

Öniş, Ziya; Güven, Ali Burak

Working Paper

Global crisis, national responses: the political economy of Turkish exceptionalism

Working Paper, No. 1013

Provided in Cooperation with:

Koç University - TÜSİAD Economic Research Forum, Istanbul

Suggested Citation: Öniş, Ziya; Güven, Ali Burak (2010) : Global crisis, national responses: the political economy of Turkish exceptionalism, Working Paper, No. 1013, TÜSİAD-Koç University Economic Research Forum, Istanbul

This Version is available at:

<https://hdl.handle.net/10419/45417>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

TÜSİAD-KOÇ UNIVERSITY ECONOMIC RESEARCH FORUM
WORKING PAPER SERIES

GLOBAL CRISIS, NATIONAL RESPONSES:
THE POLITICAL ECONOMY OF TURKISH EXCEPTIONALISM

Ziya Öniş
Ali Burak Güven

Working Paper 1013
April 2010
http://www.ku.edu.tr/ku/images/EAF/erf_wp_1013.pdf

Global Crisis, National Responses: The Political Economy of Turkish Exceptionalism

Ziya Öniş and Ali Burak Güven*

With its dilatory and piecemeal fiscal activism and uncharacteristic reluctance toward IMF assistance, the Turkish government's response to the global economic crisis of 2008-2009 sharply contrasted the bold approaches adopted by other major emerging market countries. Underlying this policy exceptionalism were the constraints posed by Turkey's pre-existing policy and macroeconomic constraints, cognitive failures on the part of policymakers, and the conjunctural dynamics of domestic politics. The interplay of these factors progressively narrowed the policy space for vigorous action, leading instead to a motley combination of reactive initiatives that neither offered sufficient protection to the most vulnerable social groups during the crisis nor promised sustainable growth in the long run.

Keywords: global economic crisis; fiscal stimulus; IMF; emerging markets; Turkey

1. Introduction

When Prime Minister Erdoğan claimed the global crisis would “pass tangent to” Turkey, most observers took it as a routine political gesture to defuse market anxiety at a time of extreme uncertainty. Few could have imagined this sanguine remark, coming a mere four weeks after the collapse of Lehman Brothers, to earnestly express government confidence in the shock-absorbance of an already cooling off Turkish economy, now facing the severest emergency of the postwar international economic order. But Turkish policymakers proved sincere in their optimism. By March 2009, six months into the crisis and despite imploding industrial production and soaring unemployment, Turkey was one of only two OECD countries without a clear fiscal stimulus package in place (the other was Greece), and when the government finally announced one, it was comparatively the smallest among the developing members of the G-20 (OECD 2009; IMF 2009). In the following months Turkey continued to take exception to global policy trends. The scope of fiscal measures was gradually expanded, yet in its stepwise character and overall exclusion of popular interests the Turkish stimulus hardly resembled the ‘Keynesian resurgence’ in various advanced and developing nations. Moreover, unlike dozens of emerging economies that were hit similarly hard by the global meltdown, Turkey displayed an uncharacteristic aversion to receive IMF funding, choosing instead to ride on the expectation effect of a possible deal that nonetheless fell through after nearly one and a half years of well-publicized negotiations.

This article inquires why Turkey, a relatively successful second generation reformer and the biggest client of the IMF over the past decade, differed so sharply from many of its peers during the global economic crisis of 2008-2009 by adopting a puzzlingly delayed, piecemeal, and socially exclusionary policy response while also rejecting multilateral financing. Focusing on the causes of this policy path is in part motivated by its disturbing outcomes. It is hard to disagree with the increasingly common criticism among Turkish economists that a more timely, vigorous, and better coordinated set of measures could have helped the country mitigate the heavy toll it paid during the crisis (Özatay 2009; Uygur 2010). The erosion of a significant portion of the gains of the preceding high-growth years, evidenced in a 4.7 percent GDP contraction in 2009, a steep rise in unemployment, and acute impoverishment of the most vulnerable social groups, cannot be justified as destiny. Explaining Turkey's crisis response is thus important not just because alternative policy paths seemed more likely, but perhaps more so because the path that was adopted appears to be a sub-optimal strategy both in terms of insulating the economy from devastation in the short run and laying the foundations of a sustainable growth strategy in the medium run.

The analysis begins by outlining elements of Turkish exceptionalism through a broad comparison with economic and policy performance in other emerging market countries. Next follows a detailed account of Turkish crisis policymaking. We highlight the interplay of three core factors: pre-existing structural weaknesses, cognitive failures, and domestic politics. Section 3 examines how the pent-up disturbances of the preceding boom years, in particular a foreign deficit-led growth pattern, fiscal deterioration, and reform fatigue, significantly constrained policy options during the initial stages of the crisis. The Turkish government's failure to identify and address the true vulnerabilities of the economy is discussed in Section 4. Here the principal culprit was policymakers' learned obsession with monetary and financial stability, which diverted attention and resources away from more pressing real sector and distributive problems at the formative stages of crisis management. Section 5 focuses on how party and interest group politics hindered the formulation of a better coordinated and socially inclusive response. We conclude with the wider implications of our findings for Turkish development.

2. Between “Vigorous Stimulus” and “Official Financing”

The global recession of 2008-2009 impacted emerging market economies through broadly identical mechanisms. Hardly any country was spared the tightening of external

credit, and nearly all recorded a severe decline in foreign investment as well as in export demand. And once the turmoil engulfed the domestic market, policymakers everywhere faced a gruelling range of problems from rising unemployment to fiscal deterioration. These basic similarities aside, the scale of devastation displayed considerable variation. Overall, Asian countries proved relatively resilient thanks to strong macro fundamentals and, in several cases, prompt and bold government action. Latin America fared worse, but the regional norm was still one of modest output contraction, often smaller than developed country averages. Central and Eastern Europe suffered the biggest losses as most economies were caught with high current account deficits and some with troubled banking systems. Equally important within these broad regional trends were remarkable subregional contrasts. Indonesia outperformed Thailand and Korea by a wide margin; the destruction in the European periphery left Poland nearly unscathed; Mexico's massive recession stood as an exception to the milder Latin American pattern, and so on.

Emerging country responses to the crisis manifests an analogous story of surface similarities laced with sizeable variation, permitting generalizations only of the crudest nature. First, almost everywhere, policymakers adopted monetary and fiscal measures to alleviate the credit crunch and stimulate domestic demand. Central banks lowered interest rates; governments introduced fiscal programs that encompassed such diverse measures as tax breaks, welfare and employment schemes, and infrastructure investment. Still, the size and composition of these programs varied radically. A second popular strategy was to seek external funding from international financial institutions to ease the fiscal squeeze, insure against potential balance of payments problems, and signal foreign investors. From September 2008 onward, no fewer than 25 middle income countries signed IMF facilities, mostly in the form of standby arrangements, but some also taking advantage of more convenient instruments such as the new Flexible Credit Line (FCL). In addition, several major emerging market countries chose to support their infrastructure projects and social programs via large World Bank loans.

If there was one tendency to help classify national responses to the crisis, it was that most countries made a policy commitment to either one of these two common responses—that is, they either announced large, self-financed stimulus plans or sought substantial official external financing for a more restrained approach. The division appears to be related mainly to the *fiscal space* available to policymakers, which should be understood as a reflection not simply of the pre-existing cash balance but also of domestic political preferences and at times even regional templates and international considerations. Thus, on the one side were

governments endowed with sufficient fiscal space, those that were not only able but also willing to self-finance a comprehensive recovery package. Included in this *vigorous stimulus* group were most emerging Asian countries as well as a few of the strong performers of the mid-2000s elsewhere such as Russia and Brazil, which tried to spend their way out of the crisis while avoiding outside interference. On the other side were countries with more limited fiscal space due to objective or self-imposed barriers. Many countries in the European periphery but also Mexico were in this *official financing* camp. Typically, they passed up the large stimulus option and knocked on the IMF's door instead. Note that, once chosen, the respective logics of vigorous stimulus and of official financing grow mutually exclusive in a much practical way. If a country opts to spend its way out of the crisis, that means it already has the fiscal space to do so, and there is no incentive for it to be willingly constrained by an external actor down that path. But if it chooses to endure the external constraint, that means it was lacking the fiscal freedom for self-sustained vigorous action in the first place, and radically shifting its spending patterns via borrowed funds *ex post* would certainly not be the best approach to crisis management. Perhaps that explains why none of the IMF's new FCL clients (Mexico, Poland and Colombia) touched a penny of the record funds made available to them, even though the shift in the organization's policy outlook from early 2009 onward did identify Keynesian spending as a viable recovery strategy, at least in the short run.

Table 1 The Global Crisis and Emerging Market Countries: Impact and Policy Responses

	GDP Growth % 2009	Fiscal Stimulus % GDP	IMF Facilities (10/08-12/09)	WB Loans (10/08-12/09)
Argentina	0.9	6.4	—	\$1,490 m
Brazil	-0.2	5.6	—	\$2,752 m
Indonesia	4.5	2.0	—	\$5,331 m
Mexico	-6.8	1.6	\$47 b	\$6,788 m
Poland	1.7	1.2	\$20.6b	€1,975 m
Russia	-7.9	5.4	—	—
South Korea	0.2	6.2	—	—
Thailand	-2.3	3.4	—	—
Turkey	-4.7	1.1	—	\$1,100 m

Source: IMF (online); World Bank (online); UNCTAD (2009); national sources.

Where does Turkey fit in this picture? Table 1 provides some clues based on figures from the top three economies each of the three major emerging regions of the globe, that is,

Central and Eastern Europe, Latin America, and East and Southeast Asia (excluding China). In terms of output loss in 2009, Turkey came third in this group, outperforming only Russia and Mexico. What is disturbing in this statistic is that both Russia and Mexico had their *annus horribilis* in 2009 with additional mishaps aggravating the effects of the global crisis. Collapsing energy prices and demand brought Russia's resource-driven boom to an abrupt halt. To a lesser extent Mexico too was sensitive to oil prices (Saudi Arabia's whopping stimulus plan of 9.2 percent of its GDP speaks volumes here), but its economic fortunes were further eroded due to its extreme dependence on the US consumer market, the influenza epidemic, and drug-related violence.

Even then Turkey's -4.7 percent GDP contraction may not look too miserable at first, given worse performances by some major European economies. Particularly worrisome, however, was the disproportionate social impact of the crisis in Turkey. Unlike during the country's domestically generated crisis of 2000-01, the costs of which were somewhat evenly distributed between social segments, the crisis of 2008-09 overwhelmingly crushed the most disadvantaged. Especially alarming was the acute rise in unemployment, from an annual average of 9.9 percent in 2008 to over 14 percent in 2009. Most of this damage occurred in small and medium-size enterprises (SMEs), hitting the unskilled and semi-skilled workforce the hardest. In fact, a recent World Bank survey has found Turkish firms to have the highest market exit rate in Eastern Europe, leading to the biggest decrease in permanent employment in the region (World Bank 2009). Yet holding a job did not accord immunity from the crisis, especially for low income families. Frequently reported arrears, pay cuts, and longer work hours traumatized wage earners; as an indication, from September 2008 to December 2009, unit wage index in industry dropped by as much as 17.5 percent (DPT online). The crisis affected the self-employed equally hard; well over 80 percent of the households in the poorest quintile of this category, concentrated primarily in the informal service sector, reported a noticeable loss of income by mid-2009 (TEPAV, UNICEF and World Bank, 2009).

But Turkey was not just a sad victim of the global crisis; it also diverged from its peers in its crisis response, the distinguishing feature of which was a lack of clear commitment to either the *vigorous stimulus* or the *official financing* paths. Only Indonesia in our sample displays a comparable indecision, but that is a case more of a moderate simultaneous commitment to both policy patterns, and in a country whose relative resiliency was never in doubt. By contrast Turkey was exceptional in that policymakers there did not seem to have seriously committed to either approach despite early and incontrovertible signs of deep vulnerability. Why was this the case?

Two clarifications before we advance further. First, by identifying Turkey as a case of non-commitment to the two most common anti-crisis measures adopted by other emerging market countries, we do not suggest its crisis response was marked by sheer policy stasis at either end. On the official financing side, Turkey did conduct negotiations with the IMF throughout the crisis and even used the process as a quasi-anchor by frequently publicizing its progress to steer market sentiment. More importantly, on the fiscal stimulus side, the figure cited in Table 1 (1.1 percent of Turkish GDP), coming from the only available comparative data set including all the countries in our sample, is misleading as it reflects March 2009 figures. In actuality, in the spring and summer of 2009, Turkish policymakers announced more comprehensive fiscal measures, the total official cost of which from 2008 to 2010 was expected to reach 4.5 percent (DPT 2009: 12). To be clear, the problem with Turkey's fiscal stimulus was not its size, but its timing and composition that curtailed its effectiveness. Simply, it was far too delayed, and its reactive character precluded the possibility of a coherent and socially balanced approach. Second, despite its failure to converge on international patterns, which constitutes the main focus of our discussion, Turkey's crisis response also included some heterodox elements that may prove advantageous in the long run. Among the most important of these were a foreign policy drive toward export market diversification, and the revamping of the industrial subsidy regime on a sectoral and regional basis via substantive institutional reshuffling. Although it is early to assess the utility of these measures, at the very least they demonstrate that lack of fiscal space does not necessarily translate into lack of policy space—a theme to which we return later.

3. A Fragile Boom

The half decade that preceded the global downturn of the late 2000s marked the strongest display of economic performance in Turkey since the 1960s, but it also harboured significant strains and imbalances. Insufficient though these strains are to account on their own for Turkish policy exceptionalism during the crisis, they produced important disincentives against an early and potentially binding commitment to either the vigorous stimulus or the official financing paths. They were crucial to understand why Turkish policymakers decided to sit out the initial phase of the crisis while their peers across the globe were investing in bold measures to safeguard against the pending cataclysm.

As in most late developers, the path to the market in Turkey too has been a process wrought with much economic and political instability. Reformers of the 1980s radically

broke with the country's state-directed, inward-oriented development strategy, but these early efforts neither insured sustainable growth nor rested upon a durable political coalition around a comprehensive vision of policy change. Burdened with severe distributive tensions and intense party fragmentation, the weak coalition governments of the 1990s were caught in a destructive cycle of populist side payments, soaring fiscal deficits, and high inflation at a juncture of unruly integration with global financial markets. In turn the systemic collapse of 2001 ushered in a new round of structural reforms, targeting some enduring institutional weaknesses of Turkish capitalism. Central to this new policy drive were powerful external anchors in the form of successive IMF programs and stronger prospects of EU membership.¹

By the time the Justice and Development Party (AKP) came to power, that is, in late 2002, this new phase of neoliberal retuning had been well under way. The banking system was restructured with a novel regulatory framework in place, central bank independence was reinforced, the debt management regime was overhauled, fiscal balances were fast improving, and there were comprehensive reform plans in the works in various policy areas from the public expenditure regime to agricultural subsidies and the social security system. Constrained by a strict IMF program and concerned with derailing the fragile recovery process, the AKP pragmatically committed to this inherited reform drive during the early years of its incumbency—a strategy that seems to have paid off remarkably.

Despite occurring in an exceptionally favourable global economic environment characterized by record capital and trade flows, the accomplishments of the AKP's first term in office are hard to ignore (Table 2). Cumulative GDP growth from 2002 to 2007 was in the order of 48 percent, whereas real per capita income grew by over 35 percent. Fiscal balance improved significantly until 2006, with high primary surpluses in a high growth environment bringing the ratio of the public debt to GDP down to manageable levels. Chronic inflation, the signature affliction of the Turkish economy since the early 1970s, fell rapidly to single-digit figures. Exports tripled, and foreign direct investment, virtually non-existent before, reached a respectable \$20 billion in 2007. Just as remarkable was the surprisingly equitable character of Turkey's economic rebound. With no concerted strategy of poverty reduction, about 6.5 million people, or nearly 10 percent of the Turkish population, were lifted out of

¹ On Turkey's neoliberal transition in the 1980s and 1990s, see Arıcanlı and Rodrik (1990), Nas and Odekon (1992), Öniş (1998), Cizre-Sakallıoğlu and Yeldan (2000), and Aydın (2005). For the 2001 crisis and the new phase of neoliberal restructuring, see Akyüz and Boratav (2003), Öniş and Rubin (2003), Altuğ and Filiztekin (2006), Öniş (2009), and Öniş and Şenses (2009).

poverty between 2002 and 2006.² After a quarter century of painful policy experimentation, it appeared Turkey had finally passed a critical threshold on the path to high quality growth.

Table 2 Turkey: Selected Indicators (2002-2009)

	2002	2003	2004	2005	2006	2007	2008	2009
GDP (US\$ Billions)	232.7	304.6	393.0	484.0	529.9	655.9	742.1	617.6
GDP Per Capita (US\$)	3,403	4,393	5,595	6,801	7,351	8,984	10,745	8,950
GDP Growth (%)	6.2	5.3	9.4	8.4	6.9	4.6	0.7	-4.7
Investment (% GDP)	16.7	17.0	20.3	21.0	22.3	21.4	19.9	15.6
Savings (%GDP)	18.3	15.1	15.6	15.7	16.2	15.8	15.6	14.1
Imports (US\$ Billions)	51.5	69.3	97.5	116.8	139.6	170.1	201.0	140.9
Imports % change	24.6	34.6	40.7	19.8	19.5	21.8	18.2	-29.9
Imports (%GDP)	22.1	22.8	24.8	24.1	26.3	25.9	27.1	22.8
Exports (US\$ Billions)	36.1	47.3	63.2	73.5	85.5	107.3	132.0	102.1
Exports % change	15.0	31.0	33.6	16.3	16.3	25.5	23.0	-22.7
Exports (%GDP)	15.5	15.5	16.1	15.2	16.1	16.4	17.8	16.5
Current Account Balance (%GDP)	-0.27	-2.47	-3.67	-4.57	-6.02	-5.75	-5.25	-2.24
FDI (US\$ Billions)	1.08	1.75	2.79	10.03	20.19	22.05	18.27	7.66
Public Expenditure (%GDP)	34.13	31.06	27.21	24.61	23.49	23.76	23.88	28.02
Fiscal Balance (%GDP)	-11.47	-8.84	-5.22	-1.06	-0.61	-1.62	-1.97	-4.88
Primary Balance (%GDP)	3.29	4.03	4.89	5.98	5.45	4.07	3.48	-0.68
Total Public Debt (%GDP)	61.4	55.1	49.0	41.6	34.0	29.5	28.2	32.5
External	25.2	17.2	13.4	6.5	4.0	1.3	2.1	2.7
Domestic	36.2	37.9	35.7	35.2	30.0	28.1	26.1	29.8
Private Foreign Debt (US\$ Billions)	43.0	48.9	63.9	83.9	120.3	160.1	186.0	176.3
Financial Firms	10.2	13.6	21.7	33.3	49.2	58.6	63.0	59.3
Non-Financial Firms	32.8	35.2	42.2	50.6	71.1	101.5	123.0	117.0
Banks' Assets (%GDP)	76.6	69.4	71.2	81.5	86.7	87.3	77.1	87.4
Banks' Loans (%GDP)	14.0	14.6	17.8	24.1	28.9	33.9	38.7	41.2
Consumer Loans (%GDP)	0.6	1.3	2.3	4.5	6.3	8.0	8.7	9.8
Banks' Capital Adequacy Ratio (%)	25.1	30.9	28.2	23.7	21.9	18.9	18.0	20.6
Consumer Inflation %	45.0	25.3	10.6	10.1	10.5	8.8	10.4	6.3
Unemployment %	10.3	10.5	10.3	10.3	9.9	9.9	11.0	14.0

Source: TÜİK; TCMB; Treasury; DPT; BDDK.

Behind this promising picture were disturbing fragilities. Perhaps the most significant of these was the continued external vulnerability of the Turkish economy. Turkey's trade-driven growth spurt rested on high current account deficits, with the success story of tripling Turkish exports overshadowed by the quadrupling of imports. Years of second generation reform failed to make a real impact on the long-standing Turkish pattern of foreign capital-

² Turkish Statistical Institute Database (TÜİK) (online). Figures indicate a sharp decline in poverty rate, from around 27 percent of the total population in 2002 to less than 18 percent in 2006. During the same period, the ratio of the population living under US\$4.3 per day dropped from 30 to 13 percent.

dependent growth.³ The main difference with the 1990s was that this dependence no longer manifested itself in the form of a severe sovereign debt problem. Instead the burden was passed entirely onto the private sector, which relied on external funds to compensate for the chronic gap between weak levels of investment and much weaker levels of domestic savings. The Turkish economy remained structurally incapable of fast growth without continuously high foreign inflows, reinforcing in the process some familiar ailments of the pre-2001 period such as high real rates of interest and currency overvaluation (Rodrik 2009).

A second set of issues, stemming from relatively novel characteristics of Turkish growth, aggravated the risks of foreign exposure especially in terms of the social consequences of a potential disruption in trade and capital flows. On the one side was the structure of credit expansion that distinctly favoured high interest consumer loans over business credit, precluding any qualitative shift in the pattern of weak domestic savings but more importantly leading to an unprecedented rise in household indebtedness (Bakır and Öniş 2010). On the other side was persistent high unemployment of around 10 percent throughout the period, which led some critics to identify the post-2001 experience as one of ‘jobless growth’. As a result, large segments of Turkish society, especially the vast lower middle class, grew disproportionately vulnerable to external economic shocks, for expansion in both credit and investment was now externally driven.

Rendering these fragilities all the more significant was the decline in the AKP’s reformist appetite. Content with the overall outcomes of a policy framework bequeathed by the technocratic reformers of the 2001-2002 period, the party’s attention from 2006 onward shifted toward consolidating its power by defending and expanding its coalitional base. The weakening of external policy anchors, with the EU drive losing momentum and the latest IMF standby agreement of 2005 having mostly run its course, also encouraged the government to reconsider its priorities. By the election year of 2007, a new policy approach had matured that centered on selective deviations from a hardliner reformist path, but without endangering what the AKP leadership understood to be the foundations, however fragile they were, of the rapid growth status quo. Thus, in monetary policy and banking regulation, the government made a point of not openly interfering with the prerogatives of autonomous agencies. Likewise, policymakers remained committed to privatization and FDI initiatives. Yet in other policy areas, the party displayed a more discretionary and at times sceptical attitude. The novel public expenditure regime was diluted significantly through numerous

³ On Turkey’s foreign capital-dependent growth pattern, see Demir (2004) and Yeldan (2006).

amendments to a 2003 law; the agricultural subsidy reform of 2001-2002 was altogether overturned by 2007; the long-awaited pension reform of 2008 introduced only minimal changes to an overburdened system. In short, when the world entered into recession, the age of radical reformism in Turkey had long drawn to a close (Patton 2007; 2009).

To understand the Turkish government's muted response to the global crisis in its early stages, we must highlight two distinct indicators of this shift in the AKP's policy concerns. The first was accelerating fiscal deterioration from 2006 onward. The main culprits here were increasing transfers to the ailing social security system and to local governments (Ersel 2009), but the relative easing also included larger agricultural support payments and, more recently, adjustments in the salaries of civil servants. The fiscal expansion of the post-2006 period led to a noticeable decline in the primary surplus; however, it was still quite modest compared with the disastrous record of the 1990s. Hence, its symbolic political meaning was perhaps more significant than its actual economic effect, as it implied nothing less than a shift from stringent neoliberal austerity to what might be termed 'controlled populism' in the spending regime, exacerbating the policy cleavages within both the AKP and the economic bureaucracy and drawing criticism especially from big business.

A second dimension of the government's fading reformism was its reluctance to address the structural fragilities mentioned earlier. Struggling to preserve the policy equilibrium that assured fast growth, the AKP grew increasingly oblivious to the contradictions of this process. Despite pressures from business organizations, for example, the party continually postponed reforms of the commercial code and the corporate tax regime, both deemed essential for EU harmonization as well as long-term competitiveness. More important, the accumulating social risks of the period were largely ignored. Rather than take advantage of rapid growth to strengthen Turkey's welfare regime and build modern, efficient arrangements of social protection, the government put its faith in the trickling-down effect of foreign inflow-dependent growth and emphasized selective incentives toward disadvantaged groups according to its own conjunctural discretion. Improvements in civil servants' salaries did not extend to pensioners; electorally significant grain producers received better support than milk farmers. This attitude to downplay underlying tensions in the name of preserving what appeared to be a virtuous economic cycle was shared by other public agencies as well, vividly seen, for instance, in the unwillingness of Turkey's independent banking authority to tackle issues such as consumer protection and competition regulation (Bakır and Öniş 2010).

Consequently, by the fall of 2008, a certain dualism characterized Turkish economic and policy performance. On the one hand were the recent legacy of fast and equitable growth

and the accompanying belief in policy circles that the economy was on sure ground. From this standpoint, the moderate deterioration in growth and fiscal performance after mid-2007 could have been interpreted as a short respite on the part of policy and economic actors, after which a return to the golden age of 2004-2006 was perfectly feasible. On the other hand was the retreat from externally inspired reformism and from neoliberal austerity along with a pronounced move toward policy heterodoxy, rooted mainly in the party political considerations of the AKP rather than representing a well-planned, alternative policy effort to counter the macroeconomic and social fragilities of the Turkish growth path.

The disincentives against an early commitment to a bold response to the global crisis, that is, the unpalatability of both the vigorous stimulus and official financing options for Turkish policymakers during the early stages of the crisis, can now be more clearly laid out. The large fiscal stimulus option was hard to justify on at least two counts. First, it was a difficult sell given the government's recent track record of fiscal easing and a projected decline in revenues. The dominant sentiment in the economic administration was that Turkey had to enter the crisis with as strong a fiscal position as possible. Second, given the dependence of the economy on foreign inflows, the economic utility of such a move was not easily calculable. A quick rebound in European import and financial markets could have made the Turkish stimulus an unnecessary adventure; alternatively, a likely continuation and deepening of the downturn would make it ineffectual. At a time when the global coordination of national fiscal packages was a matter of policy debate, the sure future cost of a premature Turkish plan may have vastly outweighed its yet unforeseeable gains.

Even stronger objections could be levelled against an early IMF option. Most obviously, Turkey was neither expecting a balance of payments crisis, nor had concerns about its financial system.⁴ Its foreign reserves were at an all time high (\$77 billion in September 2008), the foreign component of its public debt was negligible, and its banking system boasted one of the highest adequacy ratios in the world. An agreement at that point would have been merely precautionary, to quell market fears and not out of need. Besides, Turkey had concluded its third consecutive IMF standby arrangement only a few months ago, the single such case among emerging market countries in the 2000s. Going back to Fund tutelage in the first difficulty would have put under question any achievements of the post-2001 period, undermined the policy claim about the resilience of the economy, and might even have backfired in the form of loss of prestige and eventually investor confidence.

⁴ For an early account of Turkey's anticipated crisis-resilience, see Bakır (2009).

Finally, an early IMF agreement would have significantly narrowed Turkey's policy options, making a comprehensive stimulus plan down the road (and consider here that by the fall of 2008 the Fund was still rolling out conventional austerity plans for its crisis-struck clients such as Hungary and Iceland) surely out of question. And needless to say, having had to look the other way when its biggest client was slowly loosening its fiscal belt over the past two years, the Fund probably would have been far more cautious and demanding this time round—a not so incorrect projection by Turkish rulers as we will discuss later.

In short, given Turkey's macroeconomic and policy equilibria at the outset of the global financial crisis, the decision to wait and see the extent of the damage and respond accordingly rather than rush into bold action was understandable, and in some ways even justifiable. Erdoğan's assurances about the tangential effects of the crisis on the Turkish economy reflected such a mood. The real puzzle is how this tactic evolved into strategy, how the policy cautiousness of the fall of 2008 got entrenched into policy lethargy to foreclose a much-needed activism in the following months, to eventually force the Turkish government to settle, in part out of desperation, for a reactive and incoherent anti-crisis plan by the time most countries were already devising their exit strategies. To answer this question, we must first turn to the crisis perceptions of Turkish policymakers.

4. The Price of Stability

Turkey's pre-crisis policy and macroeconomic constraints provide important clues as to why Turkish policymakers were reluctant to make an early commitment to either the vigorous stimulus or the official financing paths. In comparative perspective, there was little unusual about this initial policy attitude. With the exception of a few fiscally fortunate Asian cases, most emerging market countries that did not face imminent financial collapse adopted a similarly cautious, non-binding response at first, letting hard evidence of the damage they were set to incur accumulate for a few months before investing in costly countermeasures. Argentina announced its stimulus package in mid-December; for South Africa it took as long as early February. The prime clients of official financing such as Mexico and Poland agreed to precautionary deals only after the IMF revised (read, loosened) its lending framework in March—though they never actually resorted to these funds.

Yet the basis for comparison ends there. A globally popular dose of early policy caution cannot explain the overly delayed, piecemeal, and on the whole limited character of Turkey's stimulus efforts, nor can it account for its ultimate rejection of external financing. A

basic run-down of Turkish anti-crisis policies, shown in Table 3, suggests that Turkey did not embrace any clear stimulus measure until March, whereas the more serious employment and investment supports had to wait until the summer of 2009. Even with this eventual widening of the policy repertoire, the Turkish response remained weak in other respects, most notably on the public investment and social protection fronts. Bringing down consumer prices and investment costs, rather than increasing popular incomes and opportunities, was the principle from which the government operated to stimulate the ailing economy. Among the decisive factors in this peculiar path were the domestic political context, discussed in the next section, and the partly distorted crisis perceptions of Turkish policymakers, examined below.

Table 3 Main Elements of Turkish Crisis Policymaking

Liquidity Supports	<ul style="list-style-type: none"> • <u>Interest Rates</u>: TCMB reduces overnight policy rates, incrementally from 16.75% in October 2008 to 6.50% in November 2009 • <u>Foreign Exchange Market</u>: TCMB resumes intermediation via revived FX Deposit Market; FX reserve ratios reduced; lending and maturity conditions for TCMB FX loans to banks eased • <u>Capital Repatriation</u>: Asset Peace Law offers tax amnesties for previously undeclared foreign and domestic assets • <u>Various Liquidity</u>: Interest rates on TL reserves raised; withholding tax on private bonds reduced 	Nov. 08-Apr. 09 fastest Oct. 08 Nov. 08 Fall 08
Banking Regulation	<ul style="list-style-type: none"> • <u>Profit Sharing</u>: BDDK places limits on banks' profit dividends to bolster paid-up capital • <u>Credit Rules</u>: Tighter regulations for consumer and corporate FX loans; new facility for restructuring nonperforming credit card loans 	Nov. 08 June 09
Demand Stimulus	<ul style="list-style-type: none"> • <u>Tax Reductions</u>: Wide-ranging temporary tax cuts on autos, consumer durables, and real estate 	Effective Mar. 09- Sep. 09
Industrial Supports	<ul style="list-style-type: none"> • <u>Export Measures</u>: Eximbank export rediscount credit pool widened, eligibility criteria eased • <u>Small and Medium-Sized Enterprise (SME) Supports</u>: Eligibility for SME status widened; enhanced SME loan insurance via Credit Guarantee Fund; new public loan scheme for SMEs • <u>Investment Supports</u>: New sectoral-regional investment subsidy regime, combining corporate tax reductions, social security premium reductions, and interest subsidies 	Dec. 08-Apr. 09 Apr. 09; July 09; Sep. 09 July 09
Employment Measures	<ul style="list-style-type: none"> • <u>Employment Promotion</u>: Temporary and part-time employment incentives; renewal of existing subsidies for female and youth employment; new scheme for temporary public employment, public internship, and vocational training 	Jan. 09; May 09; June 09

Underlying the crisis perceptions of Turkish policymakers were some bitter lessons drawn from past calamities. Their ‘evoked set’ in the neoliberal era consisted of two deadly instances of sudden collapse, in 1994 but far more damagingly in 2000/2001, which ingrained Turkey’s liberal bureaucrats and politicians with the unshakeable belief that all evil came from fiscal imprudence and financial instability. In their known universe, a ‘crisis’ was fundamentally rooted in these often simultaneous episodes of mismanagement; it would strike in the form of rapid capital outflows, massive devaluation, and skyrocketing interest rates, to eventually mature into a full-blown banking and fiscal crisis. Only then would it spread to the real sector through credit and demand channels. In fact, even before neoliberal times, the pattern was not altogether unfamiliar. The crises of 1958 and 1978/1979 followed cycles of populist fiscal expansion; the Bankers’ Crisis of 1982, at the outset of Turkey’s market transition, was a classic case of bursting credit bubble directly resulting from an attempt at radical financial deregulation. From these recurrent episodes followed the basic wisdom that fiscal profligacy and regulatory forbearance inevitably bore crisis, whereas vigilance on these fronts helped avoid and recover from it. By contrast, a genuine real sector crisis was unheard of in Turkey’s postwar economic history.

The way the global crisis broke out, shaking the banking systems of core countries but also of a few emerging markets, fuelled the fear of a repeat of this fisco-financial crisis pattern, leading to policy obsession with assuring stability on both fronts, with two important outcomes. First, policy debate quickly settled on the rather technical question of how to ensure liquidity in the system without putting the fiscal and monetary balance at risk, which triggered some policy synchronization, around October-November 2008, between the Treasury, the Turkish central bank (TCMB), and the banking authority (BDDK). In early October, the Treasury voluntarily fell behind its borrowing projections, refusing to shoulder the burden of rising interest rates and thus signalling government unwillingness for expansionary policy. “We do not have the luxury to spend more in an environment of escalating crisis”, a bureaucrat put it succinctly.⁵ The inflation-conscious TCMB concurred; it resisted mounting private sector calls for easing the policy rate, and introduced more technical measures to bolster liquidity such as reinstating the FX deposit market, lowering FX reserve ratios, and bumping rates on lira reserves. For its part, the BDDK opposed the idea of extending deposit insurance coverage, and instead called on the banks to retain profits in balance sheets, demanding that they seek authorization from the agency for issuing dividends.

⁵ “Kriz bütçeyi etkiledi, kemerler sıkılacak” (The crisis affects the budget, belt tightening on the way), *Milliyet*, 9 October 2008.

In the meantime, the government frequently repeated its resolve to stick with budgetary prudence. Economy Minister Şimşek unveiled plans to institute a fiscal rule; Finance Minister Unakitan denounced rumours of tax reductions on autos and consumer durables; PM Erdoğan asked business leaders not to pressure the government for a ‘crisis package’. Only after these assurances, in late November, did the TCMB begin to lower interest rates—much too late according to some observers (Uygun 2009: 29). The government reciprocated keenly by cutting down 2009 fiscal allocations for public works and agricultural subsidies, although it stood behind its plans concerning municipal transfers (more on this later).

The agreement to counter the crisis through monetary, fiscal, and regulatory vigilance rather than, say, a large fiscal stimulus which would have been cognitively inconsistent with Turkish policymakers’ shared wisdom about effective crisis management had a second important outcome. Assuming this was the right policy mix, they judged that persisting problems in the economy must have been temporary, and caused by lags in perception among economic actors. This was not to say that policymakers were oblivious to the real sector shock especially from export markets (for one thing industrial production had been declining since August); rather, having taken the correct steps within their ideational universe, they expected to see at least some improvement in market conditions. As this prospect fell through, an aggressive rhetoric of expectation management ensued, especially on the part of the government, suggesting that the problem with the Turkish economy was more psychological than real. While employed to scold business leaders that screamed for fiscal activism as well, the actual target of this line of argument was commercial banks, for it had long been taken for granted that beyond all else it was the strength of the Turkish banking system that would have eventually cushioned the effects of the crisis. Yet, let alone help out ailing real sector firms, banks proved utterly reluctant to lend, perplexing and angering policymakers at the same time. The TCMB Governor Yılmaz expressed deep dismay at mounting news of prematurely recalled and non-renewed corporate loans despite recent liquidity-enhancing measures, while PM Erdoğan openly lambasted banks for crisis opportunism.⁶ In return, Ersin Özince, the Chairman of Turkish Banks’ Association, shrugged off these criticisms forcefully, pointing out that, given the combination of the current conditions and Turkey’s excessively stringent banking legislation which stipulated severe criminal responsibility for certain types of loan failure, “no banker should lend at all”.⁷

⁶ “Erdoğan’dan bankalara uyarı” (Erdoğan warns banks), *Radikal*, 19 November 2008; “Bankaların kredi isteksizliği sürüyor” (Banks’ loan reluctance continues), *Milliyet*, 22 November 2008.

⁷ “Yeni yaklaşım hazırlığı” (Preparations for new approach), *Milliyet*, 18 December 2008.

However exaggerated, his defence did capture the cold reality that there simply did not exist any concrete incentive for Turkish banks to lend long to firms when they could neither price loans properly nor evaluate even the most trusted clients in the face of a real sector collapse already in progress. Having been forced to hold high reserves and prohibited from engaging in exotic instruments unlike their counterparts in advanced economies, what worried Turkish banks this time round was not an imminent loss of solvency as had been the case in 2001, but the traditional credit risk that could cause profitability problems in the medium and long run. Seen this way, the government's stance was indeed ironic. Heavily invested in a paradigm of financial stability, it soon found itself protesting futilely against the rational behaviour of the one sector that was doing fine despite the crisis.

A shift in policy attitude occurred in early 2009, precipitated by the flow of data indicating the depth of the crisis. Erdoğan stuck to his 'tangential effect' argument, but ministers and economy bureaucrats were less confident about the wisdom of the old financial stability paradigm alone for recovery. The government gradually toned down its criticism of banks, and confirmed preparations of a comprehensive real sector package. But devising a strong, coherent plan would prove more difficult than expected. One reason for this could be found in the dynamics of party and interest group politics, examined in the next section. But another concerned the state's asymmetric sectoral capacity heavily skewed toward assuring financial stability. Briefly, in two decades of wrestling with problems of finance-led globalization, the Turkish state had accumulated considerable institutional muscle in monetary, fiscal and financial governance as indicated by the dominance over the economic bureaucracy of large, elite organizations such as the Treasury, the TCMB and the BDDK, which had thus far spearheaded crisis policymaking. By contrast, its interventionist capabilities in many other economic realms had either stalled, or atrophied considerably, thereby hindering a coordinated real sector response.

Crucial in this regard was the now all-important industrial policy, very much ignored in the 1990s despite significant transformation in the structure of the sector. Neither the State Planning Organization (DPT), the old stronghold of state-led development, nor the Ministry of Industry and Trade, an ever politicized and relatively small agency, had the institutional preparedness to lead an upgrading drive. In fact, since the heavily subsidized rise of textiles in the mid-1980s, the Turkish state had engaged little in the way of industrial coordination. Policy debate over the past two decades had focused mainly on how to pull the state out of the sector by re-energizing Turkey's much-delayed privatization process, which was accomplished in a remarkably fast manner after 2003 (Atiyas 2009). In such a context, rather

than seeking to devise new forms of interventionism, state policy boiled down to clearing the way for private initiatives and letting Turkish firms flourish in a favourable trade environment abroad and long-awaited relative macroeconomic stability and consumer boom at home. Case in point was the situation of Turkey's thriving small and medium enterprises (SMEs), with the state agency designed to further their cause (KOSGEB) having regressed to a token organization with minimal funds in the 2000s. The dire conditions the SMEs faced during the crisis would force the government to rejuvenate the agency, although in several ad hoc steps from December 2008 to September 2009 that lacked the consistency and impact of a single major overhaul.

Other policy areas suffered a similar lack of bureaucratic capacity, including such fundamental domains as education and social protection; this might partly explain why they figured much less prominently in the Turkish stimulus plan than those of many other countries. One of the few fortunate domains, meanwhile, was labor policy: since the flexibilizing reform of May 2008, there had existed an employment promotion program, which were to be renewed and expanded from January 2009 onward. But even in this one area of relative bureaucratic preparedness, policy change proceeded in three individual steps rather than a single coherent shot, while its effectiveness, judging from the continued high levels of unemployment, remain very much in doubt.

5. Managing an Economic Crisis, Politically

The Turkish government's policy response to the global crisis in its initial months was driven by a well-established economic wisdom of fiscal and financial stability, in turn reinforced by the country's pre-crisis policy and macroeconomic constraints. But with a far more severe economic deterioration than policymakers expected, a broader and more heterodox response slowly emerged from the spring of 2009 onward. Underlying this new policy line was a distinctly political logic of crisis management, rife with differences between the AKP government's projected and actual considerations as could be traced in its dealings with the IMF and its relations with domestic collective actors.

During its first few years in office, the AKP had a relatively uncontested ride. Rather than emphasize its conservative leanings, the party adhered to the agenda of economic reform, democratization and European integration it had inherited from the preceding coalition government, for which it was able to garner broad popular support in an

environment of rapid growth.⁸ But severe political tensions sprang after 2006. Its attempts to consolidate its power, by penetrating the bureaucracy but most vividly during the row over presidency in 2007, put the party increasingly at odds with Turkey's military-backed secular establishment. Meanwhile the external anchors that had helped keep the government on the reformist track were fast weakening as the EU drive reached a standstill and successive IMF agreements neared completion (Öniş 2008). For Turkey's traditional industrial elites, this loss of reformist momentum was the primary factor behind the economic slowdown of the post-2007 period and was reason to reconsider their endorsement of AKP rule. Yet faltering growth performance, a threat to the party's popular base as well, was hardly the sole concern of AKP leaders. Although the party increased its votes dramatically in the July 2007 elections, by Spring 2008 it faced a Constitutional Court case demanding its closure for regime-inappropriate, anti-secular activities. Strains continued to mount in the following months with a major corruption scandal implicating party rank and file, but most seriously with the high-profile trial against former military brass along with some noted secular intellectuals concerning a series of alleged coup plots (the Ergenekon case). Consequently, when the economy entered into recession, the AKP had already been forced to tread a much finer political line than a few years ago, and was additionally constrained in its policy options given the upcoming local elections in March.

There is no plausible explanation other than this overloaded party political agenda for the Turkish government's resistance to the IMF throughout 2009. By spring the scale of devastation was so far beyond earlier projections that even the TCMB, sceptical of the need for IMF funds a few months back, was calling for an urgent deal.⁹ But negotiations were deadlocked. On several occasions the government harbingered an agreement were to be signed shortly, only to recant a few weeks later that differences with the agency remained unresolved. To many observers this was another example of the AKP overexerting the expectations management channel. Like Erdoğan's optimistic 'tangential effect' argument or the popular government line about the psychological character of the crisis, the constant 'talk' of an IMF deal too was meant to serve as a market-assuring pseudo-anchor at a time of economic free fall—a strategy heavily criticized by business leaders, academics, and former policy figures such as Kemal Derviş, the architect of Turkey's 2001 program.¹⁰

⁸ For the AKP's early years, see Yavuz (2006).

⁹ "Merkez Bankası hükümeti uyardı: IMF ile anlaşma kısa sürede yapılmalı" (Central Bank warns governments: IMF agreement should be concluded soon), *Radikal*, 3 April 2009.

¹⁰ "IMF'yle anlaşılıyor gibi yapmak strateji değil" (Mimicking an IMF deal is not a good strategy), *Milliyet*, 29 May 2009.

Two sets of factors account for the AKP's unwillingness to accept official financing. One was about the Turkish public's increasingly negative opinion of external actors. In particular, the disappointments encountered on the path to EU membership produced a serious nationalist backlash in the post-2005 period. In a rare instance of unison among the secular and Islamist creeds, multilateral organizations such as the IMF and the World Bank now received greater scepticism, and were seen as acting narrowly on behalf of powerful Western governments and often at the expense of Turkish interests. In an election year during which the AKP's nationalist credentials were frequently called into question, this was a sentiment the government could not afford to ignore. The problem with asking the Fund's help was therefore not merely about contradicting the continued government claims about the inherent resilience of the economy. More threateningly, it would reinforce the belief about the AKP's weak commitment to national causes, reflected in popular suspicions toward rapprochement with Armenia and widespread opposition to the Kurdish democratic initiative. In response, Erdoğan was careful to frame the party's reluctance toward the IMF as rooted purely in concerns of national sovereignty and pride, lambasting proponents of a deal for failing to recognize Turkey's "power" in the world and stressing the government preference to "go our own way with our own resources".¹¹

Second, and behind this generalized rhetoric of sovereignty and independence, was the more decisive matter of the concrete elements of disagreement between the IMF and the government, which seemed to relate more directly to party interests than the national interest. Two policy issues stood out as the primary obstacles to a deal. One concerned fiscal allocations to municipalities, which the AKP wanted to (and eventually did) ease but the IMF opposed, suggesting that such a move would violate the fundamental principles of responsible public expenditure management. Not surprisingly, the notion of curtailing municipal resources on the eve of local elections was rejected without hesitation by the AKP. The second issue concerned the reform of the tax administration, which both the IMF and the World Bank had advised the government since 2003 to restructure as an autonomous agency. Such a step, they argued, would help strengthen the traditionally weak extractive arm of the Turkish state reflected in widespread tax evasion that had forced Turkish governments, since the mid-1980s, to rely increasingly on regressive, indirect taxes on consumption. But while Turkey's narrow tax base is a problem on which there had long existed broad consensus, fixing it via erecting an autonomous agency was a most unpalatable option for the AKP

¹¹ "IMF'ye borcumuzu öder, yolumuza devam ederiz" (We could pay off our debt to the IMF and continue our way), *Radikal*, 10 February 2009.

whose electoral base, like all parties on the right, included wide segments of small and medium-sized entrepreneurs, the self-employed, and rural producers—the prime beneficiaries of a lax revenue regime.

Domestic politics played a crucial part in the timing and composition of Turkey’s stimulus efforts as well. Thus, if the prevailing austerity paradigm of crisis resolution was one reason for the comparative delay of real sector measures, another could be found in state-business relations and cleavages within the business community itself. Turkey’s two most powerful business organizations, TÜSİAD, chiefly representing elite industrial interests, and TOBB, the semi-corporatist umbrella organization of private entrepreneurs with some disposition toward small and medium-sized firms and commercial capital, were both quick to call on the government for a comprehensive intervention plan to be designed in close cooperation with the private sector.¹² The relations between these organizations (especially TÜSİAD) and the AKP had already soured in recent years due to the slowdown in the reform process. Now seeing that their calls for vigorous action carried little weight, business leaders redoubled their criticism, openly attacking the government for its tardy response, to be blamed in return by ministers for “crisis-mongering.”¹³ It is noteworthy that only after MÜSİAD, the representative mainly of the conservative Anatolian capital with strong organic linkages to the AKP, joined the real sector chorus of crisis malcontents in January, arguing the Turkish economy was in “intensive care”, that the government began to take more concrete measures.¹⁴ Assuming the MÜSİAD membership was exposed to similar hardships as the rest of the business community, there is no better explanation for the organization’s lenience toward the government until that point other than partisan loyalty; correspondingly, it was partisan cleavage that retarded the emergence of a unified business appeal for fiscal intervention, overcome only when the economy descended into deep recession.

Even then, this late consensus proved insufficient to trigger a vigilant anti-crisis strategy. Perhaps as an extension of its perception management approach, the government kept hinting at plans on a wide array of issues, showcased as evidence of its policy activism. In actuality, there were significant delays in their materialization and shifts in scope. The pattern was thus distinctly reactive and reparative than precautionary, with policymakers delivering the least possible at first, until which time they buckled under intensified pressure

¹² “TÜSİAD: Krizi ciddiye alın, çok tedirginiz” (TÜSİAD: Take crisis seriously, we are very nervous), *Hürriyet*, 10 October 2008.

¹³ “Türkiye, OECD içinde önlem almayan tek ülke” (Turkey the only OECD country without measures), *Hürriyet*, 28 November 2008; “Kriz bezirganları var” (There are crisis-mongers), *Milliyet*, 25 December 2008.

¹⁴ “MÜSİAD: Türk ekonomisi hala yoğun bakımda” (Turkish economy still in intensive care), *Milliyet*, 19 January 2009.

from the business community as conditions worsened. The wide-ranging tax breaks on autos and consumer durables, the costliest element of Turkish stimulus strategy, did not take effect until late March; still, they failed to quell business outcry and had to be extended to other goods in April. The new industrial subsidy regime, signalled since October, was finally enacted in June following a new round of protests led by TÜSIAD and TOBB, whereas the most important support items toward the SMEs, such as the credit guarantee scheme, had to wait until mid-summer. Employment measures too were disclosed in several individual steps from January till June. With such a piecemeal strategy in place, it took the AKP government precisely a year from the outbreak of the crisis to formulate a broader vision of economic policy, outlined in the DPT's Medium Term Programme of September 2009 (DPT 2009).

The reactive character of the AKP's crisis response conformed to the historical pattern of economic policymaking in Turkey (Öniş and Şenses 2007), but its drawbacks were not limited to its delayed and stepwise character. Its composition was also problematic. In the absence of a coordinated recovery plan designed beforehand, measures hastily contrived in response to mounting societal pressures inescapably favoured the better organized and more powerful interests. Thus, industrial and commercial capital that protested and lobbied more effectively than other collective actors emerged as the biggest beneficiary of the government's stimulus efforts. What followed was a selective response that was unmistakably business-friendly in its main orientation, and exceptionally weak on social protection and infrastructure investment. Demand stimulus did not take the form of raising disposable incomes, which could be done either on a one-off basis as in many countries from Chile and Thailand to the US, or through temporary reductions in income taxes of low wage earners. Instead, the dominant stimulus instrument was tax cuts toward consumption goods in overstocked sectors. Likewise, both employment measures and the new industrial investment regime operated on the principle of lowering entrepreneurial costs such as corporate tax reductions, subsidizing employers' share of social security premiums, and research and development supports. Meanwhile labor proposals such as enhanced job security or tax cuts on basic goods were never even part of the policy debate (Turk-İş 2009). About the only items directly targeting lower income households were a minimal raise in unemployment insurance benefits and a limited public employment and vocational training program, which so far have failed to generate high-quality employment (Yeldan 2009). Measures popular elsewhere, such as direct cash transfers to low income families, enhanced social assistance programs or subsidized education loans were categorically ruled out. In fact, a UNDP report finds that within a sample of 35 economies Turkey's fiscal plan scored the lowest on the

social protection front, with less than 1.5% of its stimulus funds allocated to social spending (Zhang et al. 2009). A likewise tendency marked infrastructure investment. If anything, public investment slightly decreased in 2009, contradicting a near-universal trend in countries that did not face a fiscal or financial crisis. These basic trends were consistent with frequent business warnings throughout the crisis that any fiscal incentive the Turkish state provided should have been based on forgone revenue rather than actual spending.¹⁵

The sole area marked by a semblance of coordination in the AKP's crisis response was its foreign economic policy, strategically oriented toward improving Turkey's trade balance by emphasizing South-South cooperation. One aspect of this effort has concentrated on reducing Turkey's energy dependency, given oil and gas constitute its largest import items. To this end the government redoubled its efforts to set up nuclear power plants (contracted out to South Korean firms) while also trying to reinforce the country's strategic position as an energy hub between Asia and Europe by promoting new projects (e.g. Nabucco that includes Russia as the other major partner). More importantly, there have been concerted efforts toward export market diversification to break Turkey's conventional overreliance on the European core, which is expected to recover slower than other regions. For instance, much emphasis was placed on the possibility of attracting the lucrative Gulf capital to Turkey, a quest in which AKP leaders did not refrain from resorting to cultural themes such as Muslim solidarity, albeit with no discernable success. A more concrete step was the mutual easing of visa requirements with over two dozen Middle Eastern, Asian and African countries to facilitate trade opportunities. These energy and export market initiatives are actively portrayed by the AKP as evidence of its long-term vision of making Turkey a true regional superpower, and by extension evidence of its overall policy activism. Although their contribution to Turkey's long-term recovery remains uncertain, for now they successfully complement the party's rhetoric of working toward policy as well as market independence from Western powers, an ever appealing message for its Western-sceptic base (Kardaş 2009).

In retrospect, the AKP government was quite effective in its political management of the crisis. It showed great skill in diverting attention away from narrow economic issues and portraying itself as a progressive force in Turkish politics through its multiple initiatives on the democratization front. The way that the relations with the IMF were managed was also projected as a sign of national strength and autonomy. Indeed, the reluctance to sign an IMF program neatly tied into the overall foreign policy stance which became increasingly

¹⁵ "Hisarcıklıoğlu: Aman devlete harcatmayalım" (Let's make sure the state does not spend), *Milliyet*, 24 July 2009.

assertive, reflecting Turkey's newly discovered self-confidence particularly in its relations with the Middle Eastern neighbours. The fact that Turkish politics was deeply divided on issues relating to secularism and identity clearly helped the government to side-track attention from what appeared to be more technical economic matters. The single-minded concern of the principal opposition parties with issues relating to identity and regime stability and, hence, their failure to draw attention to issues like high unemployment also strengthened the government's hand and enabled it to weather the storm during the local elections of March 2009 without significant loss of popularity. Effective political management of the crisis, however, does not imply that the crisis was well managed on economic grounds. Indeed, given the continuing fragilities of the Turkish economy, the possibility of a quick return to the high-growth equilibrium of the mid-2000s looks slim.

6. Conclusion

Conforming neither to the official financing pattern nor the vigorous stimulus path, the Turkish response to the global economic crisis of 2008-2009 diverged considerably from policy trends in other major emerging market countries. On the official financing front, Turkish policymakers did hold extended negotiations with the IMF, but apparently only to employ the process as a quasi-anchor to manage market expectations while continuing to harbour deep reservations toward an actual agreement. On the fiscal front, the Turkish stimulus was not only overly delayed but also implemented in fits and starts in reaction mainly to business protest; as such it lacked some typical components of the global 'Keynesian resurgence' such as social protection and infrastructure investment. We have invoked three key factors to account for this policy exceptionalism: pre-crisis structural and policy constraints; an orthodox wisdom of crisis diagnosis and resolution narrowly preoccupied with fiscal and financial stability; and domestic party and interest group politics.

Our framework is useful for understanding the interplay of the structural conditions of the economy at the onset of the crisis, the ideational proclivities of policymakers based on present beliefs and past experience, and the coalition building and maintenance strategies of political incumbents in producing national responses to the global economic crisis. Although this argument is articulated for the Turkish context, its basic premise may find broader application in the nascent literature on developing country strategies toward the crisis. The key point is to emphasize that none of these structural-economic, cognitive-ideational and domestic-political factors can offer a conclusive explanation on their own. Given the

universally complex nature of crisis policymaking, a synthetic analysis provides a richer, more accurate perspective.

Two aspects of our discussion deserve further attention, indicating the multi-dimensionality of the factors in question. Perceptions of policymakers are shaped not only by the prevailing policy paradigms of key international organizations such as the IMF and the World Bank, but also by the domestic interpretations of past crises. In the Turkish case, the perception of policymakers in 2008-2009 was heavily conditioned by the prevailing wisdom of the IMF which emphasized fiscal stability and prudential regulation of the financial system at the expense of other objectives. At the same time, the fact that the initial trajectory of the crisis did not conform to that of domestically generated financial meltdowns of the past, which were manifested through instant shocks such as currency collapse, rocketing overnight interest rates, and stock market crash, led to its dismissal as a less serious incident than previous episodes. From this observation followed the policy overconfidence that bold, innovative measures were unnecessary and the prevailing wisdom would easily suffice for recovering from this ‘lesser crisis’. Ironically, in their conservative adherence to this wisdom, Turkish policymakers grew less responsive to the newer ideas that emerged in dominant policy circles, such as the recent IMF position that social protection could be made a viable component of fiscal stimulus plans. In the end, their past experience also generated a selective interpretation of the evolving international policy ideas.

The policies of the AKP government also illustrate how a government could devise skilful political strategies to sidetrack attention from economic issues during a crisis environment and maintain its broad political appeal in the face of a collapse of growth with severe social consequences. Particularly interesting from a comparative perspective was that the resistance to IMF funding was one such strategy, for it is reminiscent of Brazil’s and Argentina’s turn away from the agency earlier in the decade. In that sense the Turkish example is the latest confirmation of an emergent trend—namely, the popular sentiment toward the IMF in most late developers is so negative that an IMF-free policy can become an invaluable political capital for mass parties striving to maintain and bolster their popularity. But unlike its Latin American counterparts, Turkey’s rejection of official financing has not coincided with any shift in its growth strategy and social policies. Herein lays the main drawback of the Turkish response. The relations with the IMF, along with the AKP’s activist foreign economic policy, certainly contributed to the party’s effective political management of the crisis. But this short-term political effectiveness does not imply that the response was

‘optimal’ considering Turkey’s long-standing developmental challenges such as assuring equitable patterns of income distribution and a fast growth path with long-term sustainability.

(*) Professor and Postdoctoral Fellow, respectively, Department of International Relations, Koç University, Istanbul. We thank Aysu Bilgin, Hakan Günaydın, Fulya Yıldırım and Mine Yılmaz for valuable research assistance.

BIBLIOGRAPHY

- Akyüz, Yılmaz, and Korkut Boratav. 2003. “The Making of the Turkish Financial Crisis.” *World Development* 31 (9): 1549-1566.
- Altuğ, Sumru, and Alpay Filiztekin, eds. 2006. *The Turkish Economy: The Real Economy, Corporate Governance, and Reform*. London: Routledge.
- Arıcanlı, Tosun, and Dani Rodrik, eds. 1990. *The Political Economy of Turkey: Debt, Adjustment and Sustainability*. London: Macmillan.
- Atiyas, İzak. 2009. “Recent Privatization Experience of Turkey: A Reappraisal.” In *Turkey and the Global Economy: Neo-Liberal Restructuring and Integration in the Post-Crisis Era*, eds. Z. Öniş and F. Şenses. London: Routledge, 101-122.
- Aydın, Zülküf. 2005. *The Political Economy of Turkey*. London: Pluto.
- Bakır, Caner. “Wobbling But Still on Its Feet: The Turkish Economy in the Global Financial Crisis.” *South European Society and Politics* 14 (1): 71-85.
- Bakır, Caner and Ziya Öniş. 2010. “The Regulatory State and Turkish Banking Reforms in the Age of Post-Washington Consensus.” *Development and Change* 41 (1): 77-106.
- Cizre-Sakallıoğlu, Ümit, and Erinç Yeldan. 2000. “Politics, Society and Financial Liberalization: Turkey in the 1990s.” *Development and Change* 31: 481-508.
- Demir, Fırat. 2004. “A Failure Story: Politics and Financial Liberalization in Turkey, Revisiting the Revolving Door Hypothesis.” *World Development* 32 (5): 851-869.
- DPT (Devlet Planlama Teşkilatı-State Planning Organization). *Medium Term Programme: 2010-2012*. Ankara: DPT.
- Ersel, Hasan. 2009. “Turkish Public Finance in the Post-Crisis Era.” In *Turkey and the Global Economy: Neo-Liberal Restructuring and Integration in the Post-Crisis Era*, eds. Z. Öniş and F. Şenses. London: Routledge, 34-49.
- IMF (International Monetary Fund). 2009. *Update on Fiscal Stimulus and Financial Sector Measures*. Washington, DC: IMF.
- Kardaş, Şaban. 2009. “Turkey: Redrawing the Middle East Map or Building Sandcastles?” *Middle East Policy* 17 (1): 115-136.
- Nas, Tefvik, and Mehmet Odekon, eds. 1992. *Economics and Politics of Turkish Liberalization*. Bethlehem: Lehigh University Press.
- OECD (Organisation for Economic Co-operation and Development). 2009. *Fiscal Packages across OECD Countries: Overview and Country Details*. Paris: OECD.

- Öniş, Ziya. 1998. *State and Market: The Political Economy of Turkey in Comparative Perspective*. Istanbul: Boğaziçi University Press.
- . 2008. “Turkey-EU Relations: Beyond the Current Stalemate.” *Insight Turkey* 10 (4): 35-50.
- . 2009. “Beyond the 2001 Financial Crisis: The Political Economy of the New Phase of Neoliberal Restructuring in Turkey.” *Review of International Political Economy* 16 (3): 409-432.
- Öniş, Ziya, and Barry Rubin, eds. 2003. *The Turkish Economy in Crisis*. London: Frank Cass.
- Öniş, Ziya and Fikret Şenses. 2007. “Global Dynamics, Domestic Coalitions, and a Reactive State: Major Policy Shifts in Post-War Turkish Economic Development.” *METU Studies in Development* 34 (2): 1-36.
- . eds. 2009. *Turkey and the Global Economy: Neo-Liberal Restructuring and Integration in the Post-Crisis Era*. London: Routledge.
- Özatatay, Fatih. 2009. *Finansal Krizler ve Türkiye* [Financial Crises and Turkey]. Istanbul: Doğan.
- Patton, Marcie. 2007. “AKP Reform Fatigue in Turkey: What’s Happened to the EU Process?” *Mediterranean Politics* 12 (3): 339-358.
- . 2009. “The Synergy between Neoliberalism and Communitarianism: Erdoğan’s Third Way.” *Comparative Studies of South Asia, Africa and the Middle East* 29 (3): 438-449.
- Rodrik, Dani. 2009. “The Turkish Economy after the Crisis.” Turkish Economic Association , Discussion Paper 2009/9.
- TEPAV (Türkiye Ekonomi Politikaları Araştırma Vakfı-Economic Policy Research Foundation of Turkey), UNICEF (United Nations International Children’s Fund), and World Bank. 2009. *Turkey Welfare Monitoring Survey* (database). Survey summary available at: http://www.tepav.org.tr/eng/admin/dosyabul/upload/Household_Survey_Eng.pdf.
- TÜRK-İŞ (Türkiye İşçi Sendikaları Konfederasyonu-Turkish Trade Unions Confederation). “Ekonomik Krize Karşı Önlemler Raporu [Report on Measures against the Economic Crisis].” Ankara.
- UNCTAD (United Nations Conference on Trade and Development). 2009. *Trade and Development Report 2009*. New York and Geneva: United Nations.
- Uygur, Ercan. 2010. “The Global Crisis and the Turkish Economy”. Turkish Economic Association, Discussion Paper 2010/3.
- World Bank. 2009. *The Impact of the Global Economic Crisis on the Corporate Sector in Europe and Central Asia: Evidence from Firm-Level Survey*. Washington, DC: World Bank.
- Yavuz, M. Hakan, ed. 2006. *The Emergence of a New Turkey: Democracy and the AK Parti*. Salt Lake City: University of Utah Press.
- Yeldan, Erinç. 2006. “Neo-Liberal Global Remedies: From Speculative-Led Growth to IMF-Led Crisis in Turkey.” *Review of Radical Political Economics* 38 (2): 193-213.
- . 2009. “Turkey’s Response to the Global Crisis: An Initial Assessment of the Effects of Fiscal Stimulus Measures on Employment and Labor Markets.” Mimeo.
- Zhang, Yanchun, Nina Thelen and Aparna Rao. 2009. “Social Protection in Fiscal Stimulus Packages: Some Evidence.” UNDP/ODS Working Paper. New York: UNDP.