal and agricultural sectors were excluded from state-provided health, insurance, and retirement benefits. The benefits were confined mainly to workers in the formal industrial sector and to civil servants.²² The AKP pushed through measures that widened the net to cover those sections of the working class that had been hitherto excluded. There were three components to this new welfare regime.

First, health-related benefits distributed through the so-called Green Card system were significantly expanded. Originally established in 1992, the system was directed toward those sections of the population that were not covered by social security. Under the AKP, coverage was

²¹ Ümit Cizre and Menderes Çınar, "Turkey 2002: Kemalism, Islamism and Politics in the Light of the February 28 Process," *The South Atlantic Quarterly* 102/2-3, (2003): 309-332.

²² Ayşe Buğra and Ayşen Candaş, "Change and Continuity under an Eclectic Social Security Regime: The Case of Turkey," *Middle Eastern Studies* 47/3, (2011): 518.

increased so that it would cover all health-related services. Moreover, those eligible for its benefits increased from the initial 1.7 million in 1995 to 10 million in 2010.²³ Erdem Yörük argues that the distribution of Green Cards also has a political aspect, in that “Social assistance programs in Turkey are directed disproportionately to the Kurdish minority and to the Kurdish region of Turkey, especially to the internally displaced Kurds in urban and metropolitan areas.”²⁴ According to Yörük, Kurds were especially favored, not because they were poor, but because they were poor and politicized. In other words, “The Turkish government uses social assistance to contain the Kurdish unrest in Turkey.”²⁵ While the Green Card system wound down in 2012, card holders were transferred to the General Health Insurance system, also provided by the state, and continued to receive comparable health care.

The second element in the welfare measures was also related to health care: the General Health Insurance System, which replaced the previous hierarchical, three-legged health insurance system for workers, civil servants, and the self-employed. The new system not only equalized the previously existing hierarchical classification system, but also aimed provide coverage for all citizens. Once Green Card holders were transferred to the General Health Insurance System in 2012, the aim of universal coverage was achieved.

The third of the welfare measures passed by the AKP was the Conditional Cash Transfers (CCTs) program, which was also endorsed by the World Bank. As Özden and Bekmen describe it, “The programme includes the provision of monetary subsidies to targeted households living in extreme poverty, provided that they ensure their children attend school and participate in periodic health-related activities. By 2011, it was reaching approximately 10 million people per year.”²⁶ This measure was carefully designed to deepen the AKP’s electoral support among the poor.²⁷ Whereas

²³ Simten Coşar and Metin Yeğenoğlu, “The Neoliberal Restructuring of Turkey’s Social Security System,” *Monthly Review* 60/11, (2009), accessed March 22, 2017, <https://monthlyreview.org/2009/04/01/the-neoliberal-restructuring-of-turkeys-social-security-system/>.

²⁴ Erdem Yörük, “Welfare Provision as Political Containment: The Politics of Social Assistance and the Kurdish Conflict in Turkey,” *Politics & Society* 40/4, (2012): 517-547, 517.

²⁵ Yörük, “Welfare Provision as Political Containment,” 517.

²⁶ Barış Alp Özden and Ahmet Bekmen, “Rebelling against Neoliberal Populist Regimes” in *Everywhere Taksim: Sowing the Seeds for a New Turkey at Gezi*, ed. Isabel David and Kumru Toktamis (Amsterdam: University of Amsterdam Press, 2009): 89-104, 93.

²⁷ S. Erdem Aytaç, “Distributive Politics in a Multiparty System: The Conditional Cash Transfer Program in Turkey,” *Comparative Political Studies* 47/9, (2014): 1211-1237, 1219; Ali Çarkoğlu and Selim Erdem Aytaç “Who Gets Targeted for Vote-Buying? Evidence from an Augmented List Experiment in Turkey,” *European Political Science Review* 7/4, (2015): 547-566.

most such programs in neoliberal regimes are means-tested and administered through transparent guidelines, this program was handed over to the General Directorate of Social Solidarity, a state institution under the Prime Minister's office, which was given wide discretionary power over the allocation of cash transfers.²⁸ Hence, as a recent study concluded, "there is no systematic mechanism of means-testing," leaving decisions to the judgment, and hence the patronage, of the concerned officials.²⁹

These initiatives were welfarist in orientation, but with a significant neoliberal twist. They blunted the force of the market reforms, to be sure, but in a manner that kept them within the larger philosophy of the new regime. As Umut Bozkurt observed, the measures were designed to offer relief to the poorest sectors, while simultaneously eroding the idea that social support was a social obligation — welfare was to be seen as a privilege, not a right.³⁰ In tandem with the Green Card system, the CCTs program and health reform, reforms to the education system, and social services of local governments³¹ and other philanthropic-religious social-assistance networks were also complementary features of the new welfare regime.

Financial Inclusion

The second component of the new welfare regime was its incorporation of labor into the deepening financialization of the Turkish economy. The growth of the financial sector had come about in two distinct phases in Turkey. The first occurred in the 1990s, during which the state loosened the reigns on capital mobility. While this is a generic feature of neoliberalism, in Turkey, it resulted in a high and growing level of public debt, which eventually led to the 2001 crisis.³² The second phase came after the crisis, and was characterized by the growth of household indebtedness, a new

²⁸ Mine Eder, "Retreating State? Political Economy of Welfare Regime Change in Turkey," *Middle East Law and Governance* 2, (2010): 152-184, 182.

²⁹ Buğra and Candaş, "Change and Continuity," 522.

³⁰ Umut Bozkurt, "Neoliberalism with a Human Face: Making Sense of the Justice and Development Party's Neoliberal Populism in Turkey," *Science & Society* 77/3, (2013): 372-396, 384; Barış Alp Özden, "The Transformation of Social Welfare and Politics in Turkey: a Successful Convergence of Neoliberalism and Populism" in *Turkey Reframed: Constituting Neoliberal Hegemony*, ed. İsmet Akça, Ahmet Bekmen and Barış Alp Özden (London: Pluto Press, 2014): 168.

³¹ Deniz Yıldırım, "AKP ve Neoliberal Popülizm" in *AKP Kitabı: Bir Dönüşümün Bilançosu*, Ed. İlhan Uzel and Bülent Duru (Ankara: Phoenix Yayınevi, 2009): 66-107.

³² Ebru Voyvoda and Erinc Yeldan, "Managing Turkish Debt: An OLG investigation of the IMF's Fiscal Programming Model for Turkey," *Journal of Policy Modeling* 27/6, (2005): 743-765.

phenomenon in Turkey, despite the fact that the household debt to disposable income ratio was still lower than in most of the mature capitalist countries.³³ What made the turn to a debt-based consumption model especially attractive was that it had an immediate political as well as economic impact. It created a base for aggregate demand by placing money in the hands of working-class households, while also further atomizing the working class by sucking members more deeply into financial circuits.

Financial-inclusion mechanisms are various, and among the most important is the development of household debt.³⁴ During the AKP term, household debt as a percentage of GDP increased dramatically from 1.8 percent in 2002 to 19.6 percent in 2013. In other words, there was more than a tenfold increase in ten years.³⁵ Behind this rapidly rising household indebtedness was a drastic decline in working-class incomes, a predictable result of the attack on unions and wages.

Between 1990 and 2012, the share of wages in national income declined by more than 15 percent, a catastrophic fall by historic and global standards.³⁶ The extension of new credit and lending facilities to poor households was a kind of “privatized Keynesianism,” a means to achieve wage reduction while preventing a corresponding decline in consumption.³⁷ As Graph-2 illustrates, the ratio of household debt to disposable income has increased more than tenfold under AKP governments.

³³ Elif Karaçimen, “Financialization in Turkey: The Case of Consumer Debt,” *Journal of Balkan and Near Eastern Studies* 16/2, (2016): 161-180.

³⁴ Yiğit Karahanoğulları, “Neo-liberal Popülizm: 2002-2010 Kamu Maliyesi, Finans, Dış Ticaret Dengesi ve Siyaset,” [Neo-liberal Populism: Public Finance, Finance, Foreign Trade Balance, and Politics] *Toplum ve Bilim* 123, (2012): 116-145.

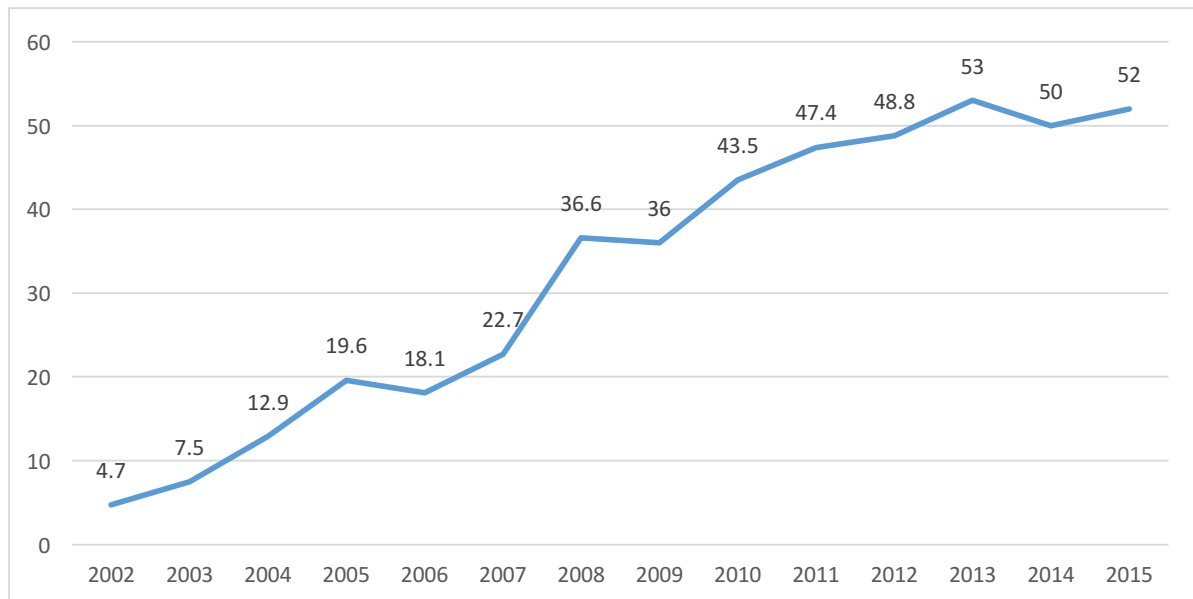
³⁵ Bank for International Settlements, “BIS Quarterly Review,” accessed June 8, 2017: https://www.bis.org/publ/qtrpdf/r_qt1609.htm.

³⁶ OECD, *The Labour Share in G20 Economies*, 2015, accessed March 14, 2017:

<https://www.oecd.org/g20/topics/employment-and-social-policy/The-Labour-Share-in-G20-Economies.pdf>.

³⁷ Colin Crouch, “Privatised Keynesianism: An Unacknowledged Policy Regime,” *The British Journal of Politics and International Relations* 11, (2009): 382-399.

Graph-2: Household Debt to Disposable Income in Turkey (2002 – 2015)



Source: Ali Rıza Güngen, “Financial Inclusion and Policy-Making: Strategy, Campaigns and Microcredit a la Turca,” *New Political Economy*, (2017): 10, <http://www.tandfonline.com/doi/full/10.1080/13563467.2017.1349091>.

What is more, financial inclusion targeted the poorest segments of the society. The number of indebted persons whose monthly income is between 0 and 1000 Turkish Lira (equal to approximately 0–275 US dollars) increased ten times between 2001 and 2013, and the number of poor and indebted households totaled 4 million people in 2013.³⁸ Thus, the mechanism of financial inclusion has aided Erdoğan’s power strategy in different ways. Integrating the poor into the market system has been both an economic tool, which has made workers more dependent on the market, and a political tool, which has created an increasing demand for political stability.

The Changing Structure of Political Conflict

Since financial tools, like consumer loans and credit cards, became popular as a part of the new policy structure in the post-2001 crisis period, the measures to extend financialization to working-class households have represented an entirely new development in the Turkish political economy.

³⁸ Prepared by the author based on the data of The Banks Association of Turkey, accessed June 22, 2017, <https://www.tbb.org.tr/en/banks-and-banking-sector-information/statistical-reports/20>.

When combined with the welfare policies described above, they served to cushion the impact of the market reforms, while also broadening the electoral base of the AKP. This combination of policies turned out to be a political success for Erdoğan, as it enabled his regime to neutralize one of the most difficult dilemmas for any developing country embarking on an export-led development model: namely, how to slow down wage growth in order to maintain the competitiveness of the country's products in foreign markets. An attack on working-class incomes is more manageable in authoritarian settings, but in the early 2000s, the AKP had positioned itself as the champion of an emerging Turkish democracy. Wage suppression in a democracy, however, is at risk of electoral backlash and hence political instability, which was precisely the problem that had bedeviled the country in the 1990s. But Erdoğan's brand of neoliberal populism seemed to achieve both of the goals that he pursued — the deepening of economic reforms and political stability.

The construction of this neoliberal populist regime had one other, perhaps unintended, effect: it shifted the axis of political conflict from a horizontal one, between capital and labor, to a vertical one, between different segments of the ruling elite. This started with the privatization campaign, which initiated a long decline in the organizational strength of the working class. The second component of the industrial relations regime, making work "flexible," triggered a shift to precarious employment, and to smaller production units relying on informal labor. As the industrial base of the economy was restructured to have a small number of large establishments on the one hand, and a vast amount of small-to-medium ones on the other, it also changed the logic of labor organization. This precarious work structure raised the cost of organization for trade unions in smaller firms, and confined possibilities for unions to organize to larger manufacturing establishments and the public sector, both bastions of more secure, formalized labor contracts. This necessarily meant that the vast bulk of the labor force would remain unorganized, and thus left to fend for itself politically and economically. Of course, this also meant that organized labor, as it was, had been driven to the point of becoming politically passive. But the financial measures and an assiduous drive to extend patronage networks into working-class neighborhoods reinforced labor's neutralization by tying individual households into the system — both by their indebtedness

and by the clientelistic ties that the AKP was fashioning on the ground. The goal of this was, as Bedirhanoglu and Yalman have suggested, “putting an end to class-based politics.”³⁹

Under these circumstances, social tensions and political conflict changed their locus and became concentrated within the upper echelons of society. It has been these conflicts within the elite that have shaped politics from the early 2000s onward. As we shall see below, it is the confinement of the political game to these narrow circles that has been the most conspicuous aspect of politics in Turkey over the past decade and a half.

The Battle Within the State

Challenges to the AKP have come in two phases, each driven by different conflicts within the political elite. The first phase witnessed an attempt at power by the Kemalist forces, who had been displaced, but (as I have argued above) by no means extinguished. While the Kemalists did pose a threat to Erdoğan, he not only emerged unscathed from their attempt at power, but managed to further marginalize the traditional elite.

The second phase started after 2012, when a slowdown in economic growth unleashed a new series of conflicts — this time inside the very core of the AKP’s support base. The first round of the battle within the state, therefore, took place between the old Kemalist establishment and the new Islamist political elite. The second round, however, occurred within the new political establishment, between the AKP and the Gülenists, and ended with the failed coup attempt in 2016. The failed coup in turn facilitated the transformation of the regime into the executive presidential system established in 2017.

The First Round: Between “Old” and “New” Turkey

The year 2007 was a turning point regarding the power balance within the state, for it marked the death knell of the remaining Kemalist forces. Weakened and marginalized by Erdoğan after 2001, they made their most ambitious attempt for political power. But it turned out to be their last gasp. The offensive was triggered by the debate over the prospective new president, which occurred

³⁹ Bedirhanoglu and Yalman, “Neoliberal transformation in Turkey,” 109.

when Ahmet Necdet Sezer, who was seen as the representative of the Kemalist elite by the AKP, finished his presidential term. The AKP wanted to nominate its own candidate for the presidency, while the old Kemalist establishment put forward its own candidate. A series of assassinations took place in the first six months of 2007. An influential Turkish-Armenian journalist, Hrant Dink, who was a part of the radical left tradition in Turkey, was assassinated on January 19, 2007.⁴⁰ Then the Zirve Publishing House in Malatya, a publisher of books on Christianity, was attacked, with three employees murdered in April 2007.⁴¹ The government claimed that these assassinations might have been organized by the “deep state” — a reference to the old guard — whose aim was to overthrow the legitimate government by creating an atmosphere of chaos.

Second, General Yaşar Büyükanıt, the chief of the general staff, expressed the Turkish Armed Forces’ (TAF) opposition to the AKP’s presidential candidate, Abdullah Gül, with an e-memorandum posted on the general staff’s website. The e-memorandum stated that “The problem that emerged in the presidential election process is focused on arguments over secularism. Turkish Armed Forces are concerned about the recent situation. It should not be forgotten that the Turkish Armed Forces are a party in those arguments, and absolute defender of secularism.”⁴² However, the attempt of the military bureaucracy to prevent Gül’s presidency was averted by the AKP.⁴³

Third, pro-secular mass demonstrations took place during this first round of the battle within the state. Leading Kemalist associations (e.g., Atatürkçü Düşünce Derneği) organized a series of large rallies, called Republican Meetings, just after the general staff’s e-memorandum appeared.⁴⁴ Kemalists argued that the election of a political Islamist as president would seriously undermine the foundations of the secular republic, and tried to prevent it from happening.

Erdoğan and the AKP responded with a combined electoral and social strategy. First, Erdoğan called for snap elections and won a clear victory, increasing the AKP’s vote from 34.3 percent in

⁴⁰ BBC, “Turkish-Armenian Writer Shot Dead,” January 17, 2007, accessed March 9, 2017, <http://news.bbc.co.uk/2/hi/europe/6279241.stm>.

⁴¹ Nick Birch, “Three Murdered at Turkish Bible Publishing House,” *The Guardian*, April 19, 2007, accessed April 28, 2017, <https://www.theguardian.com/world/2007/apr/19/turkey.international>.

⁴² BBC, “Excerpts of Turkish Army Statement,” April 28, 2007, accessed May 14, 2017, <http://news.bbc.co.uk/2/hi/europe/6602775.stm>.

⁴³ Umit Cizre and Joshua Walker, “Conceiving the New Turkey after Ergenekon,” *The International Spectator: Italian Journal of International Affairs* 45/1, (2010): 89-98.

⁴⁴ BBC, “Huge Rally for Turkish Secularism,” April 29, 2007, accessed May 14, 2017, <http://news.bbc.co.uk/2/hi/europe/6604643.stm>.

2002 to 46.6 percent in 2007. Then he capitalized on his momentum by also calling for a referendum on changing the presidential election process.⁴⁵ The referendum results revealed support for the AKP, with a 69 percent voting in favor of reforming the presidential election process. During both the general election and the referendum campaigns, the AKP managed to use the secularists' attacks to promote its populist propaganda. The party had adroitly employed the classical populist argument of "elites versus people", also used previously in its first governing period, by claiming that secular elites were able to sustain their power over civilian politics through the tutelage system. The AKP continued this populist strategy during the presidential election and claimed that the Kemalist elites attempted to prevent the true representatives of people, the AKP, from governing the state by threatening the incumbent party with a new military intervention. In the end, the AKP's presidential candidate Abdullah Gül became the eleventh president of the Republic of Turkey, signifying a clear victory of the AKP in the first round of the battle within the state.

This was just the first round of the showdown with the Kemalists, though it ended with a decisive victory for Erdoğan. The final round came in 2009, when the Chief Prosecutor filed a closure case against the AKP based on the accusation that the AKP "had become a focal point of anti-secular activities."⁴⁶ The Constitutional Court was regarded as the guardian of the Kemalist republic. Based on Court rulings, many anti-establishment parties, such as the Kurdish, political Islamist, and socialist parties had previously been excluded from the political scene. The Court, therefore, with its Kemalist tendencies, made a final move against the AKP. However, even though six of the eleven judges voted in favor of the closure, the required majority of seven was not reached and the gambit failed. As a result, the final attempt of the Kemalist establishment was unsuccessful. In the wake of this victory, the AKP now moved to expunge the Constitutional Court of the Kemalists once and for all.⁴⁷ With a 58 percent "yes" vote for constitutional amendments that allowed the government to appoint new judges to the Constitutional Court and other high judiciary posts, the judicial system was no longer a Kemalist stronghold.

⁴⁵ Dinç Şahin, "A Symptomatic Analysis of the Justice and Development Party's Populism in Turkey, 2007–2010," *Government and Opposition* 47/4, (2012): 618-640.

⁴⁶ Ergun Özbudun, "Turkey's Constitutional Reform and the 2010 Constitutional Referendum," *Mediterranean Politics* (2011): 193, accessed May 18, 2017, www.iemed.org/observatori-en/arees-danalisi/arxius-adjunts/anuari/med.2011/Ozbudun_en.pdf.

⁴⁷ Özbudun, "Turkey's Constitutional Reform," 193.

Challenges for Erdoğan's Power Strategy

The AKP's brand of neoliberalism has depended on the continuation of Turkey's strong economic growth. During Erdoğan's first term, from 2002 to 2007, the economy remained relatively strong, which continued under AKP governments until 2012, despite being impacted by the effects of the global financial crisis of 2008–2009. In the post-2012 period, though, there was a slowdown, with the economic growth rate decreasing by an average of 3.4 percent between 2012 and 2016.⁴⁸

Stagnant economic performance began to threaten the sustainability of the social and financial-inclusion mechanisms, which were the main factors that had brought about political stability. More importantly, economic slowdown diminished the AKP's coalition-forming capacity among the ruling classes, where any political and economic problems tended to have more negative effects on political stability. Almost all of the critical incidents in recent Turkish history, such as the Gezi Park uprising, the 2015 election setback for the AKP, the failed coup attempt, and the 2017 change of regime have taken place in the period of economic slowdown since 2012.

One of the main international components of the deceleration of economic growth in Turkey has been related to the developments in the US economy in the context of the policy response of the US to the 2008 financial crisis. After former US Federal Reserve chairman Ben Bernanke announced that the Fed would scale back its easy money policy, alongside an interest rate hike,⁴⁹ much of the Global South witnessed significant outflows of capital as investors once again flocked to American markets. Turkey was no exception, and this had considerable importance for Erdoğan's political fate. He had benefited greatly from the boost in growth rates caused by an inflow of capital during his first years, while he was battling the Kemalist establishment. But now,

⁴⁸ Calculated by using the old GDP data of the Turkish Statistical Institution (TUIK), December 10, 2017, <http://www.turkstat.gov.tr/PreHaberBultenleri.do?id=21512>. I would like to highlight that in December 2016, TUIK announced a new GDP dataset that was generated by using a modified calculation method compared to ones used to generate the previous datasets. As a result, there are major differences between the old and the new GDP series, and it is hardly possible to explain these differences by using justified statistical techniques. Therefore, I prefer to use the old GDP series to avoid TUIK's manipulation attempt of the official data. For the discussion on TUIK's GDP revision, see: Mustafa Sönmez, "How Turkey Used Math to Drastically Boost its Economy," *Al-Monitor*, December 20, 2016, <https://www.al-monitor.com/pulse/originals/2016/12/turkey-how-turks-became-richer-overnight.html>; Erik Mayersson, "Constructing growth in New Turkey," December 29, 2016, <https://erikmeyersson.com/2016/12/29/constructing-growth-in-new-turkey/>.

⁴⁹ Ben S. Bernanke, "The Economic Outlook," *Board of Governors of the Federal Reserve System*, May 22, 2013, accessed May 19, 2017, <https://www.federalreserve.gov/newsevents/testimony/bernanke20130522a.htm>.

as money streamed out of the country and towards American markets, it put downward pressure on domestic growth, which narrowed his support as the second round of battles within the elite unfolded.

The Second Round: Crisis of the “New” Turkey

With the Kemalists no longer a threat, Erdoğan thought the political terrain was now under his control. But very quickly, a new challenge emerged in the form of the Gülenists, which reached its climax with the attempted coup on July 15, 2016. The failed coup attempt was part of the second round of the battle within the state. The Gülenists are members of an influential Islamist organization led by Fethullah Gülen, a Turkish cleric who has lived in the US since 1999. The Gülen organization flourished after the military coup of 1980, increasing their presence in and influence on the education and media sectors in Turkey. The Gülen organization has also opened private schools in more than one hundred countries around the world.⁵⁰ They have attempted to increase their support within key state institutions such as the military, police, intelligence services, and the judiciary. As mentioned above, during the first round of the battle within the state, the AKP and the Gülenists managed to form a successful alliance against the Kemalist establishment, which was called the “Old Turkey” by Erdoğan. However, once Kemalists were marginalized in the state apparatus, specifically in the TAF and the judicial system, the vacuum was filled by the Gülenists. As a result, the Gülenists became the most influential actor within the military, constituting more than half of the high-ranking generals and occupying nearly all of the crucial positions in the army.⁵¹ Hence, one can argue that the unintended consequence of the elimination of the Kemalists, for the AKP, was the increase in power of the Gülenists over crucial state

⁵⁰ Paul Alexander, “Turkey on Diplomatic Push to Close Schools Linked to Influential Cleric,” *Voice of America*, September 1, 2017, accessed on December 18, 2017, <https://www.voanews.com/a/turkey-erdogan-gulen-schools/4010073.html>.

⁵¹ Ahmet Zeki Üçok, a former Turkish military judge imprisoned following his investigation into Gülen's infiltration within the Turkish military, claimed that “almost all of the military personnel chiefs, almost all of the intelligence chiefs and 72 percent of the military judicial staff were members of this group”; Firat Kozok, “Gülen Infiltrated Turkey’s Military for Decades, Üçok Says,” *Bloomberg News*, August 2, 2016, accessed May 7, 2017, <https://www.bloomberg.com/news/articles/2016-08-02/gulen-infiltrated-turkey-military-for-decades-prosecutor-says>.

institutions. In the end, this hegemony of the Gülenists over these institutions boomeranged, hitting Erdoğan hard in 2016.

The second round of the battle within the state, between the Gülenists and the AKP — the two prominent components of “New Turkey’s” political scene — began immediately after the 2010 referendum, when the marginalization of the Kemalists from the judiciary was completed.⁵² Even though the AKP shared with the Gülenists an anti-secular social agenda, the two groups remained at loggerheads on several other key issues.⁵³ First, the Gülenist movement favored closer ties to Israel, while the AKP opposed this policy for fear that it would alienate those sections of its social base committed to political Islam. The divergence on this issue first surfaced in May 2010, with Israel’s raid on the *Mavi Marmara* aid flotilla. The Gülen movement openly criticized Erdoğan for being responsible for the loss of civilian lives, opening a breach between the two forces. The Arab Spring revealed further tensions between the two groups. The AKP viewed the uprisings as an opportunity to gain geopolitical influence in these regions, aligning itself broadly with the Muslim Brotherhood. This portended a significant shift in focus, signaling a turn away from the West as Turkey’s major regional ally. In contrast, the Gülenists pressed for the continuation of Turkey’s alignment with the American-led alliance system.

Finally, the two forces split on the Kurdish question, in particular, the AKP’s “peace initiative.” The Gülen movement had a more nationalistic position on the Kurdish question, and was against any overtures on Turkey’s part to the Kurdistan Workers’ Party (PKK), an outlawed, armed Kurdish organization. As an electoral party, the AKP took a more pragmatic stance, viewing the payoff in terms of Kurdish votes as sufficient enticement to pursue negotiations. Tensions on the issue escalated with an investigation of the National Intelligence Organization (MIT) on February

⁵² Ergun Özbudun, “Turkey’s Judiciary and the Drift toward Competitive Authoritarianism,” *The International Spectator* 50/2, (2015): 42-55, 47.

⁵³ In addition to these two policy areas, Erik Meyersson argues that sidelining of Gülenists from public procurements might be another factor for escalation of conflict between two actors. For Meyersson’s argument, see: Erik Meyersson, “Has the AKP facilitated cronyism through public procurement reforms in Turkey?,” *Erik Meyersson Blog*, March 31, 2016, accessed December 20, 2017, <https://erikmeyersson.com/2016/03/31/has-the-akp-facilitated-cronism-through-public-procurement-reforms/>. However, I argue that exclusion of Gülenists from public procurements was part of the broader power struggle between two actors. Thus, the ultimate aim of gaining full control over the state institutions, precisely after marginalization of the Kemalist forces, was at the core of the struggle between the AKP and the Gülen movement.

7, 2012, initiated by Gülenist prosecutors, who attempted to arrest Hakan Fidan, head of the MIT.⁵⁴ Although this attempt was directly prevented by Erdoğan, the incident demonstrated the clear differences between the two parties on the Kurdish question.⁵⁵

One of the most effective attacks during this AKP-Gülenist battle came from the Gülenists in 2013. Deplorable corruption allegations against four ministers of the AKP government, dubbed the “17–25 December 2013 events,” were conducted by Gülenist prosecutors shortly after the *dershane* crisis. The Gülenist prosecutors revealed a bribery scheme that included Erdoğan and his family along with four of his ministers. Prosecutors also claimed that the bribery scheme was designed to facilitate a gold trade to evade the US sanctions against Iran, and in doing so, aimed to make the court case an international issue. The timing of the allegations was crucial. The Gülenist prosecutors launched these bribery investigations against the AKP, and Erdoğan’s close circle, just four months after the Gezi Park protests, which undermined the AKP’s credibility, especially in Western capitals. Thus, the 17–25 December 2013 court cases were the first direct attempts by the Gülen movement to topple the AKP, and a turning point in the relations between Erdoğan and the Gülenists. Erdoğan saw the allegations as a “juridical coup.” He responded to them by accusing the Gülen movement of forming a “parallel state structure,” and dismissed Gülenist prosecutors and police officials. Nevertheless, the allegations forced him to sacrifice four of his ministers.⁵⁶

The tensions built up throughout the recurring clashes, which finally erupted on July 15, 2016, in the failed coup attempt by the Gülenist wing of the TAF. The president called on his supporters to rally in the public squares of all major cities to resist the coup, and the attempt failed within twelve hours. Although public resistance was important to thwarting the coup, the real struggle took place *within* the TAF, between Gülenists and nationalists.

After the initial shock on the very night of the coup attempt, Erdoğan called it “a gift from God,” as he viewed it as an ideal pretext to initiate a long-prepared change from a parliamentary system

⁵⁴ Umut Uras, “Turkish probe marks AKP- Gülen power struggle,” *Al Jazeera*, December 24, 2013, accessed December 14, 2017, <http://www.aljazeera.com/indepth/features/2013/12/turkish-probe-marks-akp-gulen-power-struggle-2013122473646994231.html>.

⁵⁵ Cihan Tuğal, “Towards the End of a Dream? The Erdoğan-Gülen Fallout and Islamic Liberalism’s Descent,” *Jadaliyya*, December 22, 2013, accessed December 12, 2017, <http://www.jadaliyya.com/Details/29981/Towards-the-End-of-a-Dream-The-Erdogan-Gulen-Fallout-and-Islamic-Liberalism's-Descent>.

⁵⁶ Dexter Filkins, “Turkey’s Thirty-Year Coup,” *The New Yorker*, October 17, 2016, accessed December 10, 2017, <https://www.newyorker.com/magazine/2016/10/17/turkeys-thirty-year-coup>.

to an executive presidency.⁵⁷ Erdoğan launched this new strategy by declaring a state of emergency on July 20, 2016, initially limited to three months, but which has been extended right up until the present (February 2018).⁵⁸ Under the state of emergency, Erdoğan's main strategy has been to silence all opposition, including the third largest political party in the parliament (Peoples' Democratic Party, or the HDP), which represents an alliance between the democratic Kurdish movement and the Turkish left, while centralizing all power around himself. During this state of emergency, the co-presidents of the HDP, Selahattin Demirtaş and Figen Yüksekdağ, more than ten members of parliament, and almost all HDP mayors have been arrested.

Erdoğan's desire to change Turkey's political regime from a parliamentary to a presidential system materialized with the help of the Nationalist Movement Party (MHP), whose leader, Devlet Bahçeli, called for changing Erdoğan's de facto super-presidency authorities to de jure status.⁵⁹ To effect this change, a referendum on transforming the parliamentary regime into an executive presidential system took place in April 2017. As already mentioned, this resulted in a victory for Erdoğan. However, despite Erdoğan's political victory, the battle within the state, between Erdoğan and the Gülenists, hit the Turkish economy hard.

On the Verge of Collapse

In the wake of the failed coup attempt, the Turkish economy experienced an economic contraction in the third quarter of 2016, the first time this had occurred since 2009.⁶⁰ In addition, international credit-rating agencies lowered Turkey's rating, triggering a collapse of the national currency, the Turkish Lira (TL), in 2016. The collapse of the currency resulted in increasing inflation amid a slowdown of economic growth. This result was inevitable given the structure of the Turkish

⁵⁷ Marc Champion, "Coups Were 'Gift From God' for Erdoğan Planning a New Turkey," *Bloomberg News*, July 18, 2016, accessed May 5, 2017, <https://www.bloomberg.com/news/articles/2016-07-17/coup-was-a-gift-from-god-says-erdogan-who-plans-a-new-turkey>.

⁵⁸ BBC, "Turkey Coup Attempt: State of Emergency Announced," July 21, 2016, accessed May 8, 2017, www.bbc.com/news/world-europe-36852080.

⁵⁹ Reuters, "Turkey Could Hold Referendum on Presidential System by Spring," October 14, 2016, accessed May 8, 2017, <https://www.reuters.com/article/us-turkey-politics-referendum/turkey-could-hold-referendum-on-presidential-system-by-spring-minister-idUSKBN12E0L4>.

⁶⁰ Turkish Statistical Institute, *Quarterly Gross Domestic Product, III. Quarter: July-September 2016*, December 12, 2016, accessed June 2, 2017, <http://www.turkstat.gov.tr/PreHaberBultenleri.do?id=21513>.

economy, which is highly dependent on imports, given that the industrial structure relies on imported intermediate and capital goods to sustain its growth rate and enhance its ability to export.

Moreover, the expansion of consumer loans, which has been one of the main mechanisms of the neoliberal populism of the AKP, came to an end in 2016. According to the Turkish Banking Association, the rate of expansion of consumer loans has ended in real terms.⁶¹ There was a restructuring of credit card debt in September 2016.⁶² Although it was focused on consumer loans, industrialists were demanding a general debt restructuring for commercial loans as well. The government announced that there will be a partial debt restructuring for the commercial loans, too.

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Had the slowing trend of economic growth continued in 2017, the neoliberal populism of the AKP would have faced the first serious challenge to its sustainability. Particularly, slowing trend in consumer loans and mortgages would have been deadly for Erdoğan's electoral prospects. Under these circumstances, the economic bureaucracy and the central bank of Turkey encountered a serious dilemma.⁶⁴ While net reserves of the Central Bank of the Republic of Turkey (TCMB) were not enough to stabilize the TL, Erdoğan has opposed raising interest rate out of concern for economic growth. The Turkish economy, in short, was on the verge of slipping into a severe economic crisis at the end of 2016, just prior to the April 2017 referendum on the change to an executive presidency.

⁶¹ Business HT, "Kredi Büyümesine 'Darbe Girişimi' Freni [Credit Expansion Brake by the 'Coups Attempt]," November 16, 2016, accessed June 2, 2017, <http://www.businessht.com.tr/ekonomi/haber/1324559-bankalar-birliginden-aciklama-kredi-buyumesi-durma-noktasina-geldi>.

⁶² Ali Rıza Güngen, "Borç Yapılandırma ve Taksit Düzenlemeleri: Neden Şimdi? [Debt Restructuring and Installments Regulations: Why Now?]," *Kriz Notları*, November 1, 2016, accessed June 2, 2017, <http://kriznotlari.blogspot.com.tr/2016/11/borc-yapilandirma-ve-taksit-duzenlemeleri.html>.

⁶³ Ümit Akçay, "Genel Borç Yapılandırılmasına Doğru [Towards a General Debt Restructuring]," *Gazete Duvar*, November 7, 2016, accessed June 2, 2017, <https://www.gazeteduvar.com.tr/yazarlar/2016/11/07/genel-borc-yapilandirilmasina-dogru/>.

⁶⁴ On the one hand, if the central bank decided to increase policy rate to prevent further depreciation of TL, economic growth might have been negatively affected. On the other hand, if the central bank decided against increasing the interest rate, then, TL might have been depreciated further. The latter would have created a possibility of insolvency of private firms and of a further increase in inflation. The main reason for this dilemma was the dependence of the Turkish economy on the international capital inflows.

Escape to the Future!

The government responded quickly to the threat of economic recession with a new strategy, what I call an “escape to the future.” For Erdoğan, “the future” was clearly the April 2017 referendum. The aim of the new strategy was containing the negative effects of the economic slowdown and preventing those effects from spreading to the daily life of the people. There have been three components to this strategy: (i) socializing firms’ losses with state guarantees and the bailing out of bankrupt businesses; (ii) stabilizing the national currency; (iii) boosting consumer and commercial loans.

The first component of this strategy aimed to prevent bankruptcies, especially among small and medium size enterprises. For this, the State Guarantee Fund was established, which provided collateral for firms that were not able to gain access to the banking system as a result of a negative credit score. Then, with the help of the Fund, 73 billion US dollars of fresh loans (almost 10 percent of Turkey’s GDP) were made available to those firms which were desperately in need of new loans in order to survive.⁶⁵ In this way, roughly 30,000 firms have been rescued from bankruptcy.⁶⁶ Tax rebates and additional investment incentives were part of this first component of the “escape to the future” strategy.

The second component has been the stabilization of the national currency. This component is especially crucial in order for other elements of the strategy to be successful, because rapid currency depreciation is a red flag for the Turkish economy, which was already burdened by a large current account deficit. The stabilization process has taken place in an unusual way. The TCMB chose to use the Late Liquidity Window (LLW), instead of the interbank channel, to fund the money market and increase the effective policy rate (the Weighted Average Funding Cost of Central Bank Funding) from 7.73 to 11.95 percent. This rise in the effective policy rate occurred between October 5, 2016 and June 23, 2017.⁶⁷ In addition to this rise in the policy rate, a rapid increase of capital inflows to the Turkish economy, parallel to other emerging markets, in the first

⁶⁵ Mehul Srivastava “Turkey creates \$73 billion fund for businesses”, December 8, 2016, *Financial Times*, accessed June 6, 2017, <https://www.ft.com/content/5a948f66-5c9f-3a8e-bb0b-9c9e8819c963?mhq5j=e3>.

⁶⁶ Gazete Duvar, *Yıldırım: Bunu Yapmasak 30 bin Sanayici Göçmüştü* [Yıldırım: Had We Not Done This, 30.000 Industrialists Would Go Bankrupt], June 22, 2017, accessed June 23, 2017, <https://www.gazeteduvar.com.tr/ekonomi/2017/06/21/yildirim-bunu-yapmasak-30-bin-sanayici-gocmustu/>.

⁶⁷ CBRT, *Weighted Average Funding Cost of the CBRT Funding*, accessed June 23, 2017, https://evds2.tcmb.gov.tr/index.php?/evds/serieMarket/#collapse_18.

half of 2017 eased the pressure on the TL. However, despite the fact that the national currency has stabilized at around 3.5 TL against the US dollar, over the last year (between June 23, 2016 and 2017) the TL has been the most depreciated currency among the top twenty traded currencies, showing a decline of 18.8 percent.⁶⁸

The third component has been the easing of credit conditions for both households and companies. As mentioned above, the expansion rate of consumer loans ended in real terms in the second half of 2016. Nevertheless, as the state has actively encouraged the banks to provide easier access to credit, in turn, there was an increase in the total loan growth rate from 7 to 22 percent between October 2016 and June 2017.⁶⁹

As a result of this three-sided stimulation package, Turkey's economic growth rate increased to 5 percent in the first quarter of 2017 and economic activity recovered temporarily. In fact, this recovery brought about the majority vote for a change in the political regime in the April 2017 referendum. The "yes" vote for the executive presidential regime was 51.4 percent. Thus, the first step of Erdoğan's "escape" strategy was successful.

However, the vote in favor of regime change didn't mean that Erdoğan was able to establish full control over the state institutions; rather, it only postponed the current political crisis. After the referendum, Erdoğan was forced to form a new alliance with nationalists in order to fill the personnel vacuum left by the elimination of the Gülenists from the state bureaucracy. Nationalism has itself been the main ideological bond holding the new coalition between Erdoğan and nationalists together. The nationalist front under the leadership of Erdoğan has been formed on the basis of exclusion of the democratic Kurdish parties from Turkey's parliament and preventing the possibility of any autonomous Kurdish-dominated cantons being formed in northern Syria.

Thus, one can argue that the battle within the state has not ended with Erdoğan's apparently decisive triumph. Indeed, the 2019 presidential election will be the arena for the final round of power struggles between the ruling classes. In approaching the 2019 elections (local,

⁶⁸ Eshe Nelson, "The British Pound isn't the World's Worst Currency," *Quartz*, June 23, 2017, accessed June 25, 2017, <https://qz.com/1013172/brexit-anniversary-the-british-pound-isnt-the-worst-performing-currency-in-the-one-year-since-the-vote-but-its-close/>.

⁶⁹ Aslı Kandemir, "Why Erdoğan Is Flooding Turkey's Economy with Credit", *Bloomberg Businessweek*, June 22, 2017, accessed June 25, <https://www.bloomberg.com/news/articles/2017-06-22/why-erdogan-is-flooding-turkey-s-economy-with-credit>.

parliamentary, and presidential), the continuation of Erdoğan's neoliberal populist model has already encountered its first most serious challenge in 2016: the sustainability of a high economic growth rate. The observed recovery in economic growth in 2017 was temporary. The financial sector has reached the limits of credit expansion (i.e., the ratio of bank loans to deposits reached 150 percent in June 2017),⁷⁰ which in turn has created pressure on interest rates to rise, while public borrowing needs have increased rapidly during the implementation of the "escape" strategy.⁷¹ In other words, the "escape" strategy substituted increased public expenditures for a decline of international inflows in order to sustain the neoliberal populist model.

As the 2019 elections approach, economic stagnation will still be one of the biggest threats Erdoğan faces. There are two options for the AKP. First, because the economic problems make the "populist" part of the model unsustainable, the AKP may find that it must reduce social-assistance expenditures and implement the bitter pill of austerity. Alternatively, it can keep the populist component of the model intact while pushing the limits of the neoliberal model toward more developmental-oriented policies. Taking the rhetoric of the AKP and Erdoğan into consideration, they seemed to have preferred the latter since 2012, despite the fact that, in practice, they have been determined to implement the neoliberal populist model. Hence, the level of the economic difficulties facing Turkey will most likely determine the choice Erdoğan will make about Turkey's economic model.

Conclusion

AKP governments have been characterized by their implementation of standard neoliberal austerity measures as an economic model since the early 2000s. Despite this, the AKP has stayed in office and enjoyed large electoral support. I suggest that an analysis that applies the neoliberal populism framework to this case can be useful to comprehend the seemingly contradictory dynamics of the success story of the AKP. Similar to cases in Latin America, the AKP has employed social-assistance programs to avoid possible discontent stemming from the implementation of neoliberal austerity policies. In addition, financialization of the Turkish

⁷⁰ Kandemir, "Why Erdoğan Is Flooding Turkey's Economy with Credit."

⁷¹ Mustafa Sönmez, "Treasury Borrowing Aggravates Turkey's Interest Rate Woes," *Al-Monitor*, June 28, 2017, accessed June 29, 2017, <https://www.al-monitor.com/pulse/originals/2017/06/turkey-government-pressure-on-banks-lower-interest-rate.html>.

economy, especially in its current phase, has created additional support for the AKP by making consumer loans available to the poor. Therefore, the new welfare regime and greater financial inclusiveness have constituted the two sides of the AKP's populist cushion to neoliberal reforms.

I argue that once the neoliberal populism of Erdoğan was established, not only did organized labor become disempowered, but its capacity to organize dramatically decreased. In this context, Erdoğan's Turkey has an authoritarian nature, not only because he collected power into his own hands, but also because his neoliberal populist power strategy has depended on the exclusion of labor from the decision-making process. On this basis, I contend that once neoliberal populism was formed, the power struggles among the ruling classes became more prominent in politics. Grounded in these points, I suggest that a recent change to the executive presidential system in Turkey should be understood in the context of a continuing power struggle among the ruling classes, one that has been unfolding since 2007.

Finally, the enduring nature of the neoliberal populism of the AKP has been based on the continuation of economic growth. Since 2012, the power struggle among the ruling classes has intensified under the circumstances of a significant slowdown of economic growth, which in turn has made the political and economic system more unstable. Thus, the direction of Turkey's economy will be the determining factor in the final battle within the state during the 2019 elections.

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