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POLITICAL ECONOMY

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Introduction

While there does not exist a generally accepted definition of the term, this entry takes "political economy" to refer to institutional matrices that structure the organizational relationships among economic actors in production and distribution, which are supported by domestic and international policy regimes. There is a growing consensus in the political economy literature that, first, these institutional matrices are generally taken to be nationally specific while showing similarities across diverse varieties within capitalism, broadly defined, and second, the quality (and complementarity) of these institutions determines the relative economic performance of domestic political economies (Hall and Soskice, 2001). The performance of such matrices is judged by the extent to which "they generate relatively high rates of economic growth and employment, while resolving distributive issues with a minimum of social conflict" (Hall, 2010: 3).

There exists, however, no consensus in the literature on comparative political economy as to what the dimensions of these institutional matrices constitute. Domestic political economies, as conceived in this chapter, are institutional matrices comprising the production regime, the distributive regime, the policy regime, and the international regime. These regimes address, individually and collectively, the fundamental problems of demand, wages, employment, and productivity in domestic political economies. In tracing continuity and change in the Turkish political economy in the last three decades, this chapter will rely on Hall's (2010) synthetic but analytically rigorous portrayal of political economic institutions. First, it reviews the comparative political economy literature that focuses on Turkey. Second, it traces elements of continuity and change in the institutional pillars of the Turkish political economy, looking primarily at the period since 1980, preceded by a brief discussion of the period covering the 1960s and 1970s. Finally, it discusses the ways and means through which politics and markets interact in the Turkish political economy.

Turkey in the comparative political economy literature

The comparative political economy literature has evolved in a dichotomous manner, so that the scholarly work on advanced industrialized countries and that on developing countries are presented in virtual isolation from one another. In this binary world, we view different clusters of political economies through entirely distinct epistemological lenses. It seems that few countries have been the subject of both bodies of literature. A cursory review of the literature on the Turkish political economy shows that Turkey has been exclusively a subject of the body of literature that focuses on developing areas. Inclusion of the Turkish political economy in this literature, and specifically that relating to the Middle East, may be natural given Turkey's Ottoman legacy.[1] However, there are substantive and epistemological grounds to study the Turkish political economy with the instruments developed in the comparative political economy literature focusing on advanced industrialized countries. Substantively, ranking as the sixteenth-largest economy in the world (IMF, 2010), with a track record of rapid industrialization and a democratic polity, Turkey constitutes an upper-middle-income country, which may be studied through the conceptual tool box borrowed from the literature on advanced industrialized countries. Epistemologically, the Turkish political economy constitutes a "crucial case," which would not only allow conceptual borrowing from both bodies of literature but would also help test causal hypotheses therein. This section first briefly reviews the literature on the Turkish political economy that is premised on the tools of the body of literature addressing developing areas. Second, it points to several lines of inquiry within the comparative political economy literature focusing on advanced industrialized countries that may serve as promising frameworks for studying the Turkish political economy.

In the comparative political economy literature on developing countries, almost all works have portrayed the Turkish political economy with reference to its state. This is not surprising given the early Republican legacy of *étatism* (statism), which, launched in response to the Great Depression, left a long-lasting imprint on the modern Turkish political economy. Thus, while the literature has characterized the Turkish political economy variously in different periods, reflecting its changing nature, in almost all characterizations the state was either the object of study or a qualifying adjective. Referring to the 1960s and 1970s, some scholars classified Turkey as a "developmental state" (Aydın, 2005), or qualified this standard terminology by designating it a "fragmented developmental state" (Öniş and Şenses, 2007) or a "non-developmental (precocious Keynesian) state" (Waldner, 1999). Other references included "state-led industrialization" (Waterbury, 1993; Pamuk, 2008a), "statist economic development" (Sayarı, 1996/97), "state-led economic development" (Chibber, 2005), and "state-led growth" (Altuğ *et al.*, 2008)—all emphasizing the central role that the state played in the process of late development-cum-late industrialization. For the period following the 1980s, the Turkish political economy was still characterized in relation to its state, but this time either as a "competition state" (Öniş, 2003), a "regulatory state," or a "reactive state" (Öniş and Şenses, 2007). These scholars characterize such change from one policy phase to the next as a process of structural transformation in the organization and functioning of the domestic political economy with the state either retreating from its key functions or undergoing a process of restructuring. Such characterization, indicating the enduring centrality of the state, points to the path-dependent characteristics of reform in a political economy with a long statist tradition.

In the literature on the political economy of advanced industrialized countries, Turkey has not attracted scholarly attention. As the most influential contemporary account in modeling national political economies in terms of their institutional characteristics, the "varieties of capitalism" approach aims at explaining relative economic performance by analyzing diverse institutional subsystems governing the product, labor, and capital markets of different national capitalisms (Hall and Soskice, 2001). Having identified two varieties of capitalism—"Liberal Market Economies" (LMEs) and "Coordinated Market Economies" (CMEs)—this account classifies Turkey as an advanced industrialized country, yet as being, along with other Mediterranean political economies, in an "ambiguous position". There are, however, other lines of inquiry that revise this approach, which may prove fruitful for studying Turkey.[2] Scholars working on Mediterranean political economies have added a third variety—"Mixed Market Economies" (MMEs)—which are characterized by pervasive state intervention where regulation itself may perpetuate long-term suboptimal equilibria; fragmented and state-controlled employers' organizations and labor unions; and low social protection accompanied by high employment protection (Molina and Rhodes, 2007). Another conceptualization that may be potentially useful for studying Turkey emphasizes the central role that states play in certain domestic political economies by pointing to "State Capitalist" models (Schmidt, 2002). In these *dirigiste* regimes (e.g., France and Italy), corporate relations are mediated by the state, government relations are state directed, labor relations are adversarial, and wage bargaining is state controlled. Scholars working on the Turkish political economy may especially learn from cases of "state-led by misdirection" (e.g., Italy) in this typology in studying the "fragmented" nature of the Turkish developmental state (Öniş and Şenses, 2007). Another formulation from which parallels may be drawn for studying Turkey identifies five different models of capitalism, including a "South European" variant (Amable, 2003) the institutional features of which may be compared to those of the Turkish political economy: moderate protection against foreign trade or investment, smaller firms, dual labor markets, conflictual industrial relations, centralization of wage bargaining, and moderate social protection biased toward pensions and poverty alleviation.

Turkey's political economy: an institutional matrix in flux

As indicated in the above discussion, Turkey has not been a subject of the literature on advanced industrialized areas. This section demonstrates how Turkey's political economy can be analyzed with the tools that are employed in studying the categories of MMEs, State Capitalism, and the South European model. It will do so by relying on a conceptualization that comprehensively summarizes the institutional quartet of the Turkish political economy—the production regime, the distributive regime, the policy regime, and the international regime—in a stylized manner. Each of the subsections below begins with a portrayal of the institutional pillars of the Turkish political economy in the 1960s and 1970s. They continue by tracing elements of continuity and change in the period from the 1980s until around the time of the world economic crisis that began in 2008.

The production regime

From the early 1960s the Turkish production regime was coordinated by the State Planning Organization on the basis of an inward-oriented import substitution industrialization (ISI) strategy. The state relied on indicative planning, and created new state economic enterprises (SEEs) and shielded domestic industries from international and domestic competition. Although this period was characterized by state-led industrialization, the share of the public sector within Turkish manufacturing industry (in terms of value added produced) declined steadily, from 59.1 percent in 1960 to 40.0 percent in 1980 (calculated from TURKSTAT, 2010). The production system was based primarily on Fordist mass-production techniques relying largely on unskilled labor. By the 1970s Turkish industry began to have a more modern aspect, with the economy experiencing a structural change as seen in the expansion of its industrial (from 15.7 percent of gross national product, GNP, in 1960 to 20.5 percent in 1980) and service sectors (from 46.8 percent in 1960 to 55.4 percent in 1980), at the expense of a shrinking agricultural sector (from 37.5 percent in 1960 to 24.2 percent in 1980) (TURKSTAT, 2010). In terms of the geographical distribution of production, the Istanbul-Kocaeli, Ankara, İzmir, Bursa, and Adana regions (listed in order of contribution to gross domestic product, GDP, by 2000) took the lead. By the early 1980s the share of these centers in the total value added of the private manufacturing industry reached 80 percent (Buğra and Savaşkan, 2010: 110). Typical firms in these centers were large-scale family holding companies. The production regime yielded very high rates of economic growth until about the mid-1970s, when the ISI regime ran into a bottleneck. Higher costs of imported energy and intermediate and capital goods took severe tolls on both the current account and the budget. The increasingly unsustainable production regime underwent a significant transformation with a major shift in policy announced in early 1980.

The emerging production regime developed under the influence of an export-oriented industrialization (EOI) strategy. Such a policy reversal took place against a background whereby the state was relinquishing its control over the manufacturing base with the share of the public sector's value added in the Turkish manufacturing industry continuing to decline from 31.3 percent in 1990 to 20.3 percent in 2001 (calculated from TURKSTAT, 2010). The government, however, relied on generous export credits, export tax rebates, and foreign exchange allocations, which helped produce an export boom in the 1980s. Such expansion was made possible through a reorientation of ISI industries' existing capacity toward world markets (Pamuk, 2008a: 287). The changing trends seen worldwide in the 1980s had repercussions for the Turkish production regime, which was relying less and less on Fordist mass-production methods. The practice of outsourcing, within the context of more flexible production arrangements, became increasingly commonplace. The structural change that had started in the 1960s continued, with the industrial sector still expanding, albeit at a decelerating rate of growth (from 25.9 percent of GNP in 1990 to 29.3 percent in 2006) and with services remaining stable (around 57.9 percent in 1990 and 59.6 percent in 2006), while the share of agriculture continued to decline (from 16.3 percent in 1990 to 11.1 percent in 2006). The industrial sector continued to employ an increasing share of the workforce (15.2 percent in 1990 and 19.0 percent in 2009), as did the services sector (from 37.9 percent in 1990 to 56.2 percent in 2009). The dissolution of the agricultural sector continued, with its share of total employment steadily declining from 46.9 percent in 1990 to 24.7 percent in 2009 (TURKSTAT, 2010).

In terms of the geographical distribution of production, a new group of industrial centers emerged, pioneered by Anatolian cities such as Konya, Denizli, Gaziantep, Kayseri, and Kahramanmaraş (listed in order of contribution to GDP by 2000). The typical scale in these centers was small to medium as opposed to the larger-scale establishments in the traditional cluster. Most of the establishments that began as family firms with limited access to capital continued to rely mostly on their own capital and informal networks as sources of finance, which seems to have insulated them from the periodic economic crises in the 1990s and the first decade of the twenty-first century. Producing for export markets, these establishments have relied on low technology and engaged in labor-intensive, low-productivity production. As they employ the bulk of the unregistered workforce, they operate with low wages and non-wage costs (Pamuk, 2008b). It is important to note that the share of these centers in the total value added of the private manufacturing industry increased from 3.55 percent in 1983 to 8.50 percent in 2000, while the corresponding figure for the traditional industrial strongholds of Istanbul-Kocaeli, Ankara, İzmir, Bursa, and Adana declined from 80 percent to 66 percent in the same period. At the same time, in terms of export performance, the share of the new centers in total exports rose from a level less than 3.0 percent in 1996 to 6.1 percent in 2008. However, the figure for the traditional centers also increased, from 78.3 percent to 80.2 percent in this period. Moreover, during these three decades, while the number of firms listed among the country's 500 largest manufacturing enterprises increased from 14 to 41 in the case of the new industrial centers, indicating their dynamism, the number of such firms located in the traditional centers declined from 380 to 360 (calculated from Buğra and Savaşkan, 2010: 110, 111). All of these developments suggest that while the production regime has undergone some significant changes in terms of its geographical concentration, it may still be too early to portray them as evidence of a radical transformation.

The distributive regime

While the state has been at the heart of the Turkish distributive regime in the postwar era, the addresses of and the means for distributive mechanisms based on political patronage have changed over time. The distributive regime of the 1960s and 1970s addressed, first, a group of large-scale industrialists who enjoyed rising profits, with the state suppressing competition internationally (in the form of protectionism) and domestically (through the extensive subsidy system), and the SEEs providing cheap inputs. Also, the policy of financial repression, along with undervalued foreign currencies, facilitated private investment. Second, the distributional outcomes increasingly favored organized labor, which, having gained new social rights under the Constitution of 1961, became institutionally strengthened. With union density rates rising from 18.1 percent in 1970 to 29.2 percent in 1980 (OECD, 1994: 184), this period also saw rising real wages and a rising share of wages in manufacturing value added (Pamuk, 2008a). Large-scale industrial firms, unconstrained by competitive market pressures, did not need to push wages down, and the Fordist production regime ensured an effective demand for their products.[3] The Turkish economy could operate at close to full employment levels through the additional jobs created by the SEEs. Finally, farmers and peasants were benefiting from agricultural support programs and rising domestic terms of trade in favor of agriculture. In terms of overall performance, income distribution during this period grew more equal with the Gini coefficient, declining from 0.56 in 1968 to 0.51 in 1973 (Öniş, 2003). However, the distributive regime went into crisis with the exhaustion of the ISI strategy. Rising budget deficits that accumulated toward an increasingly unsustainable public debt, along with industry's declining rates of profit and declining real wage levels, rendered the existing distributive regime untenable.

The new production regime established by the major policy shift in the early 1980s had ramifications for the distributive regime. Although the new industrialization strategy was no longer premised on the public sector directly supplying inputs to industry, the state relied on other mechanisms. First, the regime benefited the towering ISI conglomerates that had been able to successfully reorient their existing capacity toward export markets in the 1980s. Firms that were successful in meeting export volume targets enjoyed a variety of incentives, including industrial subsidies, preferential loans, tax rebates, lower taxes, and exemptions from import duties. Although the distributive regime originally catered to a small group of export-oriented, large-scale industrialists, in the 1990s and the first decade of the twenty-first century it incorporated a larger group of industrialists, including small and medium-sized enterprises (SMEs) targeting export markets. At the same time, after the capital account liberalization in 1989, the state increasingly relied on financial interests to fund rising fiscal imbalances.

Second, as the production regime of the 1980s turned toward export markets, and especially after the military regime banned labor unions, distributional consequences became increasingly adverse for labor. The new distributive regime hinged on wage suppression, which was instrumental in reducing costs of production and thereby enhancing international competitiveness. It was no longer necessary to keep wages high in order to maintain effective domestic demand in this new era of export promotion. In the meantime, however, the political ban imposed on the former party leaders after the 1980 coup was lifted through a referendum in 1987. Facing intensified political competition after the reintroduction of former political leaders, the government allowed real wages to almost double in line with rising labor productivity. Real wages declined sharply again after the economic crisis in 1994 and this trend has continued in the first decade of the twenty-first century, with real wages not yet having reached their mid-1970s levels. Despite some rises in real wages, union density rates never recovered to their highest level of 29.2 percent, which had been attained in 1980, and kept declining thereafter to 19.2 percent in 1990, 9.9 percent in 2000 and most recently to 5.8 percent in 2008 (OECD, 2011).

Third, the distributive regime turned against the agricultural sector, which was still employing 50.6 percent of the workforce in 1980. Agricultural output, inter-sector terms of trade, and incomes dwindled in the 1980s, with the virtual elimination of agricultural subsidies and price-support programs in an environment of adverse international market conditions. The contracting agricultural labor force that was a result of the dissolution of the agricultural sector, however, helped push up average agricultural incomes from the 1990s (Pamuk, 2008a).

In terms of overall distribution, while the level of inequality increased during the 1980s and early 1990s, with the Gini coefficient rising from 0.43 in 1987 to 0.49 in 1994, the period following the economic crisis of 1994 saw inequality returning to the levels of pre-crisis years, with the Gini coefficient declining to 0.44 in 2002. Unprecedented rates of growth in the period following the economic crisis of 2001, however, have not translated into significant reductions in income inequality in this period, with the Gini coefficient declining only to 0.41 in 2007 (SPO, 2010).

The policy regime

The policy regime that emerged in Turkey in the 1960s based on "national developmentalism" through indicative planning was broadly in line with Keynesian principles. Governments aimed at ensuring high rates of investment, growth, and employment through sustained increases in demand. The ISI strategy contributed to sustaining effective demand in an expanding domestic market not only through creating public sector employment but also by securing high wages in the SEEs, which would spill over to the private sector. Agricultural subsidies guaranteed that high employment rates could still be maintained in the agricultural sector. It is in this context that governments used fiscal and monetary policies mainly to finance the SEEs, rather than using them as tools for macroeconomic management (Nas, 2008: 29). The Turkish economy grew by around 6 percent from the early 1960s until the late 1970s despite the first oil shock of the early 1970s. This policy regime produced high employment rates hovering around 75.1 percent for the period 1961–70 and 68.2 percent during 1971–79 (calculated from OECD, 2011). The government delayed the adjustments for rising costs, which strained both the current account and the budgetary balances. In order to finance the growing budget deficit, the Central Bank resorted to accommodating monetary policy, which fueled inflation. The second oil shock aggravated the current account imbalances, resulting in a debt crisis in 1977–79. Economic activity stagnated and the Turkish economy experienced negative growth for the first time in this period, with the job creation rate declining to 65.4 percent in 1980.

The new economic program introduced in January 1980 aimed at building an outward-oriented economy based on free market principles. As the new production regime relied on export promotion, the lira was devalued sharply, foreign exchange restrictions were relaxed, the current account was liberalized, and a set of direct and indirect incentives for exporting sectors were introduced. In order to contain rampant inflation, policymakers designed a contractionary macroeconomic policy regime. Fiscal and monetary policies that had once been oriented toward financing state-led industrialization and sustaining high levels of employment were now focused mainly on containing inflation and keeping the lira's external value low. While inflation was reduced from a high of 86.1 percent in 1980 to 30.3 percent in 1981, it crept up thereafter, averaging around 48.0 percent over the 1980s and 74.6 percent over the 1990s. Economic growth displayed a cyclical trend but was still recorded on average as 4.0 percent for the 1980s and 4.1 percent for the 1990s (OECD, 2002). While governments were able to implement tighter macroeconomic policies in the 1980s, especially under the extraordinary circumstances of an economic crisis, a military regime (1980–83), and the banning of political opposition, the 1990s saw populist cycles of easy policies with the return of coalition governments. After the 2001 economic crisis, however, the government introduced a new austerity package along with institutional changes. In monetary policy, the Central Bank became fully independent, limiting the scope of the time inconsistency problem, and its primary objective was redefined to focus exclusively on price stability. In order to bring down chronic inflation, it implemented an implicit inflation targeting regime followed by explicit targeting. In fiscal policy, the program aimed at achieving fiscal consolidation through sizable primary surpluses. It also introduced radical institutional changes resulting in the rationalization of public expenditures and the reorganization of debt management. Thus, only after the 2001 crisis were policymakers able to effectively complete the conversion to macroeconomic discipline.

There was also increasing emphasis on the supply side from the 1980s onward. However, unlike the policies implemented across the Organisation of Economic Co-operation and Development (OECD) countries, the measures policymakers put in place in Turkey did not include lowering taxes, as the country had a narrower tax base where tax evasion was pervasive. Instead, the main emphasis of supply-side policies starting from the 1980s was on deregulation, privatization, and liberalization. Deregulation began in the pricing of SEE outputs and continued with interest rate liberalization in the early 1980s. This process resulted in a reversal of financial repression and was followed in the 1990s by other deregulation measures in the financial markets, in a world of deepening financial market integration. Labor markets, too, saw deregulation measures, mainly in the 2000s. Privatization of the SEEs, which began in the second half of the 1980s, yielded only modest revenues. While the privatization process was kept on the back burner throughout the 1990s, activism in this area resumed during the post-2001 crisis period, producing significantly higher revenues. The liberalization process began with a reversal of the ISI-based trade regime in 1980. When the process of integration into world commodity markets began in 1980, Turkey's trade volume was 15.9 percent of its GNP. However, as this process deepened, especially after the completion of the Customs Union with the European Union (EU) in 1996, the figure rose, reaching 39.6 percent of GDP in 2009 (TURKSTAT, 2010). Meanwhile, the liberalization process continued, with the government announcing in 1989 the complete deregulation of foreign capital transactions and the full convertibility of the lira in foreign exchange markets. Such a policy move attracted inflows from international markets, easing financing constraints on rising public expenditures and taming inflationary pressures. With these liberalization measures, the Turkish economy completed the stages of opening up to become a fully liberalized economy.

Increasing macroeconomic instability in an environment of liberalized trade and finance but with an as yet only weakly regulated financial system led to a fragile and unstable development pattern whereby economic growth was dependent on highly volatile short-term capital inflows in the 1990s. With the establishment of new regulatory institutions after the crisis of 2001, however, economic growth was put on a more sound institutional footing. Despite these reforms, however, job creation rates steadily declined (59.3 percent over the 1980s, 55.9 percent over the 1990s, and 45.4 percent in 2009), and unemployment crept up to a very high

14.0 percent in 2009, after having remained around 7.8 over the 1980s and 7.7 percent over the 1990s (calculated from OECD, 2011).

The international regime

The international regime affects the Turkish political economy through international organizations and markets. In the 1960s and 1970s the policy regime was in line with the prescriptions of the International Monetary Fund (IMF), the World Bank, and the OECD. Development planning that began in the 1960s was supported by the World Bank and the OECD as key international actors in development policy. The IMF intervened when there were fiscal and balance of payments crises such as those in 1958 and 1978–79. This was a period when international markets had not yet started to exert powerful pressures on national economic policies, as Turkey had a largely closed economy. In a world of capital controls, Turkish policymakers, like their counterparts elsewhere, could prioritize domestic goals of high economic growth and employment. In terms of trade, facing no international competition, the ISI-based production regime focused exclusively on satisfying domestic markets.

The impact of the international regime on Turkish political economy, however, shifted dramatically in the 1980s, with the changes in the modus operandi of the international organizations, the process of opening up in Turkey, and the increasing salience of markets in the international political economy. With Turkey's liberalization program was generously supported by the IMF and the World Bank through structural adjustment loans, debt relief, and technical aid during the post-1980 period. With the fiscal and current account deficits reaching unsustainable levels again in the early 1990s and following a drastic depreciation of the lira in 1994, the international financial community was invited once more to support a new austerity program. Despite a successful beginning, the politically turbulent mid-1990s rendered economic reform unpalatable and the implementation of the program went off course. Although an economic crisis was not yet imminent, facing imbalances in macroeconomic fundamentals, the government launched a stabilization program with IMF support. When the program was implemented, however, the economy underwent a series of financial crises in November 2000 and February 2001, translating into the deepest economic crisis of the Republic's history. The government drew up a revised economic reform program, which was backed by sizable financial support from the IMF. The crisis made possible the speeding up of the reform process under the auspices of the IMF. This corresponded to the period when Turkey was declared a candidate for EU accession. While the EU emerged as the anchor in political reform, the Union delegated its role in supervising the implementation of the economic reforms necessary for accession to the IMF. Thus the Turkish political economy during the first decade of the twenty-first century was under the double "*voncoli esterni*" (external constraints) of the IMF and the EU (Dyson and Featherstone, 1996). Moreover, the Customs Union that had been completed between Turkey and the EU in 1996 exposed the Turkish production regime to international competition. This rendered productivity improvements imperative, which translated into improved international competitiveness. Additionally, there is strong evidence that although prospects for EU accession have remained uncertain, financial markets have rewarded the Turkish government for its moves toward membership with reduced borrowing costs and extension of the term perspective. A similar argument can be made regarding the rising levels of foreign direct investment (FDI) made possible by accession prospects. Finally, international institutions also provided opportunities, in the form of both financial and technical aid, for the policy regime to correct the large imbalances in macroeconomic fundamentals. This was the case especially in 1980, 1994, 1999, 2002, and 2005.

As the process of integration with the world commodity and financial markets deepened, the Turkish economy was increasingly affected by the structural features of, and the cyclical fluctuations in, world markets. The economic adjustment process in the 1980s, which benefited through boosting exports, had been positively affected by the recovery of the advanced industrialized countries after the mid-1980s. Although the growth performance of the 1990s displayed an unstable trajectory, the upswings were almost always conditional on short-term capital inflows, which proved to be a blessing, as they constituted the sources for financing the large fiscal and trade account imbalances. However, international capital mobility could also act as a curse for an emerging market, the financial markets of which remained only weakly regulated. The heightening of financial fragility in the system in the second half of the 1990s exposed the vulnerabilities of the Turkish economy (fiscal instability and premature capital account liberalization) that led to the 2000–01 financial crises. With the regulatory institutions strengthened in the period following the crisis, however, the economy began to attract sizable levels of FDI in the second half of the first decade of the twenty-first century. Such high levels were made possible by rising global liquidity and hence an increasing supply of worldwide savings during the decade until the global economic crisis that hit in 2008. Moreover, the very high rates of economic growth that were seen in the post-2001 crisis period despite the ballooning current account deficits therein were also sustained in this very favorable international economic environment.

Reexamining the interaction between politics and economic performance

Political economy as a sub-discipline defies the synthetic division between politics and markets by viewing these spheres as constitutive of one another. This concluding section presents a set of observations, drawn from the case of Turkey, regarding how these spheres interact. It does so by examining, first, the impact of economic dynamics (economic crisis and prosperity) on domestic politics, and second, the impact of political choices (forms of intervention) by, and type (majority or coalition) of, government on economic performance.

Without denying the fact that the relationship between political dynamics and economic crises remains endogenous, the study of Turkey's political economy in the last three decades reveals that the economic performance of the institutional matrix finds strong resonances in domestic politics. For example, the economic crisis of 1978–79, coupled with political instability, eventually contributed to democratic breakdown in 1980. However, the economic crisis of 2001—although it was the most severe in Republican history—led to alternation in government through elections and the replacement of coalitions with majority party rule. These tentative conclusions drawn from recent developments in Turkey's political economy can be summarized in three propositions. First, while the electoral consequences of the world economic crisis set off in 2008 have yet to be seen, economic crises increasingly produce democratic alternation of political parties in power rather than regime breakdowns. Second, the deeper the economic downturns, the greater are the swings in the distribution of seats in the legislature against a background in which military intervention is a foreclosed option. Third, periods of economic prosperity resulting from a coherent production-policy regime achieving high rates of growth within the context of an enabling international regime (as was the case in the first decade of the twenty-first century) seem to be producing political stability.

The narrative above also demonstrates how politics shaped economic performance through two mechanisms. Through the first mechanism, governments' political choices structured the institutional quartet comprising the political economy in various ways. First, the type of government intervention, in terms of both its quality and its quantity, shaped the production regime. By shaping the incentive structure for market actors, the state led them to play the role of the "industrialist" in the ISI regime in the 1960s and 1970s, the "exporter" in the EOI regime, especially in the 1980s and the first decade of the twenty-first century, and the "rentier" financing the government debt in the era of financial liberalization, especially in the 1990s. This incentive structure also influenced the production unit's location (traditional industrial strongholds or emerging centers) and size (large-scale or SMEs), based on the state's industrialization strategy. Second, governments identified winners (and losers), shaping the distributive regime over time. While it was large-scale industrialists, organized labor, and farmers that benefited from state intervention during the 1960s and 1970s, from the 1980s onward the regime supported export-oriented, large-scale as well as SMEs, and turned against organized labor and farmers. Third, although "national developmentalism" conceived within the parameters of Keynesian principles was implemented by governments—left, right, and center—until the late 1970s, the reorientation of the policy regime toward supply-side policies (e.g., deregulation, privatization, and liberalization) along with contractionary demand-side policies took place under center-right governments and coalitions in the post-1980s period. Finally, the impact of the international regime on domestic economic outcomes was mediated by governments' political choices. Pressures stemming from the international regime were effectively resisted (as in delayed adjustment in the 1970s), enthusiastically embraced (as in inviting short-term financial flows in the 1990s and the first decade of the twenty-first century), or taken advantage of discursively (as in the shift to EOI in the 1980s). Moreover, although international institutions constrained the policy regime by prescribing the direction of economic reforms as part of the strings attached to aid, it was generally governments that drew up their content.

In terms of the second mechanism, the type of government (majority or coalition) seems to shape economic performance. The narrative above demonstrates that while the single-party governments (led by the Justice Party during 1965–71, the Motherland Party during 1983–91, and the Justice and Development Party since 2002) have produced economic growth and maintained stability, coalition governments (four during 1973–80 and seven others during 1991–2002) experienced imbalanced growth and instability, culminating in the crises of 1978–79, 1994 and 2001. However, the coalition government that was in power from 1999 to 2002, after having experienced the 2001 economic crisis, managed to carry out radical economic reforms, putting the economy on a path of sustainable growth. Therefore, as the 1999–2002 coalition government functioned quite harmoniously in comparison to the earlier coalitions, the troublesome relationship between coalition governments and economic instability may be growing increasingly spurious as Turkey emerges as an upper-middle-income country with stronger democratic credentials.

Notes

1 In this literature the Turkish political economy is also compared to the Latin American (e.g., Yalman, 2009) and southern European (e.g., Keyder, 1987) cases and is generally contrasted with East Asian political economies (e.g., Öniş, 1998).

2 Featherstone and Papadimitriou (2008) review some of these reformulations and propose to study Greece through these analytical lenses.

3 Moreover, labor migration into Western Europe in the early 1960s and thereafter helped sustain higher real wages by restricting domestic labor supply.

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