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Fikret Şenses

Abstract

This paper provides a critical assessment of Turkey's economic performance under the neoliberal economic policies which have been instrumental in generating a profound transformation in its socioeconomic structure since 1980. The paper draws special attention to the government's loss of policy autonomy and the democratic deficit at the initial and implementation stages of this transformation. It then evaluates Turkey's economic performance on the basis of indicators with medium and long-term impacts, such as investment, saving, industrialization, unemployment, and income distribution. This assessment shows that the neoliberal model has failed to fulfill its promises, with the Turkish economy failing to achieve performance equal to that under the previous import-substitution strategy or in comparable countries. The paper then identifies the main problem areas confronting the economy: the current account deficit, the labor market, insufficient industrial progress and income distribution, and poverty. To solve these problems, it calls for both a radical rethinking of the neoliberal policy regime and for proactive state intervention to stimulate saving and investment as part of a new development strategy, giving primary importance to industrialization, employment creation, and more equitable income distribution.

Keywords: Neoliberalism, democracy, poverty and income distribution, industrialization strategy, role of the state, new international economic order.

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Since the birth of the Republic in 1923, and on the weak economic foundations inherited from the Ottoman Empire, Turkish economic development has been characterized by four key turning points.¹ The early 1930s signaled the transition to import substitution with heavy state intervention in the wake of the Great Depression. The early 1950s saw the opening of agriculture to market forces, stimulation by infrastructural investment and generous support prices, and rapid urbanization. The early 1960s witnessed the introduction of comprehensive economic planning to support and deepen the import substitution process. Finally, in early 1980s, the introduction of the stabilization and structural adjustment program signaled the transition to neoliberal economic policies. These policies, which have penetrated almost all aspects of economic and social life during the past thirty or more years, represent by far the most important transformation of economic policy in Turkey. During this period, outward-oriented and market-based policies have brought foreign trade, factor markets, agriculture, the labor market, and social sectors such as health and education under the influence of all-out neoliberalism. This has gone hand-in-hand with the sharp retreat of the state from the economic sphere. Undoubtedly, this transformation in Turkey was part of and reinforced by a broader picture, appropriately named neoliberal globalization.

The main objective of this paper is to provide an overall assessment of Turkey's economic performance since 1980 under these policies. During this transformation, there were of course a large number of positive developments; most notably in information and communication technologies. However, the paper takes a broadly critical approach in its evaluation of this process.

The plan of the paper is as follows: In the first section, the salient features of Turkish economic development since 1980 are presented. The second section is devoted to a broad evaluation of economic performance since 1980 on the basis of main economic and social indicators. This is followed by a discussion of the main fragilities and problem areas of the economy in section three. Finally, in section four, observations and recommendations pertaining to the future course of the economy are made.

Features of neoliberal transformation

The salient features of Turkey's neoliberal transformation of crucial importance for understanding this process can be classified as follows:

1 For an analysis of the main turning points of the Turkish economy since 1950, see Ziya Öniş and Fikret Şenses, "Global Dynamics, Domestic Coalitions and a Reactive State: Major Policy Shifts in Post-War Turkish Economic Development," *METU Studies in Development* 34, no. 2 (2007).

Just before the introduction of the neoliberal program in 1980, there were important by-elections which led to the resignation of the government in office. The new (minority) government introduced the program just weeks after it came to power. Although economic issues were center stage during the heated election campaign, there was no hint of a new program.² Academic studies at the time showed that public opinion was generally against such a radical transformation of economic policy.³ The fact that the new program caught the Turkish people unawares said a great deal about the undemocratic nature of the program, and foreshadowed later developments.

The program was faced with a great deal of opposition from the outset. Opposition parties, trade unions, the mass media, and academics were at the forefront of this opposition. Just when the government was about to lose its support in parliament, there was a military takeover, which immediately declared its wholehearted support for the program. The military government stayed in power until late 1983 by silencing all opposition through repressive measures, and played a crucial role in the sustainability of the program in its early years. The banning of trade unions and the long-term imprisonment of their leaders were early signs of the pro-capital nature of the new regime and its neoliberal program, both of which have had a lasting impact.

Another key factor contributing to the prominence of the program in the Turkish economic sphere was the external support it received. While the IMF was dominant in the design of the short term stabilization aspects of the program, the World Bank played a much more crucial role in the medium and long-term transformation of the economy through its structural adjustment policies, involving the cancellation of industrial projects, the liberalization of foreign trade and of the domestic financial sector, and the subsequent extensive privatization of state-owned economic enterprises. Turkey was one of the first testing grounds for the joint World Bank-IMF approach which later came to be known as the Washington Consensus. Despite these strong external links, the program was skillfully presented to the Turkish public as Turkey's own policy. The World Bank and IMF, which nowadays champion the concept of good governance, showed no scruples in collaborating with a highly repressive military regime. The conditions under which the program was put into action and the

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- 2 See Fikret Şenses, "Short-term Stabilization Policies in a Developing Economy: The Turkish Experience in 1980 in Long-Term Perspective," *METU Studies in Development* 8, no. 1-2 (1981).
 - 3 See Kutlay Eberi, "Turkish Apertura, Part I," *METU Studies in Development* 7, no. 3-4 (1980).

subsequent close association of neoliberal policies with a repressive military regime have had far-reaching impacts on the development of democracy in Turkey.

Following the end of the military regime towards the end of 1983, Turkey's neoliberal transformation gained new momentum. However, this meant that the so-called structural reforms undertaken during this period were implemented before short-term stabilization was achieved. One wonders why the Bretton Woods institutions ignored the influential extant literature on the timing and sequencing of structural reforms, which advised "stabilization first, then other reforms."⁴ This negligence while the Turkish economy was under the strong influence of Bretton Woods institutions was undoubtedly partly responsible for the long period of high and variable inflation and the deep economic crises that Turkey suffered in subsequent years.

The decision to liberalize the capital account in 1989 was taken before an appropriate regulatory framework was put into place. This was a major factor behind the speculative hot money flows, high real rates of interest, and deep economic crises that Turkey suffered in 1994, 2000-2001, and 2008-2009, with devastating socio-economic consequences; most notably on labor markets. One wonders again why the Bretton Woods institutions failed to provide adequate warning against such premature steps. Can we perhaps begin to develop a new concept of international financial institution failure to supplement those of market failure and government failure?

Efforts to understand economic performance since 1980 should also take into account three exogenous factors: First, the Marmara earthquake in 1999 affected a large area of the industrial heartland, with devastating human and material costs. Second, the Kurdish problem and the insistence on solving it by force aggravated the burden of military expenditures on the economy.⁵ Third, during the period under investigation, both the historical crises in other emerging

4 See Ronald I. McKinnon, "The International Capital Market and Economic Liberalization in LDCs," *The Developing Economies* 22, no. 4 (1984); Stanley Fischer, "Issues in Medium-Term Macro Economic Adjustment," *World Bank Research Observer* 1, no. 2 (1986); Jeffrey Sachs, "Trade and Exchange Rate Policies in Growth Oriented Adjustment Programs," in *Growth Oriented Adjustment Programs*, eds. Vittorio Corbo, Morris Goldstein, and Mohsin Khan (Washington DC: IMF and World Bank, 1987).

5 Estimates by public figures of the economic costs of the armed conflict associated with the Kurdish problem range from 250 to 300 billion dollars. A recent technical study incorporating both the direct and indirect costs, but covering only the 1984-2005 period, provides more modest estimates; in the range of 148-170 billion dollars. See Servet Mutlu, "The Economic Cost of Civil Conflict in Turkey," *Middle Eastern Studies* 47, no. 1 (2011).

economies—most notably Russia in 1998—and the financial crises in the centers of capitalism since 2008 have left their mark on the economy.

Since the early 1980s, economic debate under neoliberalism has been characterized by a disproportionate preoccupation with short-term issues. While short-term changes –such as those in interest rates, exchange rates, public sector borrowing requirements and other financial indicators– have constituted part of daily agendas in both the public and private domains, issues with strong medium and long term connotations –such as investment, saving, industrialization, unemployment, and income distribution– have been largely relegated to the background.

During much of the neoliberal period, economic policies have been under the strong influence and even direction of the IMF and the World Bank and, especially after the mid-1990s, the European Union. This has been instrumental in weakening domestic policy-making capability.

The neoliberal period has witnessed the sharp withdrawal of the state from the economic scene. The state has lost control of instruments such as interest rates, exchange rates, foreign trade policy, state economic enterprises, and public sector banking. This, together with Turkey's commitments to international institutions such as the World Trade Organization, has meant a sharp narrowing of policy space. Especially after the 2001 crisis, all-out privatization of state economic enterprises was accompanied by a denial of the developmental role of the state.⁶ Apart from the weakening of state institutions, this period also witnessed the erosion of the influence of civil society organizations such as trade unions and cooperatives.

Neoliberalism has also been instrumental in transforming the moral base of society towards extreme individualism. The collapse of the world socialist system and the declining interest in development issues in the industrialized world have no doubt contributed to this process. These developments have been echoed in Turkey by slogans reinforcing the neoliberal model, such as “the world is changing” and “there is no alternative.”

6 See Ziya Öniş, “Power, Interests and Coalitions: The Political Economy of Mass Privatisation in Turkey,” *Third World Quarterly* 32, no. 4 (2011).

Economic performance under neoliberalism⁷

Turkey's economic performance under neoliberalism can be assessed on four different bases:

1. The first one is the well-known counterfactual of what the outcome would have been, had Turkey not made the transition to neoliberalism in early 1980s. The immediate and most common answer to this question would be "total disaster" because, faced with a severe balance of payments problem, the old model of statist import-substitution in place before the transition was no longer sustainable. But another counterfactual is possible here: one can ask what Turkey's performance would have been, and particularly in its level of industrialization, if the substantial external resources coming Turkey's way to support the neoliberal program (most notably from the IMF and the World Bank) had instead been made available to planners and policy makers to support the existing import-substitution drive in intermediate and capital goods? The fact that the latter course was not followed demonstrates how significantly the donors' policy preferences affected the Turkish economy at this critical juncture.

2. Economic performance under neoliberalism can also be evaluated by comparing this period with the immediately preceding one on the basis of main economic indicators: The average annual rate of growth of GDP per capita during 1980-2010 was 2.3 percent, which was below the 3.1 percent achieved during the 1950-80 period.⁸ A similar picture emerges when we compare the 1963-79 and 1980-2009 periods. The average annual rate of growth of GDP and GDP per capita were 5.4 percent and 2.8 percent respectively in the first period, as opposed to only 4 percent and 2.2 percent in the second period. Turkey achieved rapid industrialization and high rates of growth during 1963-77—not as high as those achieved by some of the East Asian countries, but still surpassing those achieved by Latin American countries. In contrast, Turkey's rate of growth in the neoliberal period was interrupted by a number of deep economic crises: in 1994, 1999, and 2000-2001, and more recently in 2008-2009; though this last was triggered mainly by external events.

The 1990s, in particular, were characterized by poor performance, and well deserve the title of "the lost decade." There was rapid growth after the 2001 crisis, averaging 6.8 percent during the 2002-2007 pe-

7 Unless otherwise stated, all statistical information in this section comes from the World Bank, *World Development Indicators*, [various issues] (Washington D.C.: World Bank, 2010-2011).

8 Şevket Pamuk, "Economic Growth and Institutional Change in Turkey before 1980," in *Understanding the Process of Economic Change in Turkey*, eds. Tamer Çetin and Feridun Yılmaz (New York: Nova Publishers, 2010), 5.

riod, though this was by and large driven by short term financial flows from the then buoyant world capital markets, and was interrupted by the global financial crisis in 2008. The more recent upsurge in growth—averaging 9.3 percent during 2010-11⁹—has been driven by domestic demand and is concentrated rather in services than in directly productive sectors such as manufacturing and agriculture.

The record of neoliberal economic policies presents no more optimistic a picture when we look at the pattern of structural change. The most important change here has been the sharp rise in the proportion of services at the expense of agriculture. The average share of agriculture in GDP declined from 40.2 percent during 1963-79 to 15.6 percent during 1980-2009, while services increased from 37.4 percent to 54.2 percent of GDP over the same period. Meanwhile, there was little change in the share of manufacturing in GDP, which remained almost stagnant at around 17-18 percent; just as it was at the beginning of the 1980s. The fact that services now account for nearly two thirds of GDP demonstrates the lopsided nature of production structure. This production structure is an indicator of the failure to generate structural change towards industry and the consequent informalization of the economy around low-productivity and low-wage activities. The lack of structural change is also evident in the structure of employment, with services and agriculture together accounting for 75 percent of total jobs in 2009.¹⁰ Also, nearly half of those employed at this time (43.8 percent) were not covered by social security institutions.

On the inflation front, too, the record of the neoliberal period compares unfavorably with the preceding one, with the average rate of inflation since 1980 reaching 51 percent; more than three times the level during 1963-79 (16 percent). More recently, there has been a sharp reduction in the rate of inflation, which has even reached single digits in some years. It must be noted, however, that this reduction has been partly due to the considerable overvaluation of the lira.

3. The third basis for assessing Turkish economic performance under neoliberalism is a comparison with the performance of other countries. It must be stated right at the outset that Turkey's per capita GDP growth during 1963-79 was a little over that of developing countries (2.8 percent versus 2.4 percent respectively) whereas during 1980-2010

9 The data for 2011 covers the first three quarters, only. See Türkiye İstatistik Kurumu (TÜİK), www.tuik.gov.tr.

10 In 2009, industry accounted for 25 percent of total employment, while agriculture, which accounted for around 9 percent of total production, represented 26.6 percent.

it was slightly under (2.3 percent versus 2.4 percent).¹¹ Partly as a reflection of its still high rate of population growth, Turkey's GDP per capita growth under neoliberalism (2.2 percent from 1980-2009) was also below the performance of middle income countries (2.7 percent) in the same period.

In terms of rates of both domestic saving and investment, Turkey in the neoliberal period has lagged behind both lower-middle and upper-middle income countries. In particular, Turkey's domestic saving rate during 2006-2009 was only 16.1 percent on average as opposed to 37.3 percent and 24.8 percent for lower-middle and upper-middle income countries respectively. There was a similar picture in investment, with Turkey's rate during the same period (20.2 percent) again falling behind the rate for both the lower-middle (33.4 percent) and upper-middle income countries (21 percent). When a comparison is made with high performing countries such as China, India, and Korea, the gap is much wider. For example, compared to the levels achieved in India during 2006-2009, Turkey's domestic saving rate was only half, and investment rate only two thirds. These differences are much sharper if this comparison is made with China.¹²

In terms of the share of manufacturing in GDP, during 2006-2009 Turkey, with an average share of only 18.6 percent, again lagged far behind China (33.2 percent), Korea (27.5 percent), and Malaysia (27.2 percent), as well as the average of middle income countries (21.2 percent). An important indicator that blurs Turkey's performance has been its failure to generate sufficient change in the structure of the labor force, with agriculture still accounting for a quarter of total employment (25.2 percent in 2010).¹³ Another indicator that can be used to assess where Turkey stands internationally after thirty years of neoliberalism is its very low position in the Human Development Index published by the UNDP, in which it ranked eighty-third out of 169 countries in 2010.¹⁴

4. The fourth and final basis for assessing Turkey's performance under neoliberalism is to compare the promises of the new model with its actual outcomes. In the 1970s, many academic studies—such as the seminal one by Little, Scitovsky and Scott (1970)¹⁵—were highly criti-

11 Pamuk, "Economic Growth," 5.

12 The corresponding saving and investment rates in China were a massive 41.5 percent and 28.2 percent respectively.

13 TÜİK.

14 United Nations Development Programme, *Human Development Report 2011* (New York: UNDP, 2011).

15 Ian Little, M.D. et al., *Industry and Trade in Some Developing Countries: A Comparative Study* (London: Published for the Development Centre of the Organization for Economic Co-operation and Development by Oxford University Press, 1970).

cal of statist import-substitution policies in developing countries, and were highly influential in the transition to the neoliberal model. However, they were very optimistic in their expectation that the new model would yield much better performance. The key outcomes they expected included:

- ♦ a rise in saving and investment rates,
- ♦ increased momentum in growth, employment, industrialization and exports,
- ♦ improved income distribution,
- ♦ the reduction of corruption and rent-seeking arising from administrative controls,
- ♦ the removal of the bias against agriculture and exports.

Let us briefly look at each one of these promises in the Turkish context.

There was some improvement in both the saving and investment rates, which rose from an average of 12.8 percent and 15.4 percent during 1980-82 to 16.1 percent and 20.2 percent during 2006-2009, respectively. However, as shown above, these were still far below comparable international rates. The increased attractiveness of speculative financial instruments under neoliberalism has meant the diversion of domestic savings away from investment in real sectors, reinforced by a sharp fall in public investment in manufacturing.

Likewise, growth performance fell behind the earlier period, and was interrupted by deep economic crises on several occasions. Growth has become increasingly dependent on short term and speculative international capital flows. There has also been a lack of structural change in production and employment towards manufacturing. Instead, services have gained increased prominence in production, while employment has continued to be dominated by services and agriculture.

It was also hoped that the new model would generate rapid growth in employment by removing factor price distortions and changing the pattern of sectoral specialization of the earlier period, which had encouraged the adoption of capital intensive techniques of production. However, the rate of employment growth during the neoliberal period—and in the manufacturing sector in particular—even fell below the rates attained in the earlier period.¹⁶ The growth elasticity of employment

16 The average annual rates of growth in employment during 1980-98 and 1963-79 were 1.5 percent and 1.7 percent respectively, while the corresponding rate for the 2001-2010 period was only 0.6 percent. See Özlem Onaran, "Türkiye'de İhracat Yönelimli Büyüme Politikalarının İstihdam Üzerindeki Etkileri," in *İktisat Üzerine Yazılar II: İktisadi Kalkınma, Kriz ve İstikrar - Oktar Türel'e Armağan*, eds. Ahmet H.

remained around 0.5,¹⁷ and “jobless growth” even emerged as part of everyday jargon. In all this, the cutbacks in public sector employment were a major factor.

Although the quality of available data and the lack of comparable studies over time do not allow us to come to a firm conclusion, by most accounts income distribution has worsened under neoliberalism. Official statistics show that income distribution in Turkey lies somewhere between low-inequality East Asian countries and high-inequality Latin American ones, though it is much closer to the latter. In 2010, the average income of the richest 10 percent of the population was fourteen times that of the poorest 10 percent.¹⁸ There was also a sharp deterioration of functional income distribution,¹⁹ confirming the pro-capital nature of neoliberal transformation. Furthermore, with a total average public expenditure on health and education of just 6.9 percent of GDP in 2005-2007, Turkey lags behind not only the OECD average (11.9 percent) but also that in comparable countries such as Spain (10 percent), Portugal (12.2 percent), and Greece (9.7 percent), and this by a wide margin.²⁰

The record of the neoliberal period has been no better in terms of corruption and rent-seeking. Fictitious exports exploiting Turkey’s generous export incentive scheme in the 1980s, high profile banking scandals, and privatization related cronyism have all provided ample reasons to believe that rent-seeking and corruption have only changed their form and, if anything, have become more widespread.

In terms of agriculture, this sector was also admittedly at a disadvantage under the previous policy regime, especially in the allocation of scarce foreign exchange resources and public investment. However, this was compensated to some extent by the provision of generous support

Köse, Fikret Şenses, and Erınç Yeldan (Istanbul: İletişim, 2003), 581.

- 17 The growth elasticity of non-agricultural employment has been estimated at around 0.4-0.5 for the 2010-2011 period. See Seyfettin Gürsel and Mehmet Alper Dinçer, *İşsizlik artmaya devam edecek*, BE-TAM Araştırma Notu No.32 (Istanbul: Bahçeşehir Üniversitesi, 2009). Another study has estimated employment elasticity for total employment for the 1995-2007 period as only 0.2. See Alparslan Akçoraoğlu, “Employment, Economic Growth and Labor Market Performance: The Case of Turkey,” *Ekonomik Yaklaşım* 21, no. 77 (2010).
- 18 This data refers to the distribution of equalized household disposable income as given by TÜİK: http://www.tuik.gov.tr/VeriBilgi.do?alt_id=24.
- 19 The share of non-wage income in total factor incomes increased from 47.3 percent in 1980 to 57.6 percent in 1994. See Süleyman Özmucur, “Yeni Milli Gelir Serisi ve Gelirin Fonksiyonel Dağılımı, 1968-1994,” *METU Studies in Development* 23, no. 1 (1996): 91. On the decline in real wages during 1998-2010, see Korkut Boratav, “On İki Yıllık Bir Bölüşüm Bilançosu,” (2011), <http://haber.sol.org.tr/yazarlar/korkut-boratav/on-iki-yillik-bir-bolusum-bilancosu-40202>.
- 20 World Bank, *World Development Indicators*. Figures for education for Turkey, Greece, and Portugal refer to the average of 2002-2004, 2003-2005, and 2004-2006 periods respectively.

prices, subsidized credit, other input subsidies, and a low tax burden. On the other hand, the neoliberal period has witnessed the withdrawal of most government support from this sector. Agriculture has instead come under the strong influence of international organizations such as the World Bank, IMF, World Trade Organization and the European Union. This has meant the privatization of state agricultural enterprises and agricultural trade liberalization which have had adverse impacts, especially on the domestic production of crops like sugar beet, tobacco, wheat and maize. The increasing influence of transnational agribusiness in this process has led to the spread of contract farming and, along with the developments in input and crop prices, to the impoverishment of peasant farmers.²¹

The neoliberal model was most successful in the sphere of exports, which managed to recover from the export pessimism of the earlier period in a short time. Rapid growth in exports, both in absolute terms and as a share of GDP, was accompanied by market diversification and a sharp change in its structure towards manufactured goods.²² Even here, though, one should not overlook the role of enterprises established under the earlier import-substitution period in this performance. One issue now causing serious concern is the high import dependence of the current exports.

To summarize, our assessment of Turkish economic performance under neoliberalism on the basis of the previous period, other country groups, and the promises of the neoliberal transition has shown that, after more than three decades of uninterrupted implementation, and with the possible exception of export growth, the neoliberal model has dismally failed to fulfill its promises, and, perhaps more significantly, has failed to match the performance of the previous import substitution strategy. Moreover, the economy is now confronted with a number of formidable problems pertaining to its future course.

Main problems confronting the economy

The main problems confronting the economy can be classified under the following headings:

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- 21 For details, see Zülküf Aydın, "Neo-Liberal Transformation of Turkish Agriculture," *Journal of Agrarian Change* 10, no. 2 (2010).
- 22 The ratio of exports to GDP increased from an average of 4.6 percent during 1963-79 to 18.3 percent during 1980-2009. During the same period, the share of manufactured exports in total exports rose from 12.6 percent to 69.1 percent. World Bank, *World Development Indicators*.

Current account deficit

Despite steps taken in recent months to reduce it, current account deficit is still at an alarming level. With imports growing much faster than exports, the main culprit here is Turkey's sizable foreign trade deficit. In 2011, it reached 89 billion dollars and the current account deficit 77 billion dollars, or more than 10 percent of GDP. Given Turkey's high dependence on oil imports, this overall picture would undoubtedly be worsened by another spurt in oil prices or by further prolongation of the current economic difficulties in Turkey's European trading partners.

Notwithstanding some structural change towards automotive, machinery and equipment, and electronic consumption goods, a large share of exports is still made up of textiles and clothing, iron and steel products, and food and beverages.²³ On the other hand, high technology-intensive products account for a very low share of total manufactured exports, averaging 1.9 percent during the 2006-2009 period. This represents a level far below the average attained over the same period by countries of middle income (18.6 percent), lower middle income (23 percent) and even low income (2.9 percent).²⁴ Exports have also become highly dependent on imports, partly as a result of cheap intermediate goods imported from China. This is actually reminiscent of the high import dependence of production and investment in the latter stages of import-substituting industrialization.

However, there is a certain degree of political indifference about the size of the current account deficit and dependence on short term capital flows, and this neglects the pressures that externally financed growth and high external indebtedness impose on the balance of payments. The external debt/GDP ratio during 2006-2010 reached an average of 38 percent; much higher than the 14 percent reached during 1973-77, and even the 24 percent in 1979,²⁵ when severe payments difficulties paved the way for the transition to the neoliberal model. Another factor which may hinder a pattern of growth based on short-term capital flows is the recent slowdown in direct foreign investment. The fragilities of the Turkish economy may be aggravated if the current global crisis also spreads to emerging markets.

23 Our calculations show that, in 2011, these three categories accounted for 18.5 percent, 12.6 percent, and 10.1 percent of total exports respectively: http://www.tuik.gov.tr/VeriBilgi.do?alt_id=12.

24 World Bank, *World Development Indicators*. The figure for low income countries refers to the 2004-2007 period.

25 Ibid.

Low agricultural productivity

The low level of agricultural productivity is another problem area. Large intersectoral productivity differentials explain in large part the pattern of income distribution, the pace of rural-urban migration and the state of the labor market. In urban areas, the slow pace of employment creation leads to the reproduction of these problems in the form of formal and informal sector productivity differentials.

Progress in industrialization

The dominance of low productivity and low-wage services in production is a reflection of insufficient progress on the industrialization front. The necessary research and development expenditure to boost industrialization—especially in skill and technology intensive categories—is still very low, representing only 0.7 percent of GDP in 2007; far below the average level of high income countries (2.3 percent) and middle income countries (1 percent).²⁶ The need for a comprehensive industrial drive to bring about structural change in this direction is precluded by a narrow policy space and, more importantly, the absence of the political will to bring such change about. The industrialization strategy document recently prepared by the government²⁷ takes its cue largely from the neoliberal perspective and provides an insufficient framework for such a drive. The document has a rather short-term perspective, covering only the 2011-2014 period and does not situate industrialization within a broad developmental framework. As a result, it fails to come to grips with essential developmental issues such as capital accumulation, employment creation and income distribution. The exclusion of labor organizations from its preparatory stages is a reflection of its pro-capital bias. Heavily influenced by the market-based and outward-oriented framework of the Bretton Woods institutions and Turkey's EU membership prospects, it also fails to recognize the role of the state in the industrialization process. This is most visible in its neglect of the role of public sector banking and public manufacturing investment. Instead, the strategy document seems to attach primary importance to linking Turkish manufacturing with European value chains through foreign direct investment and gaining world-market competitiveness through suppressed wages. It thus provides insufficient basis for its objective of positioning Turkey as "a production base of Eurasia for medium and high technology products"

26 Ibid.

27 Sanayi ve Ticaret Bakanlığı, *Türkiye Sanayi Stratejisi Belgesi 2011-2014* (Ankara: Sanayi ve Ticaret Bakanlığı, 2010), http://www.sanayi.gov.tr/Files/Documents/sanayi_stratejisi_belgesi_2011_2014.pdf.

or for bringing about the much-needed transformation of manufacturing industry towards intermediate and capital goods.²⁸

The labor market

The labor market still presents by far the most complex set of issues for policy makers. Population growth, although slowing, still exerts formidable supply-side pressures. During 2002-2009, the labor supply grew at an annual rate of 1.1 percent, while the labor force participation rate remained low, and was only 47.9 percent in 2009.²⁹ The rate of female labor force participation in urban areas is only 26 percent.

Employment creation falls far short of coping with these formidable supply-side pressures, especially in manufacturing. It is also doubtful whether agriculture can continue to absorb much labor, given the problems it faces. An acceleration of migration to urban areas would further test the capacity of urban service sectors to act as an employer of last resort.

The degree of slack in the labor market is of alarming proportions. According to a narrow definition—based only on those looking for a job—unemployment in 2011 stood at 10.8 percent, representing a considerable improvement over the 14 percent and 11.9 percent registered in 2009 and 2010, respectively.³⁰ However, these figures do not reflect the full extent of labor market slack, especially if the low participation rates (due in part to the existence of a large number of discouraged workers)³¹ and the full extent of underemployment³² are taken into account. According to a broad definition of unemployment—which also takes into account those ready to work but not looking for a job—this rate jumps to 16.9 percent.³² In the likely event of the economy slowing down to cope with the alarming levels of current account deficit, the slack in the labor market would be further aggravated.

The profile of the unemployed shows much higher rates among the young, in non-agricultural sectors and in the less developed Eastern and the South Eastern regions.³³ The average level of educational attainment of the labor force is still very low, with nearly two-thirds of

28 For a thorough and critical assessment of the industrialization strategy document, see Serdar Şahinkaya, "Türkiye Sanayi Strateji Belgesi (2011-2014) Üzerine Gözlemler," <http://www.mulkiye.org.tr/filesandimages/file/Sahinkaya.sanayi%2obelgesi.pdf>.

29 World Bank, *World Development Indicators*.

30 TÜİK.

31 For example, when discouraged workers are included, the unemployment rate for 2009 increases from 14 percent to 19 percent.

32 TÜİK.

33 Youth unemployment in December 2011 was a massive 18.1 percent. TÜİK.

those employed with less than a high-school level of educational attainment.³⁴

Income distribution and poverty

Neoliberal economic policies have also left their mark on income distribution and poverty. The move away from equality of opportunity is most visible in the spheres of health and education, which are fast being privatized and are increasingly subject to market forces. The concurrent privatization and informalization of economic activities have been instrumental in the rapid deunionization of the labor force.³⁵ The penetration of neoliberalism into the agricultural sector, especially since the late 1990s, has led to the marginalization of small and medium-scale farmers. High and variable rates of inflation and the ensuing volatility in interest rates and the exchange rate, especially during times of economic crisis, have led to large changes in income distribution; a phenomenon aptly described as “casino capitalism.” There are also sharp regional inequalities in income distribution and access to public services. The tax structure is highly regressive, with more than two-thirds of total tax income (71.1 percent) in 2010 being derived from indirect taxes.

Functional income distribution is strongly tilted towards profits. For example, in 2010, real wages in manufacturing were 12.5 percent below their level in 1998, while labor productivity increased by a massive 70 percent during the same period,³⁶ due in part to labor shedding. With exports highly dependent on imports, the recent real depreciation of the Lira may entail further downward pressure on wages.

Poverty has also emerged as a major problem under neoliberalism. In 2006, official statistics put the poverty rate (based on the international poverty line of two dollars per day) at 8.2 percent,³⁷ with higher rates in rural areas and southeastern and eastern regions.

Nevertheless, during the neoliberal era, policy-makers have been virtually silent on income distribution, let alone made any mention of the sizable inequalities in wealth distribution. A similar reluctance governs the management of the labor market, with no sign of active employ-

34 Nurhan Yentürk and Cem Başlevent, *Türkiye’de Genç İşsizliği*, Gençlik Çalışmaları Birimi Araştırma Raporu No.2 (İstanbul: İstanbul Bilgi Üniversitesi Gençlik Çalışmaları Birimi, 2007), <http://www.se-tav.org/ups/dosya/10409.pdf>.

35 For example, trade union density in Turkey decreased from 10.6 percent in 1999 to 5.9 percent in 2009. The latter figure was well below the OECD average of 18.4 percent and around 69 percent in Finland, Denmark and Sweden. See “Trade Union Density,” *OECD.StatExtracts* (2012), http://stats.oecd.org/Index.aspx?DataSetCode=UN_DEN.

36 Boratav, “On İki Yıllık Bir Bölüşüm Bilançosu.”

37 World Bank, *World Development Report 2011* (Washington DC: World Bank, 2011), Table 2, 347.

ment creation policies. The poverty alleviation agenda has been dominated throughout by the perspectives of international institutions; most notably the World Bank. Poverty analysis thus shies away from linking poverty with wealth and income distribution or problems associated with the labor market, and is instead confined at best to the narrower perspective of social policy. In the absence of a country-specific poverty alleviation strategy, solutions are sought in the efforts of the poor themselves, the support of families and relatives, person-to-person assistance (encouraged at times through appeals to religious sensitivities), the work of NGOs, transfers through public institutions (most notably municipalities), and, in some regions, the implementation of micro credit programs. While welcoming all efforts aimed at poverty alleviation, we should not attach high hopes to the idea that the measures outlined above could make much of a dent in poverty of such magnitude.

Prospects and conclusion

The assessment of Turkish economic development under neoliberalism so far should be qualified by two caveats: First, the observations and findings pertaining to the Turkish economy apply equally well to a large number of other countries at a similar level of development. With the exception of a handful of countries headed by China and India—which have in any case diverged from the neoliberal model in some significant ways—neoliberalism has not performed much better in the vast majority of developing countries. While it removes all barriers against the movement of capital, neoliberal globalization continues to impose insurmountable barriers to the movement of labor, especially unskilled labor, and is determined to preserve its pro-capital character. It remains almost silent in the face of the widening development gap, and is associated with increasing inequality. For example, the number of people facing starvation has reached nearly one billion, and is increasing.³⁸ The number of unemployed and poor people globally has also reached new heights. Even within the OECD, the share of labor in GDP is falling,³⁹ contributing to increased inequality in the distribution of income and wealth.

38 The United Nations' Food and Agriculture Organization (FAO) estimates the number of hungry people in the world at 925 million for 2010, representing a significant increase over the level of 850 million they calculated for the 2006-2008 period. *The State of Food Insecurity in the World: How Does International Price Volatility Affect Domestic Economies and Food Security?*, (Rome: IFAD, WFP, FAO, 2011), <http://www.fao.org/docrep/014/i2330e/i2381e00.pdf>.

39 See Andrew Glyn, *Explaining Labor's Declining Share of National Income*, G-24 Policy Brief No. 4, <http://www.g24.org/PDF/pbno4.pdf>. For example, in the United States, during the 1973-2007 period, while the productivity of male workers increased by a massive 83 percent, their median real wages increased by only 5 percent. *The Economist*, March 27, 2011.

This points to the systemic characteristics of neoliberal globalization, and suggests that solutions should be sought in part in the global realm. Given the restrictions emanating from the international environment, the possibilities for action by individual nation states cannot be independent from developments in the international environment. The growing power and influence of multinational corporations is not confined to the economic sphere. The international organizations which dominate the global development agenda have special relations with powerful nations and still lack democratic decision-making.⁴⁰ In the international sphere too, we face democratic deficit and grave distributional problems.

The need for a new international economic order is as urgent now as it was way back in the 1970s, as also evidenced by the growing dissatisfaction with the neoliberal paradigm in the centers of capitalism as well as in the developing world. Appealing simply to the morality and altruism of rich countries cannot take us very far, as is easily witnessed in their poor record on developmental aid. A radical rethinking of neoliberalism may come about from a distributional crisis at the national and international levels, aggravated by growing unemployment and triggered by deep financial instability. The failure to put in place appropriate regulatory mechanisms at the global level may increase such a possibility. The current system-wide crisis of capitalism, the great stagnation, unrest and violence in some rich countries may be early signs of later developments.

Second, this assessment of the Turkish economy's historical performance should not be taken to mean that everything was perfect under the previous regime of statist import substitution. Instead, it should be read as emphasizing that the neoliberal model that replaced it has worsened some of the key economic and social indicators, without generating an overall improvement. Our critical assessment so far should therefore be taken as a call for a radical rethinking of the neoliberal economic policies implemented since 1980.

Against the background of thirty-odd years of neoliberal development in Turkey, the question of the future course of the economy can be approached on the basis of several propositions:

Thirty years of neoliberalism have had an adverse impact on political and cultural life, and have hindered the development of grassroots democracy. In a semi-industrialized country characterized by

40 See Ziya Öniş and Fikret Şenses, "Rethinking the Emerging Post-Washington Consensus: A Critical Appraisal," *Development and Change* 36, no. 2 (2005).

widespread poverty and inequality, weak and weakening civil-society organizations (most notably the trade unions) and poor human development indicators, it is unlikely that much headway can be made towards democracy.

Growth dependent on unregulated capital inflows is unstable and unsustainable. This pattern of growth has failed to generate sufficient levels of investment and has resulted in an increase in current-account deficit and growing external indebtedness.

There is a delicate balance between the role of free markets and government intervention. In a semi-industrialized country, the role of the state cannot be confined to regulation. It must also play a role in generating structural change by encouraging industrialization, taking initiatives in health and education and reducing inequality through redistributive policies.

Wages are not only a cost element on the supply side, but also an effective instrument for increasing domestic demand. Low wages should not be regarded as a means for gaining world market competitiveness.

While recognizing the fact that neoliberal globalization is imposing severe restrictions on their policy space, nation states should do their best not to miss the opportunities that still exist, while at the same time pushing hard to enlarge this space. To this end, relatively large economies like Turkey should develop effective mechanisms for collaboration with others. Steps taken in successive BRIC summits may be seen as a good start in this direction.

Although external dynamics and international institutions play an important role in policy shifts, there should be a growing awareness that, in the final analysis, solutions to problems are to be found within the confines of a national development strategy based on the full participation of all parties concerned. The cornerstones of this strategy should be:

- i. close monitoring of developments in the international economy and the opportunities they offer and the recognition of the complementarity between the role of state and market forces, rather than all-out reliance on market forces,
- ii. emphasis on increasing domestic saving and capital accumulation, and a reassessment of the tax structure and the distribution of public services from the perspective of income distribution,
- iii. rapid structural change in production and employment through rapid industrialization and growth, with emphasis on technologi-

- cal upgrading and innovation,
- iv. reconsideration of policies towards agriculture, especially in view of the adverse impact of the rapid removal of agricultural subsidies and the hasty changes in product mix on employment and poverty,
 - v. increased recognition that effective poverty alleviation requires rapid and equitable growth based on productive employment. Some progress in these spheres in recent years notwithstanding, rapid growth alone cannot be relied on to significantly alleviate poverty, inequality and unemployment. It is the structure and pattern of growth as well as its speed that counts,
 - vi. development of separate strategies for industrialization, labor markets, and poverty/income distribution as integral parts of the broader development strategy, beyond the neoliberal perspective,
 - vii. a guiding awareness among policy-makers that in all successful industrialization processes from the First Industrial Revolution to the more recent cases,⁴¹ the state has played an effective role in structural change based on the utilization of dynamic comparative advantage,
 - viii. active steps by the state to create new enterprises in high-value-added and high-technology sectors, to deepen industrialization through structural change within the industrial sector. In line with the infant industry argument, enterprises in these sectors could, after reaching world market competitiveness, be taken over by the private sector. Such an industrialization drive is also essential to increase the share of technology-intensive products in total exports,

Among the other components of the industrialization-driven growth strategy proposed here, four are of special importance:

- i. increasing R&D expenditure and its effectiveness as part of government efforts in education and innovation,
- ii. reallocation of bank credits away from residential construction and consumption towards directly productive sectors such as agriculture and industry,
- iii. regulation of short-term capital inflows which have long been a source of economic instability,

41 See Ha-Joon Chang, "Kicking Away the Ladder: Infant Industry Promotion in Historical Perspective," *Oxford Development Studies* 31, no. 1 (2003); Mehdi Shafaaddin, "Towards an Alternative Perspective on Trade and Industrial Policies," *Development and Change* 36, no. 6 (2005).

- iv. a more selective policy towards direct foreign investment to influence its choice of sector and contributions, vis-a-vis technology, employment, and exports.

Success in implementing these policies depends first and foremost on the existence of consensus and political will around them, followed by the development of effective mechanisms to cope with the possible trade-offs among these objectives. With its young and dynamic population, large domestic market, and geographic location at the intersection of major markets, Turkey demonstrates good potential to bring about such a transformation. The resilience of the economy during crises and its recent record-high levels of growth are further signs of its dynamism.

The thirty-odd years under neoliberalism that this paper has attempted to assess has been a long period. Yet compared with the centuries of evolution of economic thought, it is a very short time indeed. We should therefore not get carried away with the dictum that “there is no alternative,” and should continue to work in search of alternatives. Efforts in this direction should be based in the first place on a synthesis of what we have learned from our experience under neoliberalism and the statist, import-substituting industrialization that preceded it.

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